



Asian families: Emotional aspects of wealth transfer and inheritance

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ABN-AMRO Private Banking

Asian families: Emotional aspects of wealth transfer and inheritance

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Executive summary

In early 2006, ABN AMRO Private Banking commissioned INSEAD, a leading business school, to undertake a research project into the emotional aspects of wealth transfer and inheritance in Asian families. The study, the first of its kind to be conducted in Asia, provides an unprecedented insight into the seldom-shared views of more than 30 of Asia's high-net-families from Hong Kong, India, Indonesia, Malaysia, Singapore and Taiwan.

The majority of private wealth creation in Asia is linked to entrepreneurship and family enterprise; a fact supported by the survey - of the 33 respondents, 32 currently run a family business and one had previously sold the family firm.

Despite playing a large part in the Asian economy, the contribution of family enterprise is often short lived; in general only three in ten family businesses survive into the second generation and a mere one in ten into the third. As the study identified, it is often the complex emotional issues that are intrinsic to a family-run firm that lead to its demise.

The last two decades have seen an unprecedented pace of change in the social and business landscape in Asia. Asian families are becoming increasingly exposed to Western influences. For example, 33% of survey respondents with children, who are studying for or have completed an undergraduate degree, educated them abroad. 26% had MBAs from US and European business schools. The result is a generation with a radically different outlook on life and success, which is challenging traditional Asian family values and business practices.

Following are some key findings based on the survey results:

- **Greater options in life can result in the family firm feeling like a burden**

For young graduates with a multitude of career paths to choose from, inheriting the family business can feel like a burden. A sense of duty clashes with the desire to pursue personal life goals and aspirations. This can be aggravated by parents who insist on controlling the family firm after retirement.

The survey, supported by existing INSEAD research, has shown that successful families seek to move members from dependence to independence. Families succeed when they respect the needs and aspirations of individual members, and develop their capabilities to be independent adults and responsible owners of wealth.
- **A conflict between trustees and managers**

The inter-generation conflict is particularly visible in planning the family firm's future growth strategy. The new generation's aggressive management style and growth plans for the family business clash with the previous generation's conservative, trustee role. For example, 85% of members of the younger generation surveyed saw diversification as a key strategy to grow the family wealth. This is in stark contrast to the older generation who often focus on protecting and preserving wealth and therefore view diversification as too risky.
- **Western management models are gaining greater acceptance**

The rising generation of Asian family business owners emphasises the need for professional management, with 30% of survey respondents keen to involve professionals in the running of the business in the future. The new generation seeks to complement the founder's entrepreneurial instincts with the Western management models it feels comfortable with. The survey demonstrated a younger generation with a broad exposure to financial issues and fluency in new ways of doing business, such as venture capitalism and internationalisation strategies, which often causes conflict with the more cautious business methodologies of their parents.
- **A shift from authoritative to authoritarian parenting**

It is not only the coming generation that is bringing about change, the older generation is too. The survey underlined a shift from an authoritarian 'do-as-I-say' approach to an authoritative style of parenting, which is allowing children greater freedom. Authoritative parents encourage independence, provide rational guidance and try to involve everyone in family decisions. They are capable of looking at both sides of an issue and admitting that children sometimes know more.
- **Asian parents are loosening control**

True to this parenting style, the majority of parents interviewed in the survey did not pre-judge and were willing to tolerate some uncertainty about their children's ambitions regarding their careers and lives.

- **Women making inroads**

Although keen to respect their wishes, the children's desire to pursue their own goals can cause cultural issues for parents keen that the firm remains in family hands. However, thanks to cultural changes, increased chances of higher education and a younger generation of fathers accepting women in the workforce, an increasing number of daughters have been gaining influence in the family businesses. 42% of the survey respondents indicated some form of daughters' involvement. Work experience gained outside the family business gives daughters extra credibility, which in turn helps them avoid or counter tension and rivalry with other family members.
- **The continued success of family firms will rely on the parents' ability to let go**

The survey showed that involving children in the management of family wealth can be a good entry point for bringing them into the inner workings of the family business. Leadership examples are crucial. One sign of leadership among parents is the ability to let go, rather than continuing to be a dominant force in the family firm even after retirement.
- **Asian values continue to provide guidance**

Against a backdrop of increased Westernisation in the business environment, Asian family values remain. The Asian business families surveyed reported drawing strongly on Asian religious and philosophical traditions as sources of guidance and continuity. Family values help different generations recreate a shared sense of purpose.
- **Philanthropy is of growing importance**

Issues such as philanthropy, charity and family legacy have come to the forefront in building and transferring family wealth. 52% of first generation respondents in the survey hoped to create positive change through their family's sustained commitment to philanthropy.
- **Wealth management is not getting the attention it needs**

Worryingly, many high-net-worth Asian families are yet to view wealth management as a lifelong process and give it the same attention they give to business management. 52% of the families surveyed have involved the new generation in managing the family business. In contrast, only 42% of members of the younger generation reported being involved in managing wealth.
- **Planning will be imperative to ensure a smooth transition in an increasingly dynamic environment**

The process of transferring wealth to the next generation will always be complex. However, as the pace of change quickens and the generation gaps increase, high-net-worth Asian families will increasingly need to engage professional advice early on in planning for a succession. This will help reduce the impact of emotions on decision making inside the family firm and help prepare the children for the responsibilities that wealth brings by building up the right attitudes and understanding of the business, wealth and their responsibilities as heirs.

The annual turnover of family businesses represented in the survey was distributed evenly among brackets of USD 5-25 million, USD 25-50 million, USD 50-100 million, USD 100-250 million and greater than USD 250 million. 12% of respondents came from family firms whose turnover exceeded USD 250 million.

Introduction

Background

Family enterprise is a crucial source of private wealth creation in Asia. Similarly, a large portion of Asia's high-net-worth families are business families. In the past 20 years, these firms have seen dramatic changes in the global business environment. In addition, the strong focus on family that has defined Asian cultures has not been left unaffected by the economic and cultural globalisation that has come in its wake.

The level of Asian families' understanding of family wealth has also evolved. Because private wealth in Asia, unlike in Europe and the United States, has been mostly self-made, rather than inherited, until recently Asian families focused purely on the financial aspects of wealth. Increasingly, however when thinking about their strategic wealth management plans, high-net-worth families in Asia ask: "What is a good life and how can wealth be used as a mean to reach that good life?"

As a result, the long-term success and well-being of the region's high-net-worth families increasingly depends on how they master the following issues:

- Finding new ways of involving the next generation in the responsibilities of managing the family business and wealth.
- Understanding the complex emotional aspects of transferring wealth between generations.
- Minimising the potentially destructive effects of emotions on the continuity of the family business and the family itself by carefully and professionally planning for wealth transfer as a long-term process.

