

# IFC CORPORATE GOVERNANCE GROUP



## Governance of Family-Owned Business

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# 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**.

# Long-Term Preservation of Family Wealth (3/3)

## 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.

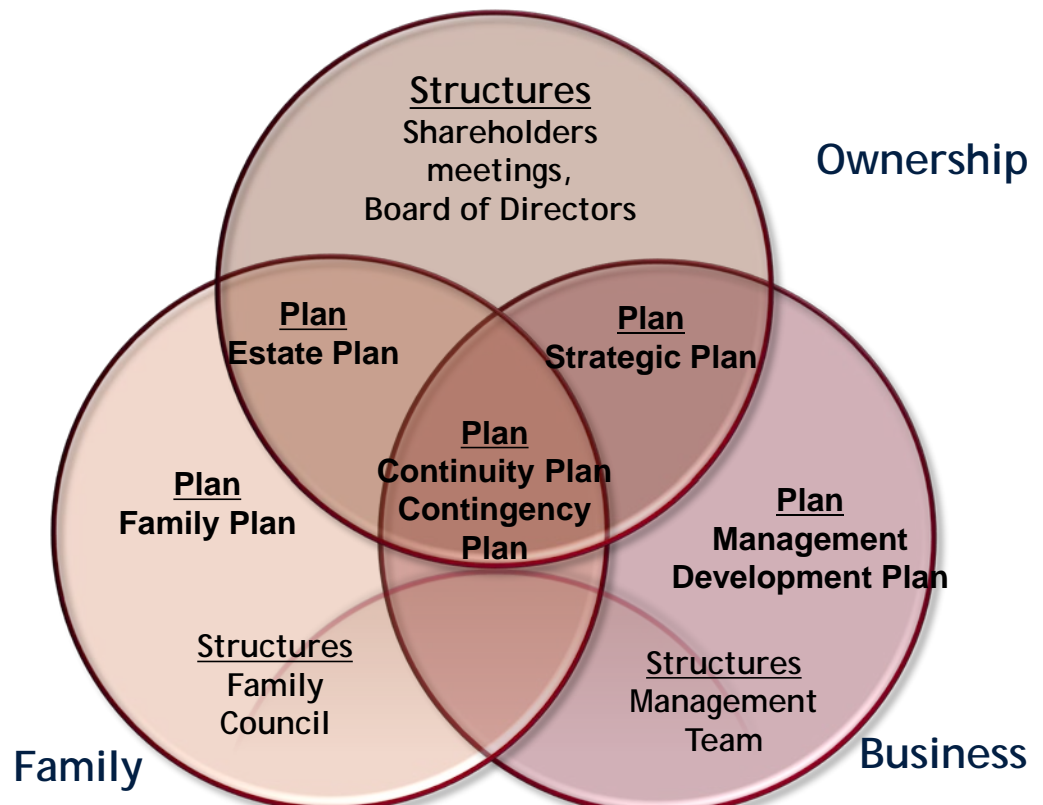
# Three circle model

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).*

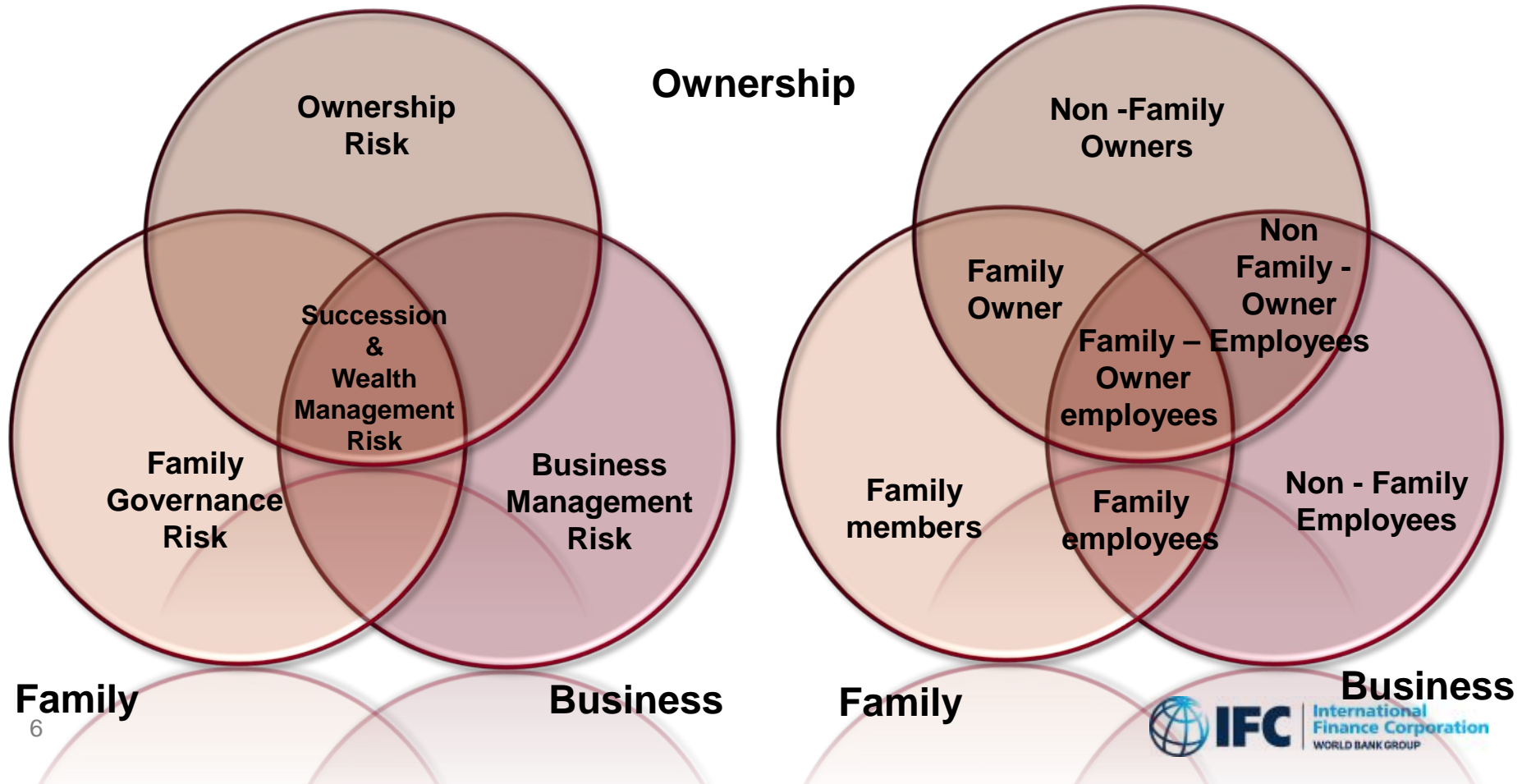
Each circle has a governance structure and a plan

- 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



# Decision risk model

While every decision within the scope of each independent circle could taken independently, Intersect risk areas requires cross-circle communication & collaboration



