GOVERNANCE OF FAMILY-OWNED BUSINESS
Shanti L. Poesposoetjipto
LONG-TERM PRESERVATION OF FAMILY WEALTH (1/3)

Questions
Can a family successfully preserve wealth for more than 100 years or at least four generations?

Problems
The history of long-term wealth preservation in families is failure epitomized by the universal cultural proverb “Shirt to shirt sleeves in three generations”

The Theory
1. Preservation is a question of human behavior
2. Preservation is a dynamic process of group activity, or governance successfully re-energized in each successive generation
3. Assets of a family are its individual members
4. Wealth of a family consists of the human and intellectual capital of its member
5. Financial capital is a tool to support the growth of the family’s human and intellectual capital
LONG-TERM PRESERVATION OF FAMILY WEALTH (2/3)

To successfully wealth preserve, a family must

1. form a social compact among its individual members reflecting its shared values, and each successive must reaffirm & readopt that social impact.

2. agree to create a system of representative governance through which to actively practice its values and each successive generation must reaffirm its participation in that system.

   *The mission* of that system must be the enhancement of the pursuit of happiness of each individual family member as a part of the enhancement of the family as a whole, for the purpose of achieving long term preservation of the wealth: its human, intellectual, and financial capital.
Solution
A family can successfully preserve wealth for more than 100 years by the creation and practice of a system of representative governance founded on a set of shared values that expresses that family’s “different-ness.”

The Practice
The practice of multiple quantitative and more importantly, qualitative techniques over a long period of time designed to cause a family to make slightly positive than negative decisions regarding the employment of its human, intellectual and financial capital.
THREE CIRCLE MODEL

The Three Circle Model is generally accepted as the standard model for family businesses and includes family, business and ownership as the three main components (Gersick et al, Generation to Generation: Life cycle of the family business, Harvard Business School Press).

Each circle has a governance structure and a plan:

- A family council would govern the family and prepare a family plan.
- A management team would lead the business and prepare a management development plan for succession and a business plan.
- A board of directors would govern the owners or shareholders and would be responsible for the strategic plan, continuity plan, contingency plan and the succession plan.
While every decision within the scope of each independent circle could be taken independently, intersecting risk areas requires cross-circle communication & collaboration.
# FAMILY’S PHILOSOPHY’S IMPACT ON BUSINESS DECISIONS

<table>
<thead>
<tr>
<th>Business Decision</th>
<th>Business First</th>
<th>Family First</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry rules</td>
<td>Specific job, if qualified</td>
<td>All welcome</td>
</tr>
<tr>
<td>Compensation</td>
<td>Based on job description and market conditions</td>
<td>Equal pay for family members of same generation</td>
</tr>
<tr>
<td>Stock ownership</td>
<td>Chief executive or family managers receive stock according to contribution or possibly among non-family employees</td>
<td>Equal by branch of family</td>
</tr>
<tr>
<td>Dividends</td>
<td>None</td>
<td>Stable, fair return to capital</td>
</tr>
<tr>
<td>Titles and authority</td>
<td>Based on merit in a business hierarchy where each person has only one boss</td>
<td>Equal titles for all members of same generations and role in decision making for all shareholders</td>
</tr>
<tr>
<td>Governance</td>
<td>Board of outside directors</td>
<td>Board family consensus</td>
</tr>
<tr>
<td>Role in community</td>
<td>Leadership</td>
<td>Voluntary</td>
</tr>
<tr>
<td>Business Decision</td>
<td>Family Enterprise Spirit</td>
<td></td>
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<td>---------------------------</td>
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<td></td>
</tr>
<tr>
<td>Entry rules</td>
<td>Opportunities will be developed for all individuals in the business, based on business needs</td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>Acceptable family standard of living assured for everyone</td>
<td></td>
</tr>
<tr>
<td>Stock ownership</td>
<td>Equal values for all – some in business stock, others in passive investments or entrepreneurial opportunities</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>Variable, modest return to capital</td>
<td></td>
</tr>
<tr>
<td>Titles and authority</td>
<td>Equal roles for all those with high degree of competence</td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Board of directors and representative Family Council</td>
<td></td>
</tr>
<tr>
<td>Role in community</td>
<td>Active according to family needs and individual interests</td>
<td></td>
</tr>
</tbody>
</table>
FOUNDER’S POLICY

- Governance aspect within founders itself and expanded to the Company.
- Professionalism in the Organization – Human Resources
 Introduction to Governance since early age

 Imposing formal educational Degree and professional career for all children.