ABN AMRO Private Banking survey of high-net-worth Asian families

In order to explore these issues in depth, ABN AMRO Private Banking sponsored a unique, Asia-focused research survey on the emotional aspects of wealth transfer and inheritance. This initiative is reflective of the Private Bank's commitment to, and expertise in, translating personal needs and concerns into financial objectives. The survey was completed by InnovAsia, an initiative from INSEAD that provides customised research on new and innovative business developments in Asia. Throughout the process, InnovAsia received guidance from Randel Carlock, INSEAD's The Berghmans Lhoist Chaired Professor of Entrepreneurial Leadership, Senior Affiliate Professor of Entrepreneurship and Family Enterprise, and Director, Wendel International Centre for Family Enterprise.

The survey emphasised individual and family group emotions and examined the way they shape decision-making processes in areas such as family wealth management, as well as interaction between family generations. The objective was to explore the emotional forces that can strongly influence leadership and the overall functioning of the family. Issues that were at the forefront of the research effort included personal motivations, aspirations and anxieties.

White paper

The survey's research findings, incorporating ideas and opinions shared by families who participated in the survey, are presented in this white paper. It examines a number of challenges faced by Asian high-net-worth families and presents recommendations based on INSEAD's ongoing research on family enterprise. In addition, the paper puts forward a prediction on how the up-and-coming generation of family business and wealth owners will approach the issues that are now confronting their parents 20-30 years from now. The findings of the survey were enriched with data from secondary sources as well as ongoing research by INSEAD's Department of Entrepreneurship and Family Enterprise, and the Wendel International Centre for Family Enterprise at INSEAD. The objective was to summarise the main observations of the study in a dynamic and stimulating framework.

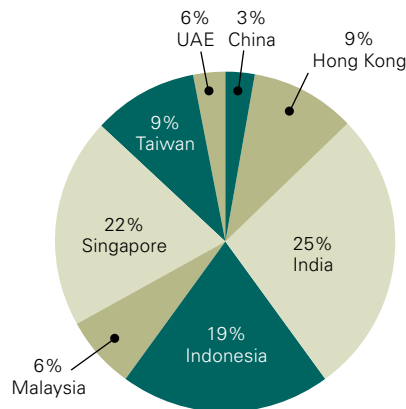
Additionally, many Asian families are seeking concrete, tangible solutions to their problems. In fact, they may be uncomfortable with highly theoretical, process-oriented and insight-oriented strategies. As such, the recommendations put forward in this document aim to provide a practical tool for Asian families seeking clarity and structure in their long-term effort to improve the ways they define, manage and transfer family wealth.

Focus on Asia

One of the unique features of the survey is the fact that it was conducted exclusively in Asian countries. Research on Asian family systems, and in particular the strategies that Asian families deploy in managing their wealth, is a new area of management studies, drawing on psychology as well as theories of group dynamics. It requires a skillful integration of qualitative and quantitative research methodologies and seeks to incorporate contexts and sensitivities that are specific to Asian cultures. Therefore, in presenting the findings and the related context through this document, INSEAD InnovAsia analysts were committed to considering in detail the relevant cultural tradition of the region. Where appropriate, they sought to counter some of the stereotypes regarding Asian family dynamics that have been common in Western literature.

Survey methodology

INSEAD InnovAsia's team of regional and country analysts administered the survey between March and August 2006. The survey was completed through a series of in-depth, qualitative interviews with more than 30 high-net-worth families in Hong Kong, India, Indonesia, Malaysia, Singapore and Taiwan. Interviews were conducted face to face and over the telephone.



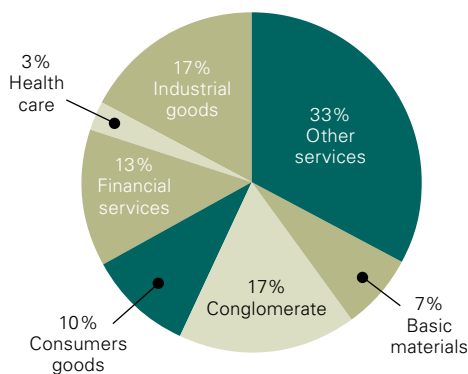
Breakdown by country

Based on responses to: 'Where is your business group headquartered?'

Respondent demographics

Of the 33 respondents to the survey, one respondent has sold off the family business, and another two are planning to do so. Among the 32 families who currently run a family business, 85% reported more than ten years' experience in their family firm. The overall involvement spans from a few years to more than 30 years. Almost all respondents are managers of the respective business lines in their firms.

17% of the family firms in the survey are conglomerates. Other main lines of business involve basic materials, industrial goods, jewellery, real estate, trading and construction. One firm is run as an investment holding.



Breakdown by line of business

Based on responses to: 'What is the primary line of business of your group?'

*Other services cited include: Construction, hospitality, logistics, jewellery, retail, telecommunications.

33% of the firms in the survey have been founded by the respondents' fathers, an additional 15% by the grandfathers and 9% by the great-grandfathers. One firm is currently being managed by the sixth generation of the founding family.

Chapter 1: Challenges faced by successors in family firms

Summary

- Asian family businesses have enjoyed a prominent place in Asia's economic landscape. Increasingly, many Asian family firms are becoming active and recognised players on the global stage.
- In reconciling family dynamics with business objectives, such as dealing with succession issues, Asian family businesses face problems that are universal to family firms worldwide.
- Often unacknowledged, many of these have to do with emotions arising at the crossroads of family and business, which cloud the firms' decision-making processes.

Family businesses underpin a great share of the Asian economy

For decades, family enterprise has been the backbone of business activity across a number of Asian economies. For instance, in Hong Kong, family-owned businesses that will soon face the succession issue represent almost 40% of the Morgan Stanley Capital International (MSCI) Index.

Case study: Mittal Steel

A Financial Times story in July 2006 summarised the appeal of Mittal Steel as representative of Asian family capitalism, taking on Europe's state-owned conglomerates, and inspiring many European businesses to rediscover their family roots. It went on to describe Asia's modern family businesses as "the global flavour of the month because of the part they play in the dynamism of Asian economies."

Earlier in 2006, Mittal Steel successfully took over Arcelor, the European steelmaker. Ironically, the government-controlled Arcelor, was in fact itself largely composed of enterprises that grew as family businesses in the 18th and 19th centuries. The case has brought out the following strengths offered by Asian family capitalism:

- Long-term commitment of owners to a business and to a group of workers.
- Superior labour relations to more stock-market driven enterprises.
(In the Arcelor battle, US labour unions underlined Mittal's good behaviour.)
- Visible and identifiable ownership, in contrast to ownership by numerous individual investors or faceless institutional investors.
- Counterweight to bureaucratic regulation.
- In India and China, promoting innovation and entrepreneurship in a politically unstable setting.

However, when it comes to handing over the business to the next generation, Asia's family-owned companies have been vulnerable to failure. The old Chinese sayings '*fu bu guo san dai*' – ('family wealth won't pass through [more than] three generations') and '*chuang ye nan, shou ye geng nan*' ('it's tough to set up a business, but even tougher to keep it going') still ring true. Cases of prominent family firms disintegrating in public view have been well documented by Asian media. In fact, Asian families are not alone: A worldwide study previously produced by The Wendel International Centre for Family Enterprise at INSEAD has pointed to the universal nature of this trend. It showed that only three out of ten family businesses survive into the second generation, while only one out of ten survives into the third. The average lifespan of these firms is 24 years, which coincides with the average time the founder is actively involved with the enterprise.