# Family's Philosophy's impact on business decisions

Business Decision	Business First	Family First
Entry rules	Specific job, if qualified	All welcome
Compensation	Based on job description and market conditions	Equal pay for family members of same generation
Stock ownership	Chief executive or family managers receive stock according to contribution or possibly among non-family employees	Equal by branch of family
Dividends	None	Stable, fair return to capital
Titles and authority	Based on merit in a business hierarchy where each person has only one boss	Equal titles for all members of same generations and role in decision making for all shareholders
Governance	Board of outside directors	Board family consensus
Role in community	Leadership	Voluntary

# Family's Philosophy's impact on business decisions

Business Decision	Family Enterprise Spirit
Entry rules	Opportunities will be developed for all individuals in the business, based on business needs
Compensation	Acceptable family standard of living assured for everyone
Stock ownership	Equal values for all – some in business stock, others in passive investments or entrepreneurial opportunities
Dividends	Variable, modest return to capital
Titles and authority	Equal roles for all those with high degree of competence
Governance	Board of directors and representative Family Council
Role in community	Active according to family needs and individual interests



# Founder's policy

- Governance aspect within founders it self and expanded to the Company.
- Professionalism in the Organization – Human Resources

# Founder's family policy

- Introduction to Governance since early age
- Children urged to attain an educational Degree and pursue career as professional career
- Founder's Heirs were not aspired to take on any active management position in the companies founded.
- Education of Ownership & Management segregation concept.

# The Role of Professional Managers in a Family Business

- To run the operation of the company
- To act as the enforcer in establishing a culture of work-discipline in the company
- Develops the system procedures and professionalize the company's business conduct

# Integration of Professional Management into the Company

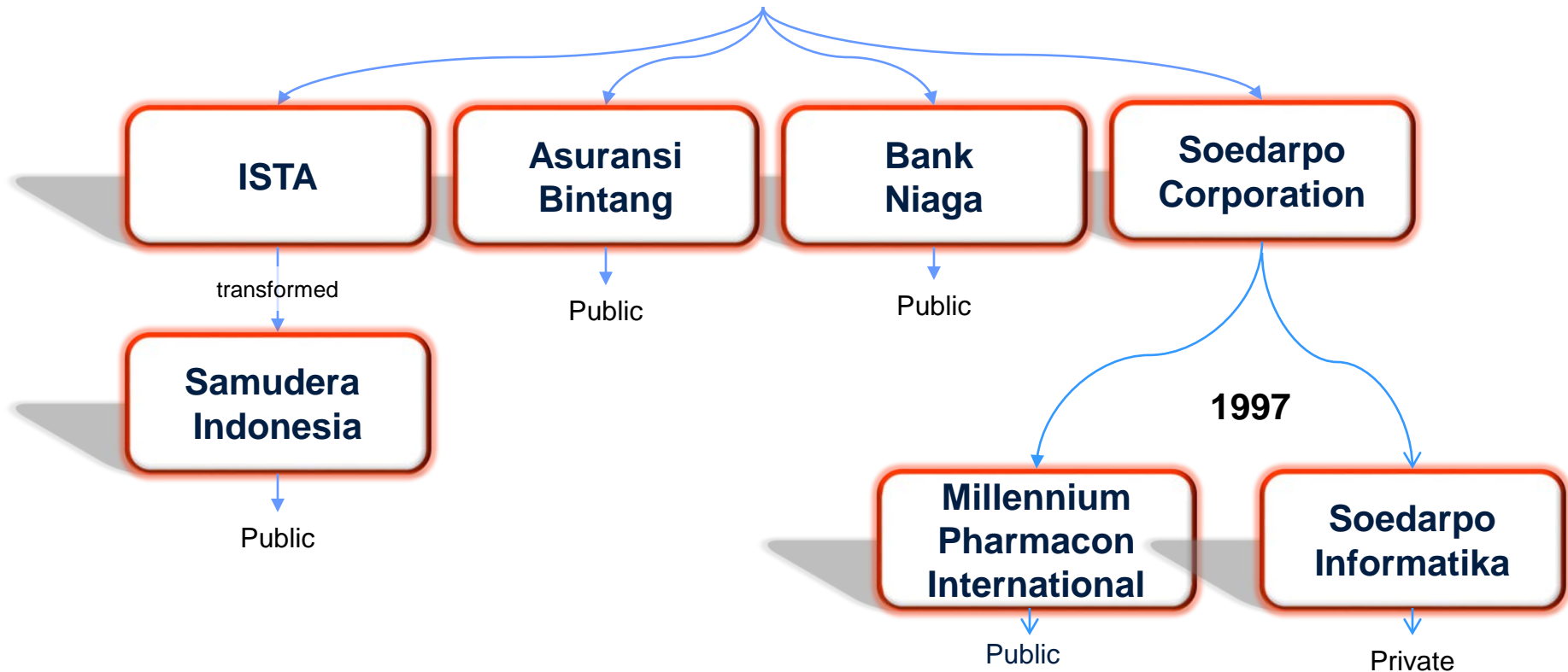
- Founders commitment to transfer their power and authority to the managers
- Transfer of power and authority should occur while founders is still in a productive age and while the company is in the take off period
- Process of power and authority transfer should be staged as such in accordance with 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)

