

Succession, Professionalism and Governance in Philippine Family Corporations

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Basic Dynamics



Core Issues

■ **Succession**

■ **Professionalism**

■ **Governance**

SUCCESSION



Succession “How To” Issues

- How to...
 - Keep the family members or next generation involved in the business?
 - Select the successor--family and/or non-family?
 - Train the successors?
 - Sustain the founder’s vision?



Key Concerns: Succession Planning

- Founder
 - Reluctant to face own mortality and loss of self image.
 - Cannot let go of power.
 - May perceive self as indispensable.
 - May be jealous of potential rivals and successors.



Key Concerns: Succession Planning

- Second generation
 - Fears parental death, abandonment.
 - Wants to avoid disruption of family harmony
 - Feels it is impolite to discuss founder's "passing."
 - Goes into denial: future will not change.



Key Concerns: Succession Planning

- Managers
 - Reluctant to change personal relationships.
 - Fear aging, retirement.
 - May be seen as over-ambitious or confrontational
- Board
 - Do not want to appear disloyal.
 - Set unrealistic measures for possible successor.
 - Like managers and family, cannot leave “comfort zone.”



PROFESSIONALISM



Professionalism

- Expansion impels family to...
 - ...increase competence and performance measures
 - ...hire professional non-family managers,
 - ...substitute systems for the founder's hands-on approach.



Characteristics of Non-Family Managers

- Applies formal business training, e.g. standards, systems, analytical tools.
- Builds on the founder's business legacy.
- Assumes multiple roles:
 - Expert (engine for growth).
 - Turn Around “Corporate Doctor” (crisis period).
 - Business Strategist (MBA types).



How Family Members view NFM's

- **Supplementary skilled labor**
- **Expert**
 - Legal Matters, Mergers and Acquisitions.
- **Buffer to Family Influence**
 - “sounding board” among different groups
- **Symbol**
 - that there are careers in the family business
- **Mentors to the next generation**



NFMs: Why Stay?

- Usually quicker exposure to a wide variety of decision-making situations.
- Speed of decision making on policy issues.
- Can be a more personal and satisfying work environment.
- Offers immediate opportunity to interact with key decision makers (owners).



GOVERNANCE

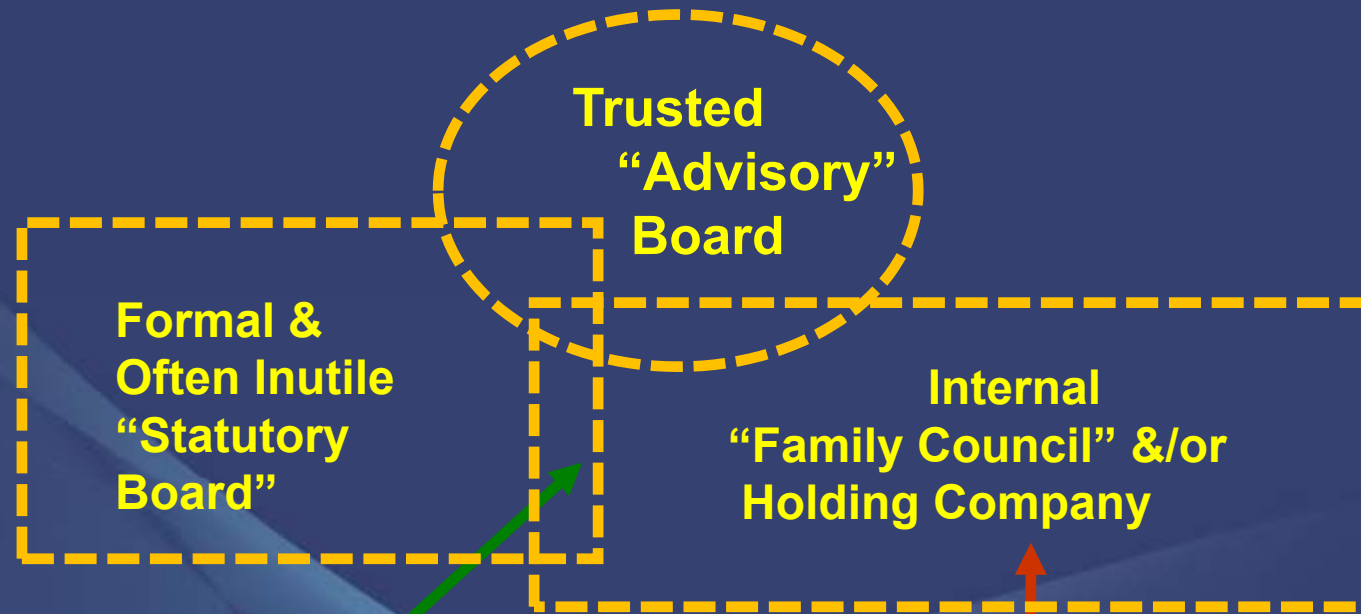


Board Governance

- Responsible for the corporation.
- Exert critical independent judgment.
- Made up of independent, high-achieving individuals