Why the high failure rate among Asian family businesses?

Transferring the ownership of a family firm from one generation to another is fraught with pitfalls. As more relatives and other stakeholders join the company, the decision-making structure becomes complex. By the time the third generation has taken the helm, the resulting problems tend to accumulate and magnify.

“This is a family of entrepreneurs. The family philosophy is widely shared within the family, but it gets harder after every generation to keep the philosophy alive.”

Father who has inherited the family business from the previous generation

Common obstacles

To varying degrees, the findings of the survey support existing research on the process of handing over a family business to the next generation. Typical challenges associated with the transition include the following:

- Decisions related to succession and wealth transfer are made at the last minute, or postponed indefinitely**

Two survey respondents pointed to recent illness or death in the family as a trigger to involving other family members more closely in the management of the business. One respondent commented: “The grandmother’s death last year was a turnaround for the family. My father began to worry about the future of the family, and to take steps to involve other family members more in the business and wealth management.”
- Sibling rivalry**

Academic research has shown that successors to business ownership who used to be held tightly in the owner’s grip have a tendency to act destructively when they suddenly gain freedom. In reality, disagreements between family members are seldom about corporate strategic issues but are founded in sibling rivalry arising from ‘unfinished business when they were children’. One South Asia based family in the survey reported an epic family split, with two brothers holding irreconcilable views on the future strategy of the business they inherited from their parents.
- The abilities of women in the family may be discounted for the sake of tradition**

45% of the survey’s 33 respondents categorically stated that women were not involved in the business. This was despite the greatly improved access to education that women across Asia have gained in the past few decades. However, the survey also showed that this expectation of women is beginning to change, as daughters in particular gain influence in managing family business and wealth.
- Disharmony between the business and the goals of the individuals**

Some successors are reluctant to take on the challenge for other reasons. They may want to have a life of their own and fear that it is being planned out for them, forcing them to become identical to their grandparents and parents.

Contrary to expectations, divergence of goals and aspirations within a family business isn’t isolated to the up-and-coming generation of owners. One survey participant, a parent to a new generation of successors, recalled the frustration he himself experienced as a fledgling business owner, taking over from his parents:

“I too felt restricted in the family business. Therefore, I started my own business. Too often, family members in the business do not see eye to eye on how to run the company.”

Father running a Southeast Asian company specialised in food processing

Family business successors sometimes report feeling ‘boxed in’ and insecure about what they can achieve on their own merits. They often recognise they don’t have what it takes to do the job, partly because they have not had the proper training from the founder-entrepreneur. To quote a young female survey respondent who is currently pursuing an MBA:

“The employees at my parent’s firm expect the ‘MBA’ to come back and make spectacular changes – but I feel unprepared for such a role.”

Daughter, only child in the family, who is about to graduate with an MBA degree

If left unresolved, these challenges can result in a family firm’s failure.

Emotions serve to complicate further the functioning of a family business

Family enterprises rank among the most complex forms of organisation. This is due to the interaction of the logical business form with the emotional family unit, which generates situations of intense emotion and conflicting loyalties. Family involvement in a firm can create a source of enormous benefit and advantage for the business (for example, deferred gratification, loyalty, shared goals and trustworthiness). However, when problems arise, the damage they inflict can not only destroy the firm but also the family, and have a wider ripple effect on the business and personal communities of all involved.

For instance, because of the continuing closeness between generations, along with the presence of parents in the business, childhood feelings often cannot be put to rest. Furthermore, because family and business issues tend to become confused, decisions in some family firms may be made on an emotional basis only, e.g. out of envy.

Case study: Reliance Industries

In early 2006, Indian business media reported that India's largest private-sector company, Reliance Industries, was to be divided between brothers Anil Ambani and Mukesh Ambani, ending their seven-month dispute over control of the conglomerate founded by their late father. The company was split, with Mukesh, the older of the two sons, assigned responsibility for Reliance Industries (RIL) and Indian Petrochemicals Corporation, and Anil taking charge of Reliance Infocomm, Reliance Energy and Reliance Capital.

Negotiations centred on a proposal by an influential family friend who had suggested that the companies should remain intact and not be split. Anil resigned from the positions of vice chairman and managing director of Reliance Industries, and the brothers have a ten-year non-competition agreement. They agreed to share the Reliance brand and logo.

RIL was named among the top 200 of the 'World's Largest Corporations' in the 2004 Fortune Global 500 list, in terms of profits. PricewaterhouseCoopers and the Financial Times named RIL among the ten 'most respected energy/chemicals companies' and among the '50 companies creating most value for shareholders' in a 2004 global survey.

Conclusion

- The global resurgence of Asian family businesses hasn't lessened the challenges that have long been associated with transferring business ownership and family wealth between generations.
- The emotions that inevitably accompany the blending of family structures with business structures can have a devastating effect on the success of the family business.
- In order to reduce the impact of emotions on decision-making inside the family firm, families need to engage early on in planning for a succession.

Chapter 2: **Generation MBA: In a league of their own**

Summary

- In the past few decades, the business environment in which Asian family firms operate has changed beyond recognition.
- The up-and-coming generation has a radically different outlook on life and success. Often educated in the West, members of this generation are more individualistic than their parents. This leads them to pursue individualistic goals, sometimes at the expense of family cohesion.
- Nonetheless, none of the members of the young generation who took part in the survey reported taking for granted their parents' money. Contrary to stereotypes, the next generation does not lack the parents' tenacity and sense of urgency to succeed. Rather, it is their definition of success and achievement that is different and sets them apart from the family tradition.

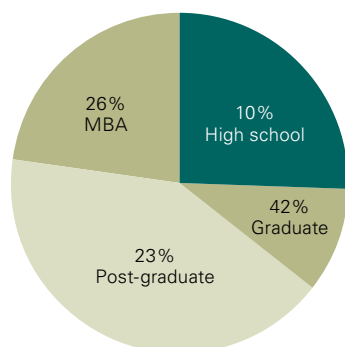
Asia's business landscape has gone through tremendous change

Since the Asian financial crisis in the late 1990s, the conditions in which family businesses operate have grown much more complex. Free trade, looser controls of capital flows, instant communication technology and global competition have made it difficult for family businesses to operate in secrecy. Shareholders are demanding 'transparency' and genuine financial data, and that publicly owned companies be run for the benefit of all stakeholders. Because of market conditions (internationalisation, sector consolidation), the family may see itself obliged to abandon ownership gradually. Also new among the realities for all family-controlled companies facing transition is the need to consider Western management models. For instance, it may become necessary to issue stock options to attract top executives.