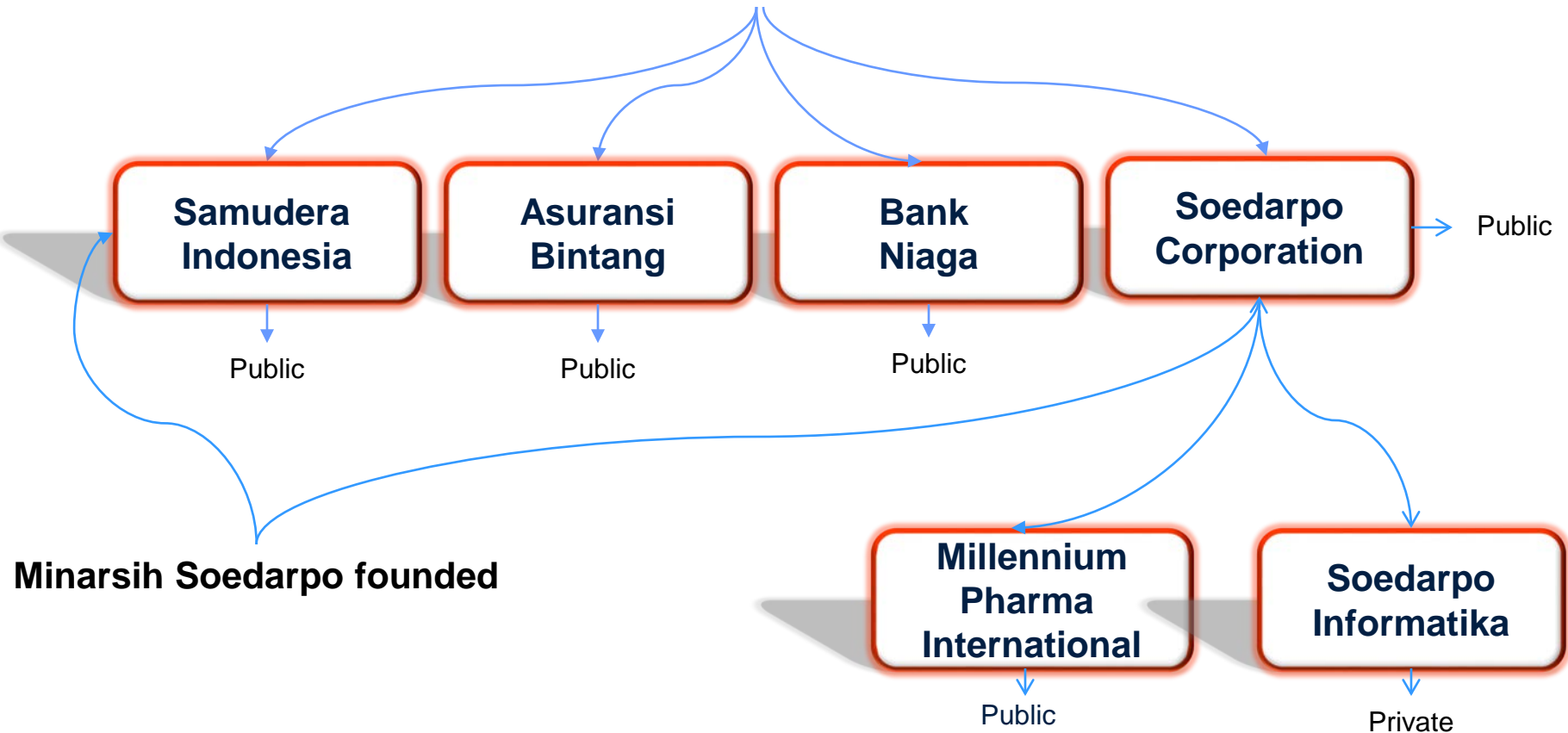
# Companies founded by Soedarpo

**Soedarpo Sastrosatomo founded in the 50s:**



# Companies founded by Soedarpo

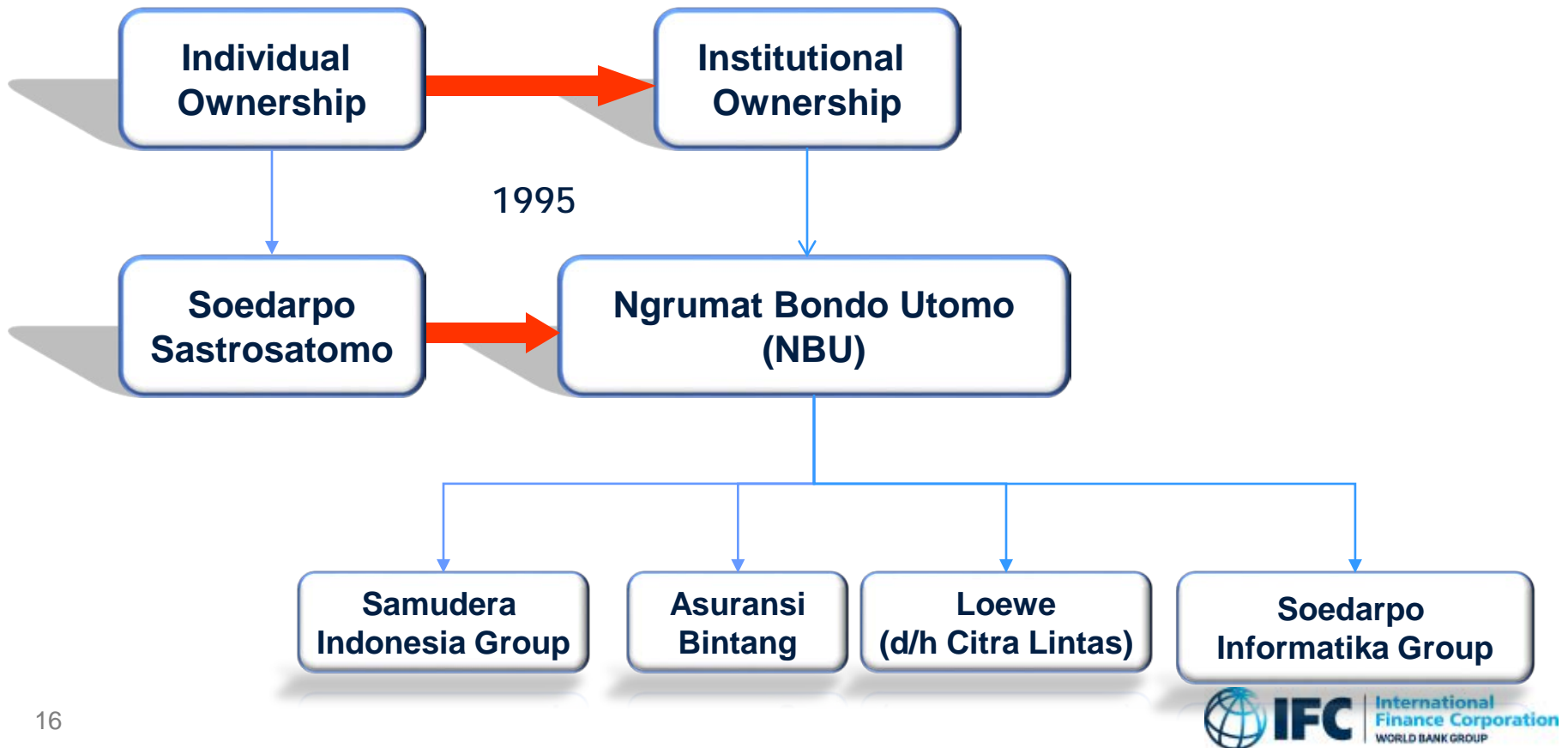
## Soedarpo Sastrosatomo founded:



# Institutionalization of ownership

## *Basic Consideration:*

*Sustain a healthy & harmonious relationship between shareholders and Management*