 Founder’s Heirs were never aspired to be involved in the companies founded

 Education of the difference between Ownership & Management.
THE ROLE OF PROFESSIONAL MANAGERS IN A FAMILY BUSINESS

- To assist the operational execution of the company
- To act as the enforcer in establishing a culture of work-discipline in the company
INTEGRATION OF PROFESSIONAL MANAGEMENT INTO THE COMPANY

- Founders commitment to transfer their power and authority to the managers
- Transfer of power and authority should occur while founders is still in a productive age and while the company is in the take off period
- Process of power and authority transfer should be staged as such in accordance with the individual maturity and readiness of the professional managers
MINIMUM REQUIREMENT FOR A PROFESSIONAL

- Ability to communicate
- Proficiency in English and Bahasa Indonesia
- Leadership (internal & external)
- Flexibility in adapting to new developments outside the company’s environment
- A wide business horizon and vision
- Ability to evaluate and handle a number of complex problems simultaneously without having to sacrifice other activities
- Ability to make informative & self-explanatory report (oral as well as in writing)
COMPANIES FOUNDED BY SOEDARPO

Soedarpo Sastrosatomo founded in the 50s:

- ISTA
- Asuransi Bintang
- Bank Niaga
- Soedarpo Corporation
- Samudera Indonesia
- Millennium Pharmacon International
- Soedarpo Informatika

- Public
- Public
- Public
- 1997
- Private
- transformed
COMPANIES FOUND BY SOEDARPO

Soedarpo Sastrosatomo founded:

- Samudera Indonesia
- Asuransi Bintang
- Bank Niaga
- Soedarpo Corporation

Minarsih Soedarpo founded:

- Millennium Pharma International
- Soedarpo Informatika
Basic Consideration:

Sustain a healthy & harmonious relationship between shareholders and Management

1995

INSTITUTIONALIZATION OF OWNERSHIP

Individual Ownership

Institutional Ownership

Soedarpo Sastrosatomo

Ngrumat BondoUtomo (NBU)

Samudera Indonesia Group

Asuransi Bintang

Loewe (d/h Citra Lintas)

Soedarpo Informatika Group
INSTITUTIONALIZED OWNERSHIP

Basic Consideration:

_Sustain a healthy & harmonious relationship between shareholders and Management_

Only the ownership of NBU was Transferred to the succeeding generations

2006

Individual Ownership

Soedarpo Sastrosatomo

Institutional Ownership

Ngrumat BondoUtomo (NBU)

Shanti L Poesposoetjipto
Ratna-Djuwita Sukirno
Chandraleika Mulia (2nd Generation)

Samudera Indonesia Group
Asuransi Bintang
Loewe (d/h Citra Lintas)
Soedarpo Informatika Group
INSTITUTIONALIZED OWNERSHIP ON BIGGER SCALE

FOUNDERS

Individual Ownership

Soedarpo Sastrosatomo

Idham

Wibowo

Pangestu

Etc.

1st Gen

2nd Gen

Shanti L. Poesposoetjipto
Ratna D. Sukirna
Chandraleika Mulia

Fatima Shanta Tamara
Zafar Dinesh Idham

Windrarta & Siblings

Tiki Pinki Mari

Institutionalized Ownership

Ngurmat Bondo Utomo
NBU

Srihana

Family Office Wibowo

Family Office Pangestu
DEVELOPMENT MODEL OF FAMILY BUSINESS

Business Axis
- Maturity
- Expansion/Formalization
- Start Up

Family Axis
- Young Family Business
- Entering The Business
- Working Together
- Passing the Baton

Ownership Axis
- Controlling Owner
- Sibling Partnership
- Cousin Consortium
Bank Niaga

Founders + Professional Mgmt (1974)
Prof. Mgmt 1st Gen. + Prof. Mgmt 2nd Gen. (1997)

Founder 1955

Start Up

Young Family Business

Expanding/ Formalization

Entering The Business

Maturity

Working Together

Passing the Baton

Controlling Owner

Sibling Partnership

Cousin Consortium

Public owned

Ownership Axis

Business Axis

Family Axis
DEVELOPMENTAL MODEL OF FAMILY BUSINESS

Samudera Indonesia Group

Founders (1955)
Founders + Prof.Mgmt 1st Gen. (1980s)
Founders + 2nd Generation + Prof.Mgmt 1st Gen.(2000 - 2007)
2nd Generation + Prof Mgmt.2 & 3rd Gen. (2009)