A new and very different generation is coming to the fore

Under this set of circumstances, the rise of Western-educated MBAs amongst the children of Asian family business owners has been both a direct result and a catalyst of these changes in the broader business environment. Among the second generation of families who participated in the survey, the majority have at least an undergraduate degree, or are currently enrolled in university. Overall, most degrees have been obtained at graduate level, followed by an MBA and postgraduate education.

Of those 27 respondents to the survey with children who are studying for or have completed at least an undergraduate degree, 33% mentioned foreign universities or schools. One more respondent is likely to have a younger generation educated abroad. The institutions mentioned include renowned schools such as Cornell University (US), London School of Economics (UK), The University of Manchester (UK), Wharton School, University of Pennsylvania (US) and York University (Canada). Some families are also educating their children at secondary schools abroad, with one respondent's son studying at Eton College in England.



Highest educational qualification of next generation

Based on responses to: 'What is [the] highest educational qualification [of the children in the family]?'

What are the defining attributes of the 'MBA generation'? In what terms does the new generation define its path to success?

The young professionals who belong to the next generation of Asian family businesses were educated and socialised in the West. As such, their attitudes towards the business and support services tend to become different or even inconsistent with the views held by their parents:

"Coming back to Taiwan from abroad was a cultural shock; the hierarchical ways rooted in the culture, adhering to the formal ways of greeting or signing letters, or sending out emails in Chinese rather than in English more as a matter of principle than for practical reasons."

Second generation member of a Taiwan based hospitality firm

Instead of choosing respectable but safe careers, the new generation seeks opportunities to test its business mettle in the larger business world that an MBA has prepared them for. On a professional level, their exposure may give them more in common with the 'new-school' professionals and business tools, such as venture capital, than with their parents.

How does the young generation perceive its own drive to succeed?

Among the parents' generation, 42% of respondents to the survey think that today's children have it in general easier than the former generations, although most admit that each time yields its own challenges. The circumstances faced by preceding generations have been more difficult in terms of security and physical work when, for instance, working in agriculture or as trader to other countries. One father interviewed for the survey voiced his opinion that: "Today's children are privileged as they do not have to work as hard due to the hard work and perseverance of their fathers."

By contrast, in the up-and-coming generation, a young entrepreneur told us that: "The former generation probably would think that today's children have it easier, but maybe without having a full understanding of the problems of the current generation and are, therefore, not able to really help in solving today's problems."

All but one of the respondents among the next generation in the survey felt they had to work hard for money. This was true regardless how long the family had been wealthy, but in the families that became affluent more recently, the memories of other times are still vivid. Also, these families have a lesser tendency to take wealth for granted. None of the younger generation respondents in the survey promoted a luxury living style. On the contrary, all answers incorporated a well thought out concern for the future:

"I have to work hard for money. Even though the business belongs to everybody in the family, as we all grow older and as we all have kids, we start to think about the future. We used to think that we were one unit, but everybody has their own family to take care of."

Married son in a family-owned manufacturing business in Southeast Asia

Comments shared by members of the new generation pointed to emotional involvement, and not just money, as a driving force. Some of these intangible motivating factors are derived from a sense of meeting the family's expectations, others are based on feelings of personal satisfaction. One respondent said: "I remember my first invoice very clearly – not the money, but the satisfaction of the achievement, something I had not felt before. I actually get a real high when working successfully. It is like having 22 consecutive good hands in a cards game."

Contrasting attitudes of two generations in a family enterprise	
Parents	Children
<p>Collectivism</p> <p>Living life through one's children</p> <p>Sacrifice</p> <p>Lifetime spent in family business</p> <p>Learning by doing</p> <p>Skills concentrated in active deal-making</p>	<p>Individualism</p> <p>Driving own dreams</p> <p>Putting one's own needs above all else</p> <p>Keen to try out other careers</p> <p>Building professional credentials</p> <p>Seeking transferable skills</p>

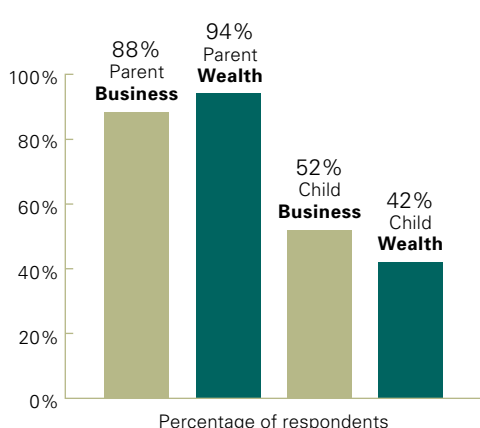
Conclusion

- Today's parents in family firms will do well to anticipate friction between the family's Asian values and the children's continuous exposure, through education, to Western thinking.
- In reconciling the two generations' mindsets, parents can provide much-needed context by engaging the children in an open-ended discussion. This will help the new generation think critically and differentiate between Western-style learning, which provides new tools to face the modern business world, and other Western influences which the family may consider alien.
- The encouraging trend as reported in the survey findings is that despite the young generation's growing individualism, its self-worth is still closely tied to earning one's keep. Also, a sense of achieving the family's expectations continues to be a relevant measure of success for members of the new generation.

Chapter 3: Planning the future of family business and wealth: Involving the next generation

Summary

- The entrance of the younger generation, armed with business degrees and high levels of confidence, introduces a variety of potential conflicts.
- The new generation’s aggressive growth strategies tend to clash with the previous generation’s conservative, trustee role within the family business.
- On the emotional front, for young MBAs who have a multitude of career paths to choose from, inheriting the family business can produce conflicted loyalties and a sense of being tied down. This can be aggravated by parents who insist on controlling the family firm even after retirement.
- In many families, wealth management is yet to be viewed as a lifelong process and given equal attention to business management.
- Involving children in the management of family wealth can be a good entry point for bringing them into the inner workings of the family business.



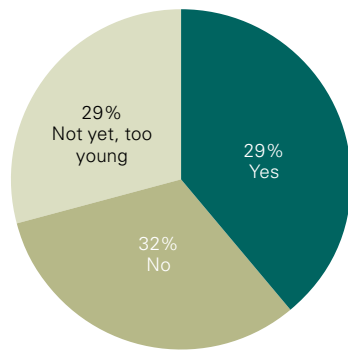
Generation gap: Involvement in business and wealth

Based on responses to: 'In your family, who is involved in the management of business?', and 'In your family, who is involved in the management of wealth?'

*Percentages do not add up to 100 since some respondents chose both options.

Up to a half of younger generation members play an active role in managing family business and wealth

52% of the families in the survey have involved the new generation in managing the family business, compared to 88% still run by the parents’ generation. Even fewer members of the younger generation (42% of the sample) reported being involved in managing wealth, whereas the older generation is still involved in 94% of families surveyed. In addition, members of the first generation were asked specifically about the younger generation sharing a concern for cultivating family wealth. 39% of respondents indicated that the younger generation has taken an interest in managing the wealth and business. This includes taking over more responsibility within the family and handling the transition from one generation to the next. These findings indicate that about half of the members of the younger generation play an active role in making decisions regarding the family business and managing family wealth.