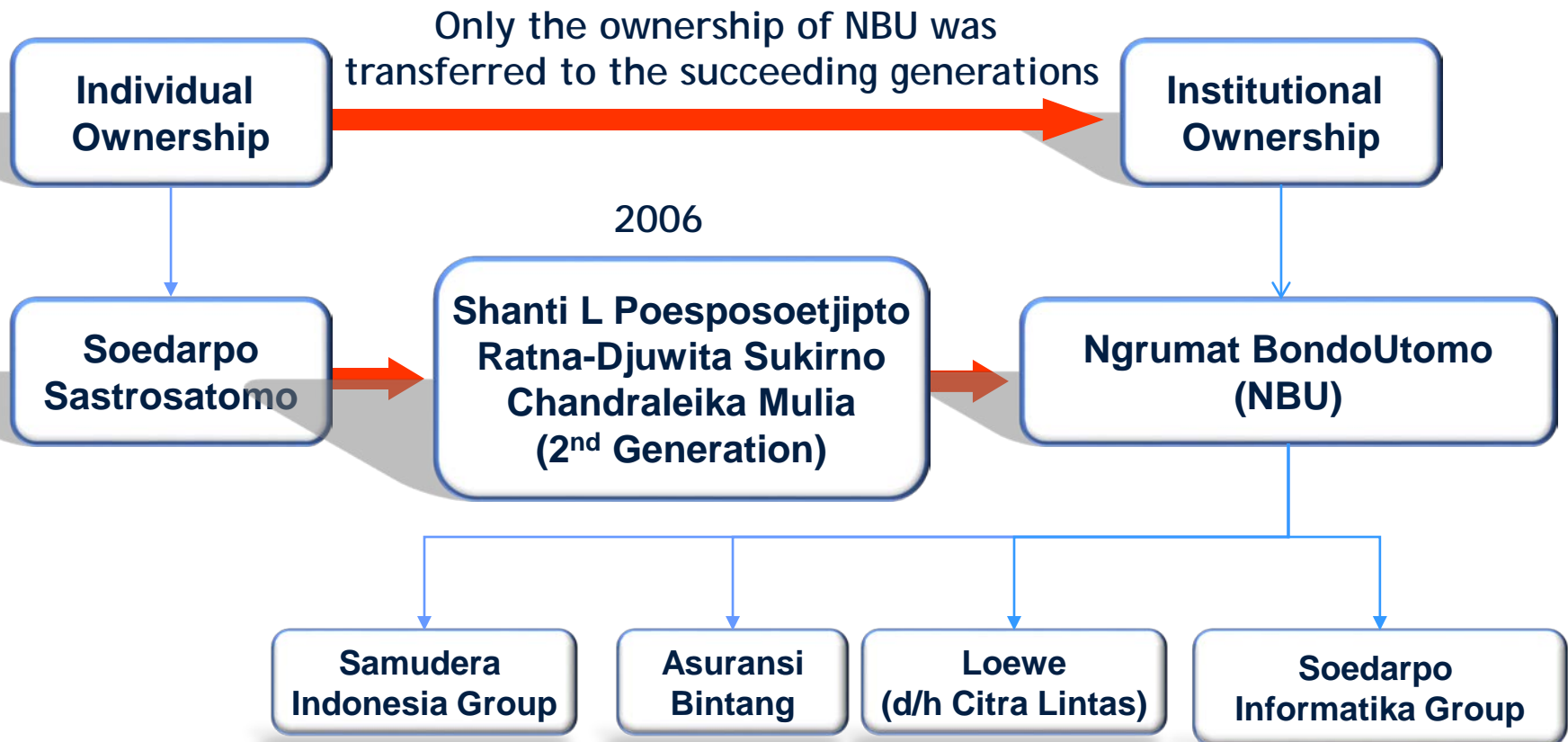




# Institutionalization of ownership

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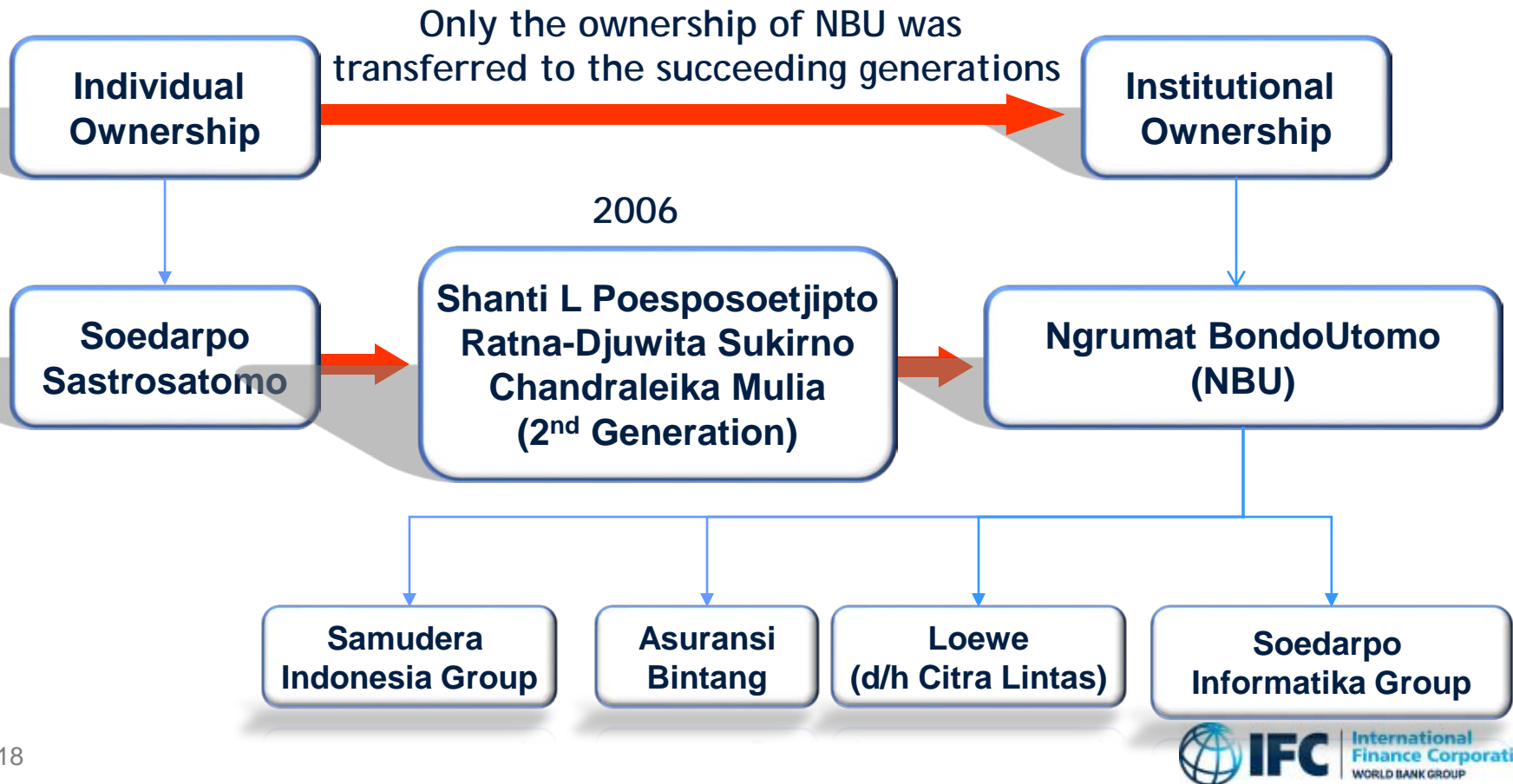
*Sustain a healthy & harmonious relationship between shareholders and Management*