Multiple Boards



NFM CEO as Non- Voting Participant

"Nominal" Family:
Christmas Cards, Funerals, Banquets

"Intimate" Family:
Includes "adopted" NFMs

"Connected" Family:
More frequent & regular meetings, smaller groups, nuclear in-laws here



**CASE STUDY:
FILIPINO-CHINESE
“CHINOY”
FAMCORS**

Lessons from Chinoy Famcors

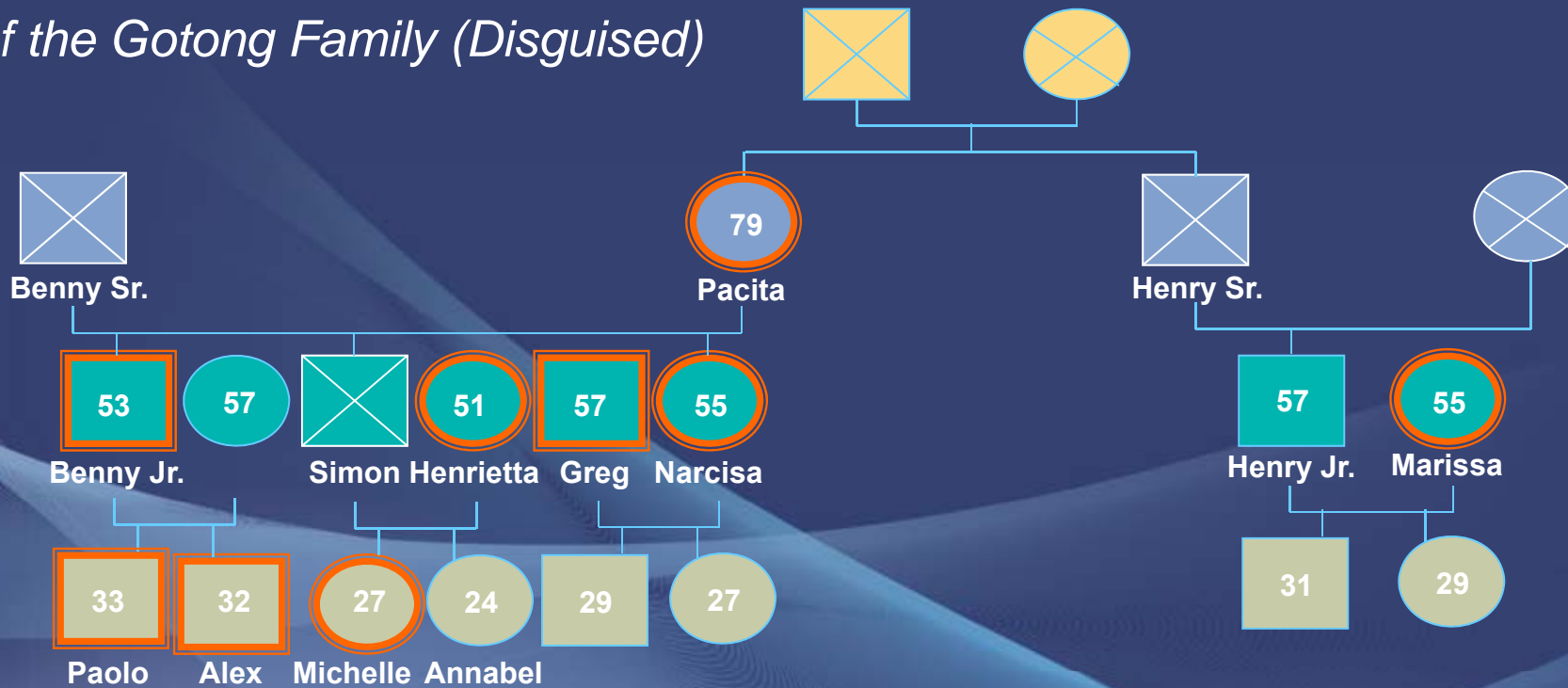
- * • Thrift ensures survival.
- A high, even irrational, level of savings is desirable, regardless of immediate need.
- Must work hard (to exhaustion) to ward off hazards in complex world.
- Trust only family
 - An incompetent relative is > than a competent stranger.
- A business enterprise is the family's life raft.

Chinoy FAMCORS 2

- Obedience is essential to maintaining coherence and direction.
- Investment must be based on kinship or a clan network, not abstract principles, e.g., NPV.
- Tangible goods like real estate are preferable to intangibles like intellectual property.