Are children concerned about protecting family wealth?

Based on responses to:
 'Are your children concerned about [the diversity of investments to protect family wealth]?'

Those in the new generation who are involved feel confident of their business ability

Not surprisingly, having received an overseas and/or business education, the young generation of family enterprise owners feels highly confident in its ability to steer the family firm towards a more efficient and competitive operation. The younger generation wants more involvement in all matters concerning family wealth and business. Sometimes, the desire to take over more responsibility is hindered by the former generation's preference to run the business even after retiring, or by traditional views on inheritance that prefer older siblings. Because of the sacrifices made for the business, sometimes over the span of several generations of family, for many business owners the loss of company ownership would be emotionally intolerable.

Common scenario: Disputes over growth strategy

Planning for the company's future growth often results in clashes between the two generations' different visions. The business realities and competitive pressures that the new generation has explored, at least in theory, often have little in common with their parents' business experiences.

One member of the next generation explained this conflict during the survey: "Father's generation does not understand and/or agree with the concept of initial public offerings (IPO). They do not believe in diluting control." A parent's retort: "Selling the whole business is out of the question. Perhaps I will sell a part of it, but my family and I will retain ownership."

In the survey, 74% of the respondents reported that the business family's current generation was unlikely to consider selling their business to a larger corporation or executing an IPO. Possible reasons for this could be the emotional attachment of the older generation to their businesses, their lack of understanding and experience, as well as the disagreement with the concept of diluting control in return for lower risk. A member of the third generation in his family's business remembered that one uncle bought his first stocks when he was in his forties and even then only acquired shares in a company specialising in the same discipline as his university degree. The respondent reported that his grandfather compared this stock purchase to 'gambling in a casino'.

In addition, the older generation showed strong views about borrowing money, which was perceived as unnecessary and even dangerous in some cases. The current generation, often educated in the best universities of the world and not as emotionally attached to the business, is more likely thinking in terms of actual cost of capital.

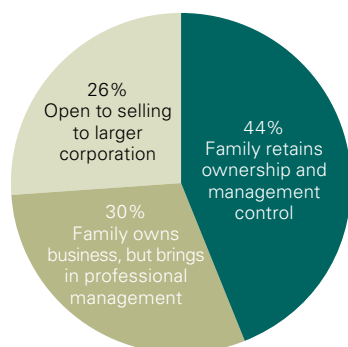
Deeper underlying issues: Trustees vs. managers

These disputes are typically symptomatic of a deeper-running divide: The older generation seems to wish to preserve the family wealth, whereas the younger generation wants to grow it. Consciously or otherwise, the parents' generation acts as a de facto trustee of the business, whereas the new generation is eager to get its hands dirty and test the management theories learned in school:

"I tried to persuade [the older generation] to internationalise the company as it is too risky to continue putting all investments in the same basket. But the older generation is still focused on the home country and wants to restrict expansion to 'safe investments' in countries in which they have living or working experience."

Son with a Western education and overseas experience, in a family firm operating in the Greater China region

This conflicting view serves sometimes as justification for the demands of the older generation on their dependants. However, most respondents want to give the freedom to their children to choose the level of involvement in the family business. In fact, only 44% of survey respondents indicated their preference was to retain both ownership and management of the family firm.



Desired future of family business

Based on responses to:
'What future do you want for your family? Do you see your business still owned by you? Or would you prefer to sell to a larger corporation?'

Emotional aspects of transition: Inheriting the family business may feel like a burden

Not all 'generation MBA' children feel drawn to the challenge of rejoining their family's business in a new role after graduation. With their formal academic qualifications, many of them feel they have plenty of other career options. Some of them see inheriting a business as a burden, rather than a benefit. A sense of duty – to take on a custodial role for the larger good of the family – clashes with the desire to pursue personal life goals and aspirations.

"The older generation micro-manages - they discuss even small things during board meetings, and do not leave these decisions to us. We want to be monitored less, given responsibility and freedom within our areas and be measured by the financial results of the business units."

Son, MBA graduate, belonging to the third generation managing a diversified Taiwanese family firm

The dynamics further vary depending on the size of the family: The the survey showed that in families with fewer children, the future of the family and the involvement of the children follow more 'naturally' than in families with many members and children. In bigger families, the personal impact on family affairs is smaller and the role within the family is not outlined as clearly.

Conclusion

- Families in transition need to acknowledge the inherently conflicted roles of the parents as trustees and the children as managers of the family business.
- Inheriting the family business should not feel like a burden that the children will be eager to shake off one day. This is particularly true for young MBAs who have a number of paths to success they can pursue.
- Wealth management, and indeed wealth itself, is more often less clearly defined than business management. In reality, involving the next generation in the management, and ultimately in the transfer, of family wealth, is a lifelong, continuous process. As part of this process, families must address and foster such factors as entrepreneurship, freedom, values, outside experience, upbringing and education. The most productive approach of all is simply involving children in the daily work, letting them learn and apply the knowledge hands-on, starting with small tasks and gradually proceeding to greater responsibilities.
- Transferring wealth is a complete transitional journey. It is a common mistake to see this path as limited to the more tangible, i.e. physical, financial, fiscal, and legal aspects.



What can parents do to prepare children for a role in wealth management and transfer?

Preparing children includes building up the right attitudes and the necessary understanding of wealth, business and their responsibilities as heirs.

- **Discussions on wealth can ease the children's entry into the family business**

The majority of families in the survey reported that children become involved in wealth management at a later stage in their lives. This responsibility is often the last one to be handed down to the next generation. Consequently, when answering on behalf of the fathers, the younger generation tended to downplay this issue and rather talk about their own investments, whereas the older generation perceived their children as involved and informed. This is due to the fact that the former see wealth management as still in good hands and out of direct reach, whereas the latter view wealth and its management as connected to the efforts to involve the children in the business. In three cases, the concern only arose after a serious health problem of the older generation or death in the family.
- **With subtlety, more children can be enticed to create a role for themselves in managing the family's business and wealth**

There are a number of indirect ways to expose the next generation to issues of family wealth and business management. For instance, ongoing research conducted by the Wendel Centre at INSEAD has shown that, in family businesses, internships are a good tool for communicating to the younger members the reality of the family firm and the emotion and pride it holds for particular family members. This experience is often very useful for the younger family members' professional development, regardless of whether they join the family firm later in their career.
- **Leadership examples are crucial**

The owner of one of the family businesses surveyed said: "For any business, leadership examples are most important." Another survey participant said: "I was prepared very well for my role in the family. I remember, when I first came back home, my father asked me to build a house. From the viewpoint of my friends, that was not work. 'You are building your family's house' was their opinion. But after the house was finished, my father asked me to build 44 houses. If you have built one, you are able to build any number in a similar way. And that is true."