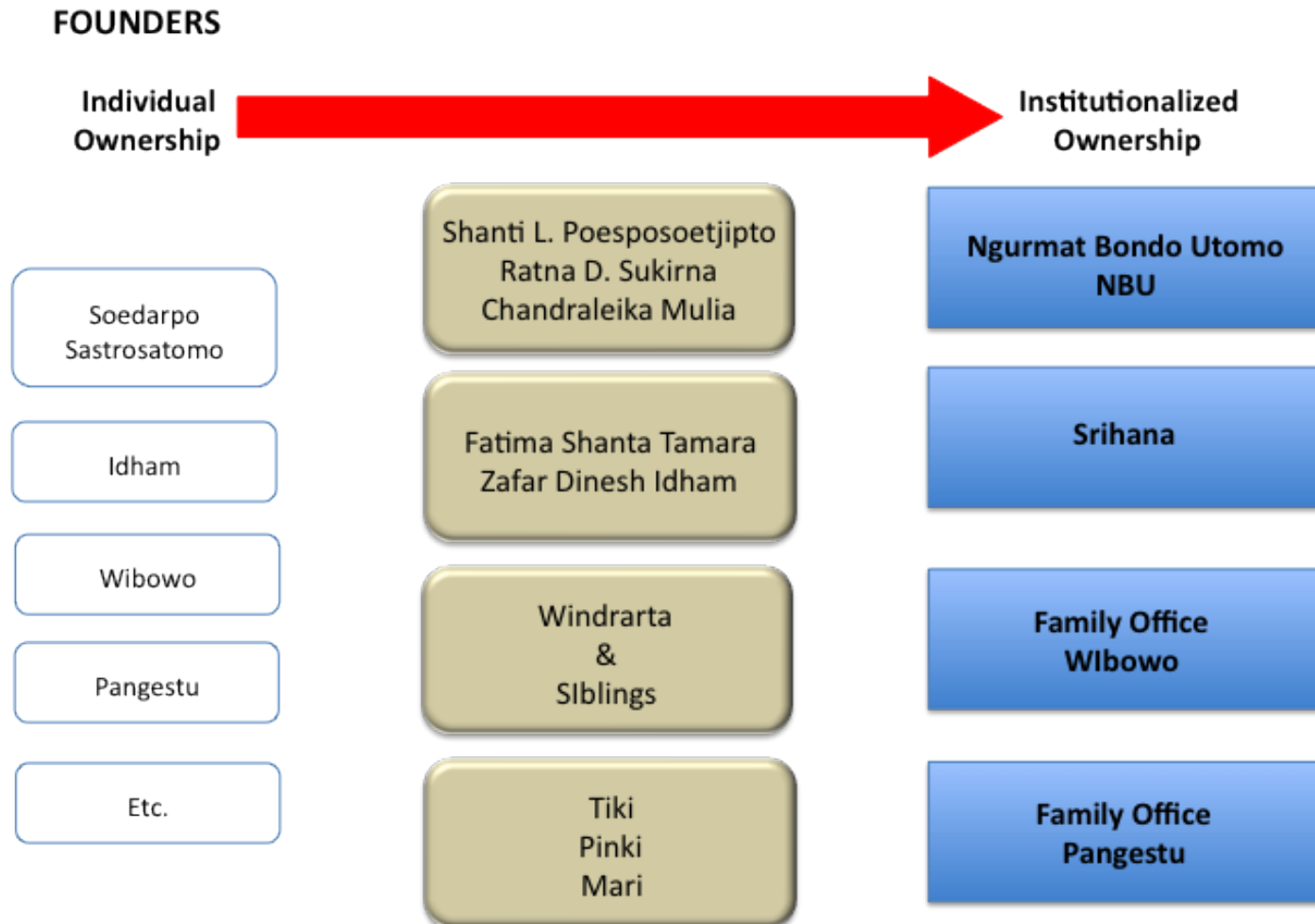
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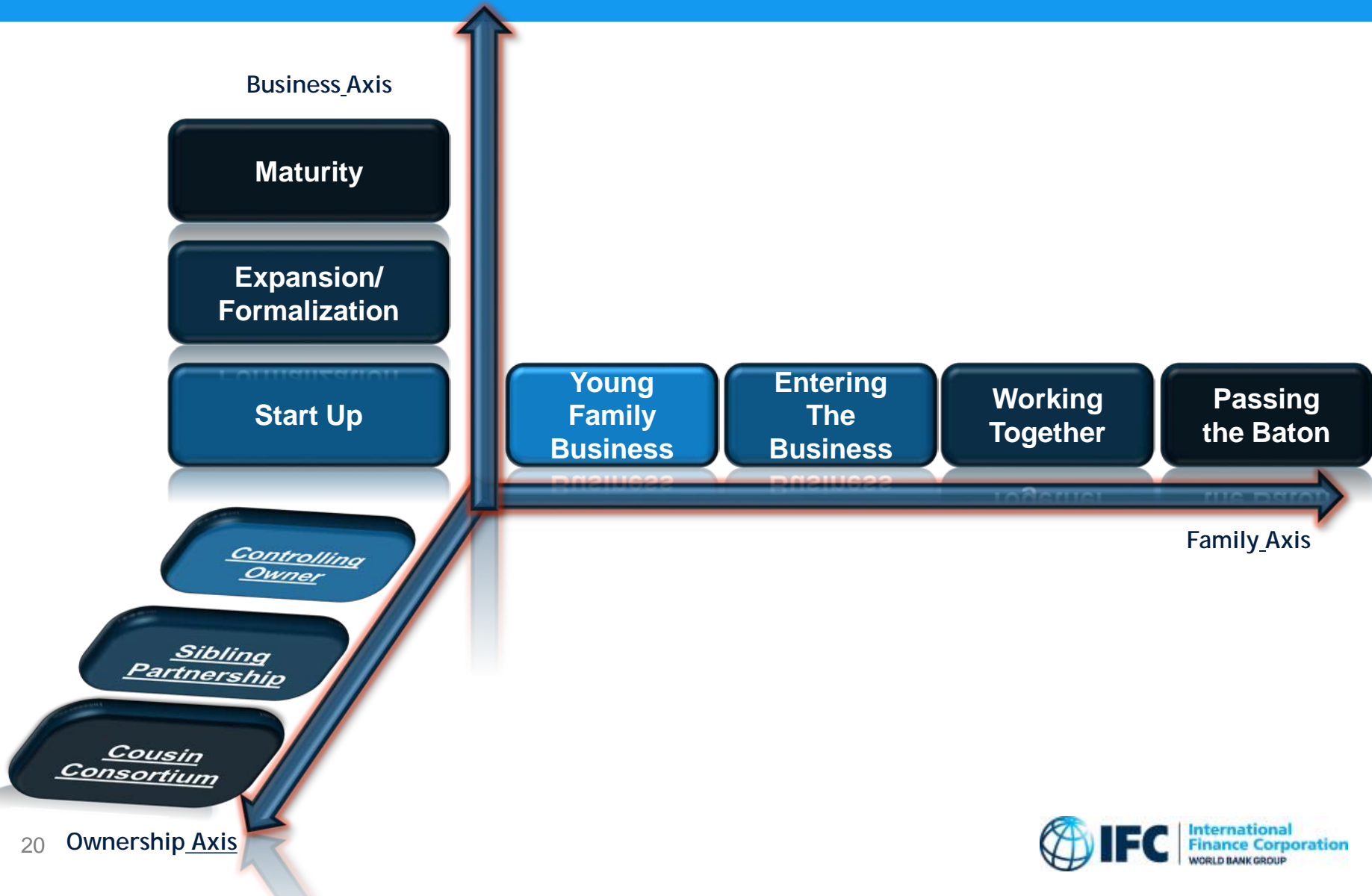
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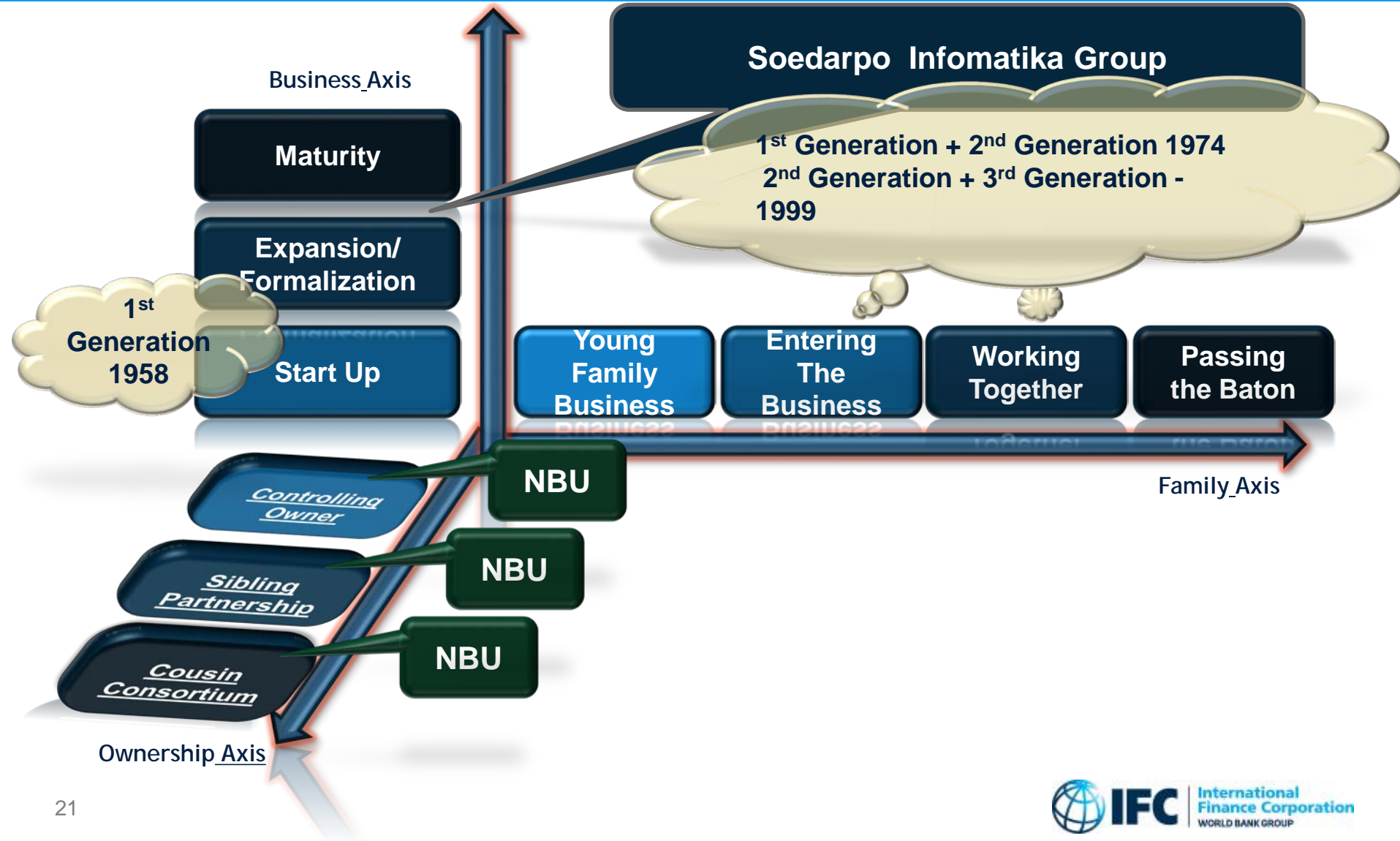
# Overall Institutionalized ownership