Genogram / Family Tree

Of the Gotong Family (Disguised)

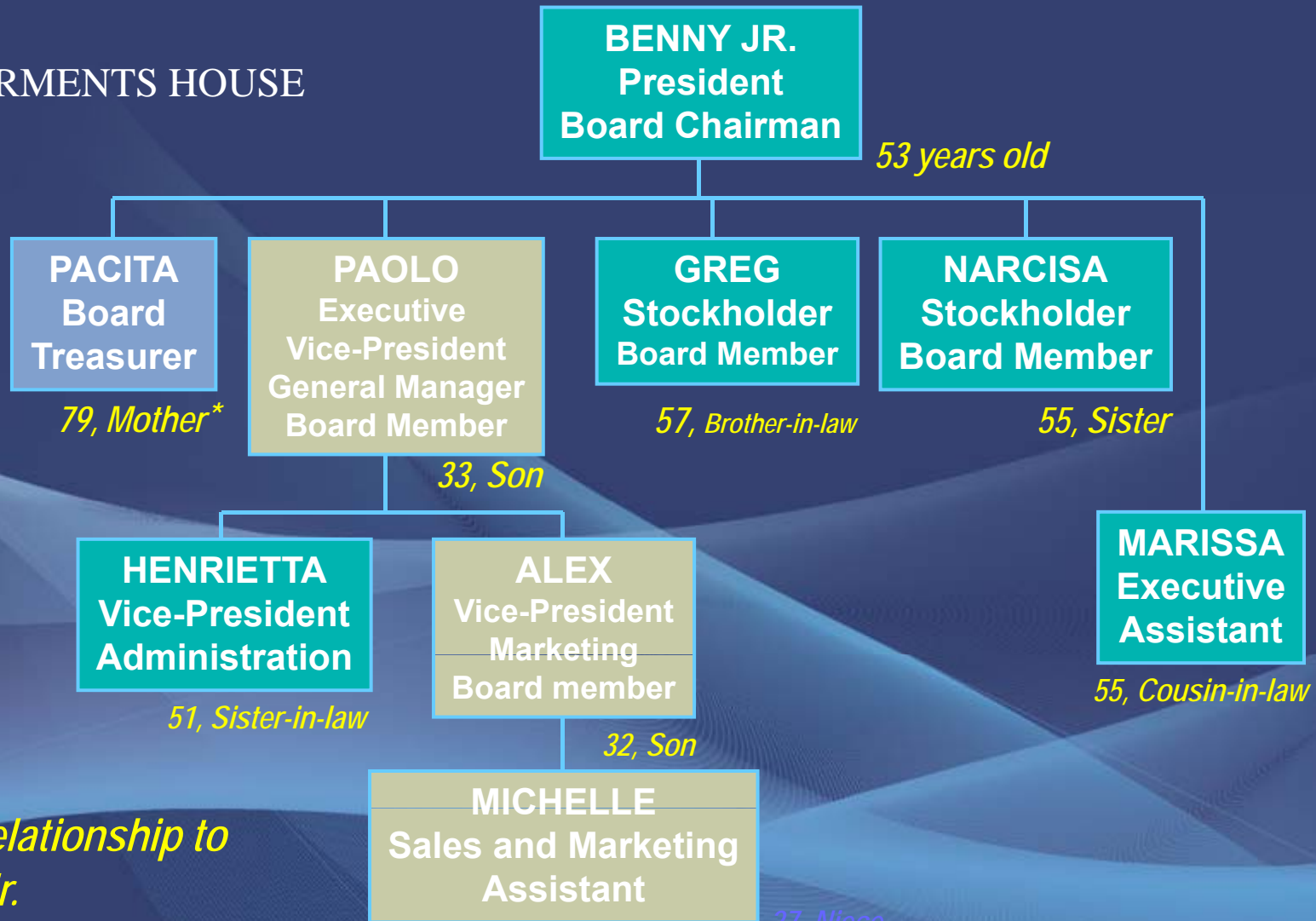


Legend:

- 1st Generation
- 2nd Generation
- 3rd Generation
- 4th Generation
- age - Male
- age - Female
- Deceased
- Involved in the Business

Organizational Chart

GARMENTS HOUSE



**Age, Relationship to Benny Jr.*

27, Niece

Next steps, family

- Family
 - Vision clarification/vision exercises
 - Genogram – family history/ trends
 - Parental/Family counseling
 - Personal career counseling
 - Formation of family council
 - Education on responsible ownership and management

Next steps, business

- Business
 - Management Training
 - Mentoring and Feedback
 - Programming work experiences
 - Realigning Incentives

Next steps, working with NFM

- Select the best.
- Compensate well
 - but be careful about giving shares.
- Involve key managers in decisions.
- Be clear: develop family
 - You want NFM to develop family managers and move non-family members to management positions.
 - Get their commitment to developing family talent.
- Support them when they protect the integrity of your business.
- Don't delegate family issues to them.

Conclusions