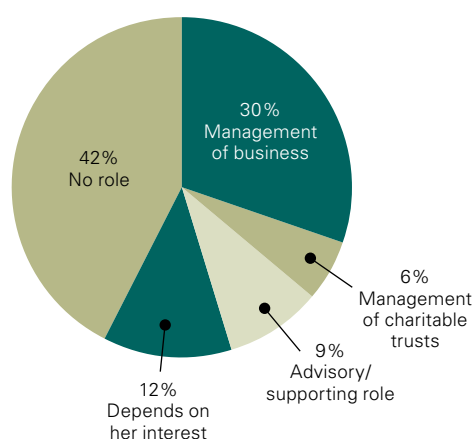
Chapter 4: Changing gender roles: Women making inroads

Summary

- In keeping with the accepted definition of wealth as a combination of physical, social and human capital, the survey reported a growing representation of daughters and women in general in managing and transferring family wealth.
- Mothers can play a supporting but major role in succession and transfer of business ownership and wealth management.
- Relationships with the rest of the family can prove a major influence on how easy or difficult women find taking over management of family business and wealth.

The advent of the new generation has paved the way for a broader participation of women, especially daughters, in running the family business and in selected aspects of wealth transfer, such as managing charitable trusts and facilitating succession. In addition to the 30% of respondents to the survey who indicated a daughter’s involvement in managing the family business, a further 12% assigned daughters at least a vaguely defined responsibility (e.g. ‘based on her comfort level’) in the areas of business and wealth management.

Expected role of wife, daughter or daughter-in-law in managing wealth



Based on responses to: ‘What role does your wife play in the management of wealth? Do you anticipate your daughter or daughter-in-law to have a role in the future?’

Changing role of women in Asian family business

These developments are reflective of this document’s definition of family wealth as inclusive of its human and intellectual capital. Traditionally, Asian families have defined paths to success and financial security differently for sons and daughters. They shared the traditional view that once a girl marries into another family, she plays no role in her own family anymore. Consequently, business structures were set up to support sons and male relatives only. Wives and daughters played limited and largely informal roles in the family business.

In recent years, however, the achievement of parity between genders in educational advancement and in supporting the family have gradually challenged the traditional authority of husbands in Asian families. Increasing numbers of daughters have risen through the ranks of many lesser-known family businesses that play vital roles in the Asian region’s local economies. Thanks to cultural changes, increased chances of higher education and a younger generation of fathers accepting women in the workforce, daughters have been gaining influence in more family businesses. INSEAD’s Professor Carlock was struck by the number of daughters at a recent family business seminar in India where he taught: “Probably 25% of the audience was fathers and daughters. Five years ago, it would have been all fathers and sons.”

As the traditional definition of gender roles in family enterprise slowly recedes, it has yet to be replaced by a new set of expectations. In their place, many families are adopting a more flexible, if mostly unarticulated, attitude to the daughter's role in managing the family's business and wealth. This was also brought to the fore in the survey:

"The daughter was not expected to join the company; there was no pressure from the family and she showed little interest until last year. Now, after her MBA, she wants to take over the management part of the business within five years."

A daughter studying for an MBA planning to rejoin the family firm upon graduation

One respondent to the survey related to the growing acceptance of women in managing family wealth in these terms:

"A key challenge in my family, in addition to building common values among the children, has been bringing up the girls. This is quite difficult, as their role in society is changing, whereas the boy's role and accepted ways of raising them have stayed the same."

Father of an Indian business family where both children are girls

The mother's role is typically played out through emotional channels

The current generation of mothers in business families is also witnessing this liberalisation of gender attitudes. For obvious reasons, the decisions they face as a result of these trends aren't nearly as dramatic as those made by the daughters. However, this is not to discount the mother's importance in preparing and facilitating business and wealth transfer to successive generations. Existing research literature shows that wealth management values in particular are transferred from one generation to another via upbringing, where the mother plays a major role. Research on psychodynamics of family firms has identified the following metaphors of a mother's involvement in a family firm:

- Mother as the 'silent buffer'; a go-between who is well-positioned to intervene in the interactions of the children and the father.
- 'Chief Emotional Officer' who works in the background to minimise any emotional fall-out from discussions and disagreements between family members.
- Business partner/advisor to the husband.
- Employee, e.g. controller working to keep down the costs and regularise the company's finances.
- Guardian of the family values.
- The 'brakes' in the business, reining in her husband's more adventurous impulses.

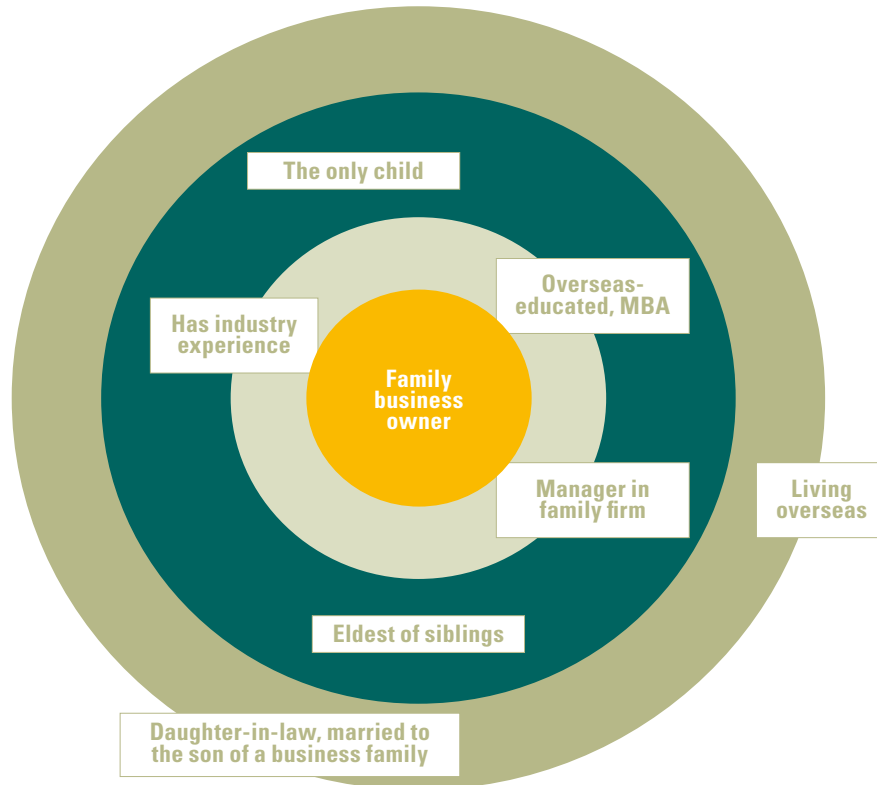


Case study: Indian pharmaceutical company

As part of the study, an expatriate Indian business family was surveyed. The father set up the family business in the 1970s, acting as a distributor for India's leading pharmaceutical companies. The company has since diversified into software and telecommunications. The founder's son is still in university, hence does not play an active role in the business. Meanwhile, the daughter completed her graduation in business management from a university in Canada last year and joined the family company, in part to help her father. The father's heart attack a few years ago, led him to cut down on his commitments to the day-to-day management of the company. The daughter's overseas business education has allowed her to explore new distribution models and novel business opportunities for the company in the face of intensifying competition. There are currently no indications that her role in the business will diminish as her younger brother comes of age.