Founder & Public (1997 – 2007)

Founders 2nd Gen & Public (2007 – to date)
Asuransi Bintang

**DEVELOPMENTAL MODEL OF FAMILY BUSINESS**

- **Business Axis**
  - **Start Up**
  - **Expansion/Formalization**
  - **Maturity**

- **Family Axis**
  - **Founder 1955**
  - **Young Family Business**
  - **Entering The Business**
  - **Working Together**
  - **Passing the Baton**

- **Ownership Axis**
  - **Founders 1955**
  - **Prof. Mgmt 1st Gen. + Prof. Mgmt 2nd Gen. (1997)**
  - **Prof. Mgmt 2nd Gen. + Prof. Mgmt 3rd Gen (2010)**
  - **Founder & Public (1997 – 2007)**
  - **Founders 2nd Gen & Public (2007 – to date)**

- **Controller Owner**
- **Sibling Partnership**
- **Cousin Consortium**

**Asuransi Bintang**

- Founders + Professional Mgmt (1984)
- Prof. Mgmt 1st Gen. + Prof. Mgmt 2nd Gen. (1997)
- Prof. Mgmt 2nd Gen. + Prof. Mgmt 3rd Gen (2010)

- Founders 2nd Gen & Public (2007 – to date)
"Knowledge is now recognized as being at least as important as physical capital, financial capital and natural resources as a source of economic growth."
Indonesia was generally ranked in # 38, big jump from 2012

With 4 out of 12 competitiveness pillars characterized* as the level of:

+ Business Practice sophistication
+ Technology Readiness
+ Higher education and Training
+ Innovation

Which are the most problematic area especially in aging business organization. Which sometimes require paradigm transformation.

PARADIGM CHANGE REQUIRES TRANSFORMATIONAL LEADER

“Transformational leadership aims at innovation & motivational power, Transformational leadership strives to create new opportunities for employees in an organization”

- Transforming the Business Model, Process and Values requires large shift in Paradigm Changes:
  - Most the Aging Business Model/ Process/ Procedure/ Values was “protected” because it was related to personal economics or/and individual job security.
  - Transforming perception of technology from a threat for job security to enabling tools, Monitoring/report from suspicion to achievement assurance.
  - Education/Scientific vs Experience only values, Real-time Vs Manual Reporting
TRANSFORMATIONAL LEADERSHIP

“Transactional leadership where leaders focus on the relationship between the leader and follower, and Transformational leadership where leaders focus on the beliefs, needs and values of their followers.”

Transformational leadership relates positively to pragmatism, nurturance, and feminine attributes and negatively to criticalness and aggression
(Ross and Offermann, 1997)

Transformational leadership aims at innovation and motivating people, Transactional Leadership focused on planning and execution by focuses on the use of manipulation of power and authority (Tucker, et al, 2004). Transactional leadership focuses on rewards and punishments in order to achieve goals.

Transformational leadership strives to create new opportunities for employees in an organization, whereas transactional style works off of an existing structure (Tucker, Georgia, Russell, College, and Emory, 2004).
KNOWLEDGE ECONOMY TREND AND WOMEN’S CONTRIBUTION

Citizens of the 21st Century – Innovation + Skills + Knowledge
Improve Economic performance but requires equal Opportunity

Social Justice & Economy

Government  Firms  Individuals  Education Institutions

Knowledge Infrastructure

Information systems
Communications Networks
Investments in human capital

15%
Total Enrollment of Women in Computer Science Programmes in North America

15-20%
Society’s use of IT Growth Rate

Looking at the trend there will not be enough people to fill jobs if we are missing the talent pool of women.
SKILLS REQUIREMENT FOR THE KNOWLEDGE ECONOMY

Employable skills considered critical by major employers:

- **Academic skills** which provide the basic foundation to get, keep and progress on a job
- **Teamwork** which is needed to work with others.
- **Personal management** skills which project attitudes & behaviour

Women's acknowledged traditional skills:

- Intuition
- Communications
- Team playing
- Attention to details
WOMEN LEADER, TRANSFORMATIONAL LEADER

Women Leadership

Transform people’s self interest into organizational goals

Increase Productivity & Profit

Encourage participation
Share Power & Information
Enhance other people’s self-worth
Get others excited about their work

Women are “transformational leaders” who exercise “interactivate leadership”.

Harvard Business Review, Judy Rosener, professor at the University of California Graduate School in Irvine
THANK YOU

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