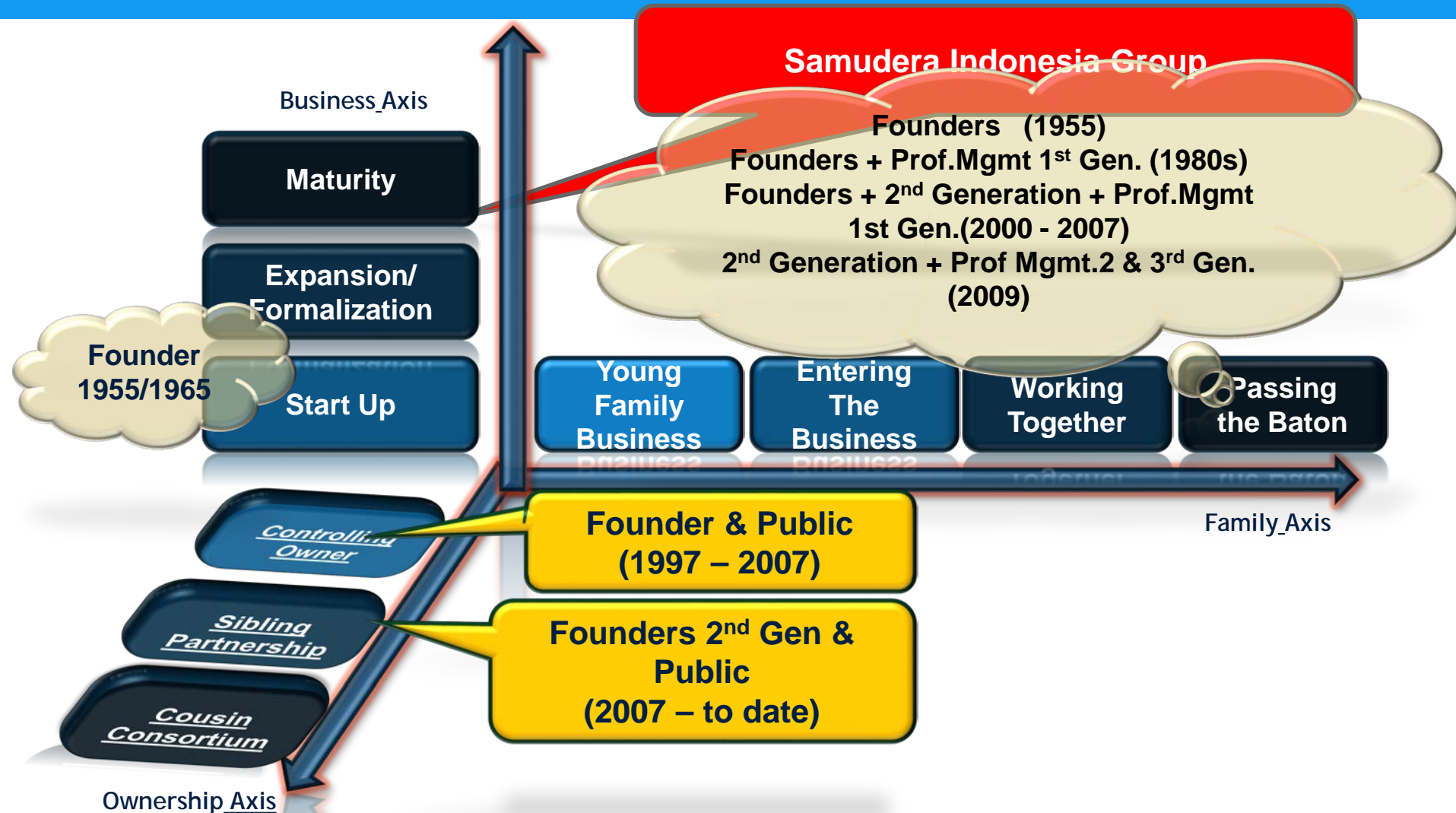
# Development model of family business



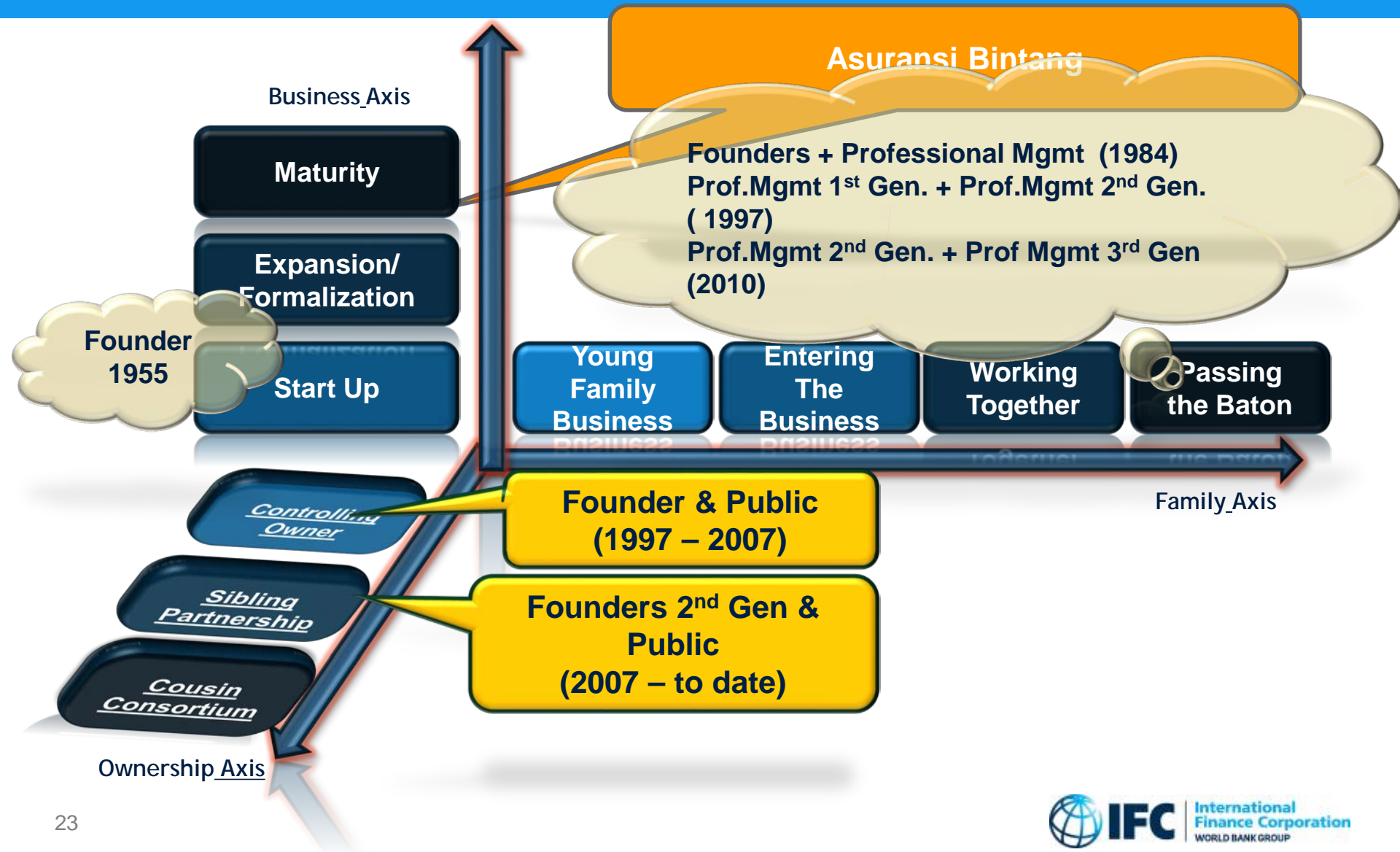
# Developmental Model of