Spheres of daughters' influence in family firms

The diagram presents different types and levels of involvement in family business as described during the survey.



Daughters residing in the dark beige zone may be able to influence the family business on the strength of their distance. Because they are either based overseas, or they are daughters-in-law who have married into the family, they are seldom perceived as a threat to tradition or other family members' positions in the firm.

The green zone contains daughters who became involved because of demographic factors, such as being the only child or the eldest child in the family.

Away from the periphery and closer to the centre of power in the family firm, the grey zone represents a more treacherous ground for daughters. In many instances, they may find themselves faced with a stark choice: Pursue respect in the business hierarchy, for which they are qualified (thus fuelling rivalry inside the family); or seek advancement within the family hierarchy (and therefore losing out on opportunities inside the business). Nonetheless, survey respondents reported that previous work experience outside the family business typically increases the daughter's credibility.

Conclusion

- In a break with tradition, an increasingly broad group of family members, including daughters and younger siblings, is considered when choosing a new owner/manager for the family firm.
- Many families have only tacitly recognised the value of involving women, especially daughters, in managing the family's business and wealth. This may be disconcerting to the new generation of women entering the family business structure, but it should not stop them from asserting their talents and influence across a newly-opened realm of opportunity.
- Despite the lack of well-defined roles and responsibilities, empirical evidence from the survey shows that women benefit from work experience outside the family business. They gain credibility, which in turn helps them avoid or counter tension and rivalry with other family members.

Chapter 5: Globalised business world: Asian family values

Summary

- Family values not only shape the family's internal dynamics and its external reputation, but can also determine the family's approach to many aspects of running a business.
 - Not all parents in a family firm insist that their children contribute to growing the family business, but all expect them to contribute to the long-term well-being of the family and society.
 - Against a backdrop of Westernisation in the business environment, family businesses and business families in Asia continue to draw strongly on Asian religious and philosophical traditions as sources of guidance and continuity.
-

The majority of families surveyed recognised that the family reputation and legacy stretch far beyond the space occupied by the family business. In fact, business transactions are just one category in the family's interactions with the outside world. Others include relationships with the community, the family's cultural and intellectual links, family philanthropy, and its religious as well philosophical/moral orientation. Altogether, these help provide the family with a joint sense of purpose and vision.

Business strategy is also rooted in the family's value system

Business strategy itself was commonly linked to family values. These were often attributed to the founder of the business providing, alongside examples of social responsibility, for a sense of continuity in the family enterprise. Whereas not all families expect their children to add material value to the business, all respondents wanted their children to live in accordance with these principles and to contribute to the well-being of the family and society. The parents' generation emphasised the following family values:

- Fairness and integrity
- Dignity
- Humanity
- Responsibility
- Upholding family bonds
- Passion for the business
- Modesty
- Working hard
- Creating wealth and employment opportunities for the community

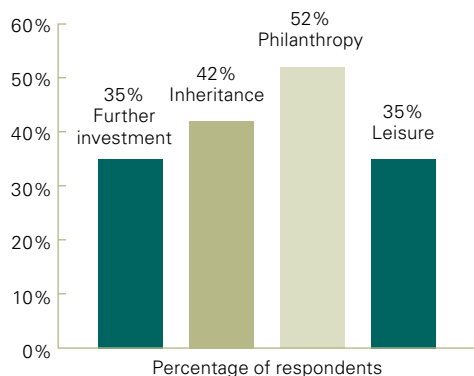
Asian religious and philosophical influences continue to hold sway

Across generations, the survey respondents reported that religious, as well as philosophical and civic values, shaped their efforts to build the family's reputation. Nearly 50% of respondents specifically mentioned religious (Buddhist, Christian, Hindu, Muslim) values as shaping the long-term perspective of the family and the family business. Confucian values may not have been specifically emphasised, but Confucianism's central metaphor of society as an organic extension of family bonds and interactions clearly informed the world view and thinking of respondents in East Asia, particularly those coming from the overseas Chinese communities. Other respondents asserted similar but secular and/or civic principles. For example, a Taiwanese respondent described his family's values as directly related to 'being a good Taiwan citizen'.

Overall, respondents in the parents' generation made very little differentiation between values governing professional and private life. For instance, notions of integrity and fairness related to family members just as they related to suppliers and employees in the family business. Statements such as: "The company has always had only one bank for the business" and "Suppliers are never paid late even if the company may get paid late by customers", illustrate how closely the family-held values run through the daily workings of the family-owned business.

Philanthropy plays a major role in families' anticipated future use of wealth...

Family values are a major factor guiding many Asian families' future plans for using their wealth. The majority of first-generation participants in the survey had considered in some detail the specific areas where in the future they would like to put the family wealth to good use. Among this group, philanthropy was the single most often quoted target, with 52% of the respondents hoping to create positive change through their family's sustained commitment to philanthropy.



Future plans to use wealth

Based on responses to:
 'What would you like to do with your wealth in the future? Do you intend to use a substantial portion on any of [the above options]?'*

*Percentages do not add up to 100 since some respondents chose multiple options.

...but not all family businesses are thinking about long-term issues such as philanthropy and posterity

Some respondents, especially those whose company was set up in the current generation, admitted they had only thought about philanthropy as a long-term aspiration. Because of the newness of their family wealth, they felt that at present the family business demanded most of their focus. One respondent interviewed summarised his desired legacy as follows:

"The family philosophy is about the creation and maintenance of a family system, which is sustainable and unique. The family should hold on to this philosophy even after many generations, and be involved in building businesses and creating more wealth while giving back to society."

Fourth generation member of an international South Asian conglomerate

New generation is making sense of conflicting cultural experiences

While, the new generation surveyed had an intuitive understanding of the importance their families attached to philanthropy, they were still learning about it as a wealth preservation instrument, and about practical ways of introducing these to the family firm's day-to-day business operations. In addition, the second generation freely acknowledged that philanthropy was just one of a number of issues they were grappling with as they worked to establish their identity and voice in the family and in society. These included issues related to the cultural differences between Asian and Western societies. Those in the second generation who were partly or fully educated overseas felt that the return to the Asian family environment was a complex process. At least temporarily, they see themselves as trying to live up to the expectations of both cultures. Some of them found local attitudes and values harder to accommodate after being exposed to ways of 'the world':

"I studied in the West and observed marked differences when I returned to my own culture. In general, people are not ambitious or aggressive enough, and my father seems too careful and detail-oriented. I am trying to find a way to accommodate both cultures."

Daughter, second generation in a family business

Conclusion

- Although family values and reputation are rooted in a complex and constantly evolving family system, they do have a meaningful place in the practical, day-to-day operations of a family business.
- Religious and philosophical values provide Asian families with a great source of continuity. They give multiple generations in the family the 'vocabulary' that is necessary for dealing with key transitions in the family structure, including the transfer of business and wealth between generations.
- Members of the new generation who have been exposed to non-Asian cultural influences may feel they need time to digest and reconcile their experience with the family tradition. However, by repeatedly and consciously articulating the nature of the family's bonds and values, multiple generations in the family can successfully recreate and internalise the family's shared sense of purpose.



Families can be creative in working to sustain a shared set of values with the next generation

There are many ways to bridge the gap between generations in articulating and perpetuating specific family values. The Wendel International Centre for Family Enterprise at INSEAD has put forward the following list of questions that a family can raise when reflecting on the values it projects to the external world:

- What does our family honour (values)?
- How are these values reflected in what we do with our assets and our interaction with our communities?
- What was the driving purpose that got us to where we are now?
- What would be the main points of a newspaper article written about our family today?
- What would I like to be said about our family in 10/50/100 years?

When properly thought out and shared between generations, these considerations will give structure to the family's experiences, create continuity between past and present and serve as a guide for future actions.

Conclusion

The previous chapters attempted to outline the complex and fluid set of developments that Asia's high-net-worth families are grappling with at present. Most of the challenges they face result from the conflicting objectives, styles and aspirations of two generations. The parents' generation, who grew up at a time of political uncertainty, was in some cases exposed to hardship and discouraged from displaying wealth. In stark contrast, the experience of the children's generation has consistently been one of prosperity, overseas education, global exposure and new opportunities, often brought about by recent developments in finance and technology.

How will the current trends affecting high-net-worth Asian families play out during the next 20-30 years? The up-and-coming generation of successors to family businesses and wealth will by then be itself navigating the complex terrain of inter-generational transfer that the survey has identified. The resulting picture presents a set of growth challenges, family dilemmas and emotional pressures – some timeless, some new – that will confront today's young generation as it reaches its prime.

- **Family structure**

The traditional Asian family structure, especially the institution of the extended family, will see further erosion. The pressures are already apparent and include new generations pursuing education and other opportunities overseas, as well as technology-based communication channels increasingly dominating interaction between family members. More and more, the recreating of family bonds and loyalties through shared experiences and family rituals will require creativity as well as professional advice.

- **Defining wealth**

In the future, the new generation will reduce the gap that currently exists in understanding family wealth as opposed to family business, and will help define wealth transfer as a lifelong, continuous process. With diverse education and learning opportunities available to the current successors, more holistic concepts of wealth will emerge, emphasising intellectual, cultural, philanthropic and other manifestations. Attitudes towards displaying wealth will also undergo profound change, as the new generation moves away from the low-profile style of its parents and defines its own set of priorities that benefit the family and the community. These will draw on such areas in family life as experience outside the family business and new degrees of individual freedom. Family values in particular will increasingly shape the family's approach to wealth management as well as business operations in areas such as transparency, investment and relations with investors, suppliers and employees.

- **Cultivating family wealth**

Today's generation of children in family firms will have received a leading-edge business education. As a result, they will be comfortable with, and increasingly demanding of, innovative strategies for wealth preservation and growth. These will include diversification of assets including alternative investments such as art, commodities, Islamic finance, new types of derivative instruments and others. In managing the family business, they will rely more on professional management, and seek advice on aspects of wealth management such as philanthropy, which today are still fluid and handled on a semi-formal, ad-hoc basis.

The new understanding of wealth as comprising intellectual and human capital will find reflection in the way Asian business and high-net-worth families define paths to success for their children. Daughters of today's family business owners will stake out a much more clearly defined space of influence and direct management control within the family firm. At the same time, as the numbers of women in the boardroom grow rapidly, issues of work-life balance and new lifestyle choices will come under the spotlight and claim their place on the family firm's radar.

- **Wealth transfer**

For this future generation of parents, the ability to let go is a sign of leadership, not weakness. Having received an international education, more family business owners who are now part of the up-and-coming generation will seek to move members from dependence to independence. They will make conscious effort to understand and accommodate the needs and aspirations of individual family members, develop their capabilities to be independent adults and responsible owners of wealth, as well as provide fair and appropriate exit options. They will encourage their children to learn from their mistakes, to explore innovative ideas, and to discover who best assumes the respective responsibilities. In this context, leadership by example will become ever more treasured.

- **Emotional pressures**

Despite the growing acceptance of family members' individual goals and diverse paths to success, the emotional conflicts that arise from the interplay of family and business interests and priorities will not go away. In fact, the much greater gender mix of owners and successors in family businesses will give rise to new sets and paradigms of conflict. There will be some positive developments: For instance, research has shown that cross-gender, i.e. father-to-daughter and mother-to-son successions, are less affected by issues related to control, power and competition. At the same time, unresolved childhood issues and insecurities will surface as rivalries in successions more commonly than now. These include mother-to-daughter successions where psychological studies have identified a number of issues, such as daughters being overshadowed and constantly compared to the mother, and daughters facing inner conflicts with their own 'femaleness', e.g. by over-achieving, focusing solely on the businesswoman's role, and avoiding traditional roles such as those defined by marriage and motherhood.

- **Asian values**

The next generation of family entrepreneurs will play a crucial role in reconciling Asian and Western influences in conducting business, growing wealth and interacting with the outside world. At present, young Asian successors to family business inhabit a world where their upbringing was rooted in Asian values but most of their education and professional credentials build on Western concepts and practices. As leading research on cross-cultural communication has pointed out, a true cultural East-West synthesis, although much talked about, is conspicuous by its absence. This is an exciting and challenging space where the new generation of Asian family business leaders has much to contribute by discarding international or Western practices that are culturally alien to Asia and adapting others to nurture a truly Asian perspective and business style. The process of finding and creating this balance has long been overdue and Asian family enterprise is uniquely placed to change this.

- **Continuity**

Ultimately, and despite the shifting preferences and objectives of each new generation, Asian families seek continuity. Parents of the future generation, as is already apparent from the survey, may not insist that all of their children contribute directly to the family business. However, all of them expect their children to make lasting contributions to the long-term well-being of the family and society. This is where religious and other spiritual values will continue to be a source of continuity and emotional vocabulary that allows the family to deal with key transitions such as transferring wealth between generations.

Successful families have a common vision of the future. Part of this vision has to do with growing the family wealth, as well as transferring wealth to future generations. They are able to create a wide variety of platforms for nurturing the personal and professional development of their younger generation. For them, investment in the professional and personal development of family members is a core part of their strategic wealth management plans.

- **Planning**

The process of transferring wealth to the next generations will always be complex, thus creating new challenges for Asian families as they work toward continuity. In an ever more complex business environment, and facing a fragmented family structure, planning will be more important than ever before. We predict that Asian families will increasingly engage professional advice early on in planning for a succession. Crucially, this will help reduce the impact of emotions on decision-making inside the family firm. As illustrated in this document, families that do not put in place a wealth transfer strategy often risk becoming victims of dysfunctional family dynamics.

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