Family Business



# Developmental Model of Family Business



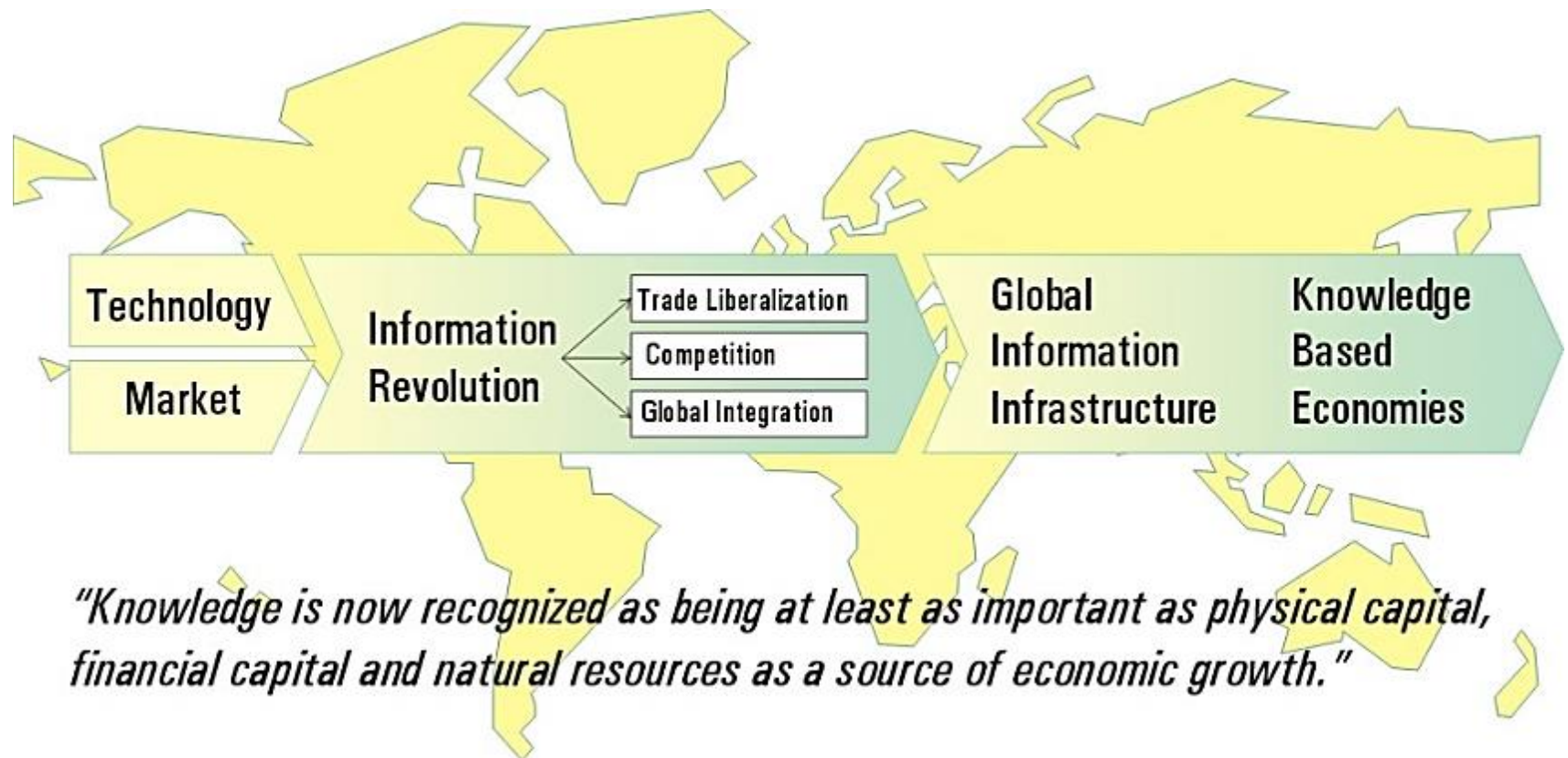
# Developmental Model of Family Business





# 21<sup>st</sup> Century

## Birth of Knowledge Base Economies





# World economic forum

## Global Competitiveness report 2013-2014

[http://www3.weforum.org/docs/GCR2013-14/GCR\\_Rankings\\_2013-14.pdf](http://www3.weforum.org/docs/GCR2013-14/GCR_Rankings_2013-14.pdf)

Country/Economy	Rank (out of 148)	Score (1–7)	Rank among 2012–2013 economies*	GCI 2012–2013
United Arab Emirates	19	5.11	19	24
Saudi Arabia	20	5.10	20	18
Australia	21	5.09	21	20
Luxembourg	22	5.09	22	22
France	23	5.05	23	21
Malaysia	24	5.03	24	25
Korea, Rep.	25	5.01	25	19
Brunei Darussalam	26	4.95	26	28
Israel	27	4.94	27	26
Ireland	28	4.92	28	27
China	29	4.84	29	29
Puerto Rico	30	4.67	30	31
Iceland	31	4.66	31	30
Estonia	32	4.65	32	34
Oman	33	4.64	33	32
Chile	34	4.61	34	33
Spain	35	4.57	35	36
Kuwait	36	4.56	36	37
Thailand	37	4.54	37	38
Indonesia	38	4.53	38	50

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.

\* WEF, Global Competitiveness Report 2013-2014, <http://reports.weforum.org/the-global-competitiveness-report-2013-2014/>

# 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.”**

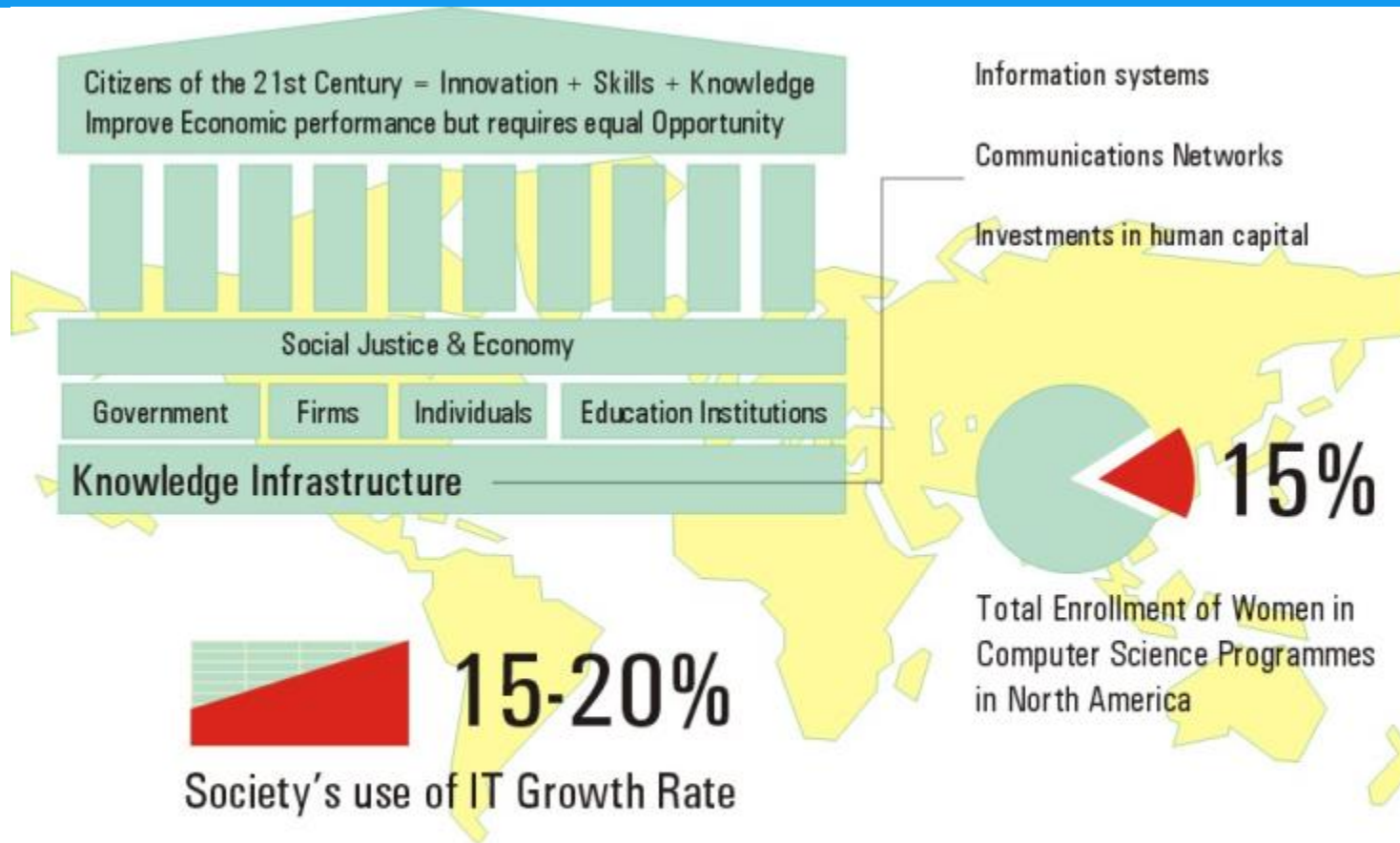
**(Burns, J. M. (1978). *Leadership*. New York: Harper & Row)**

**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.**

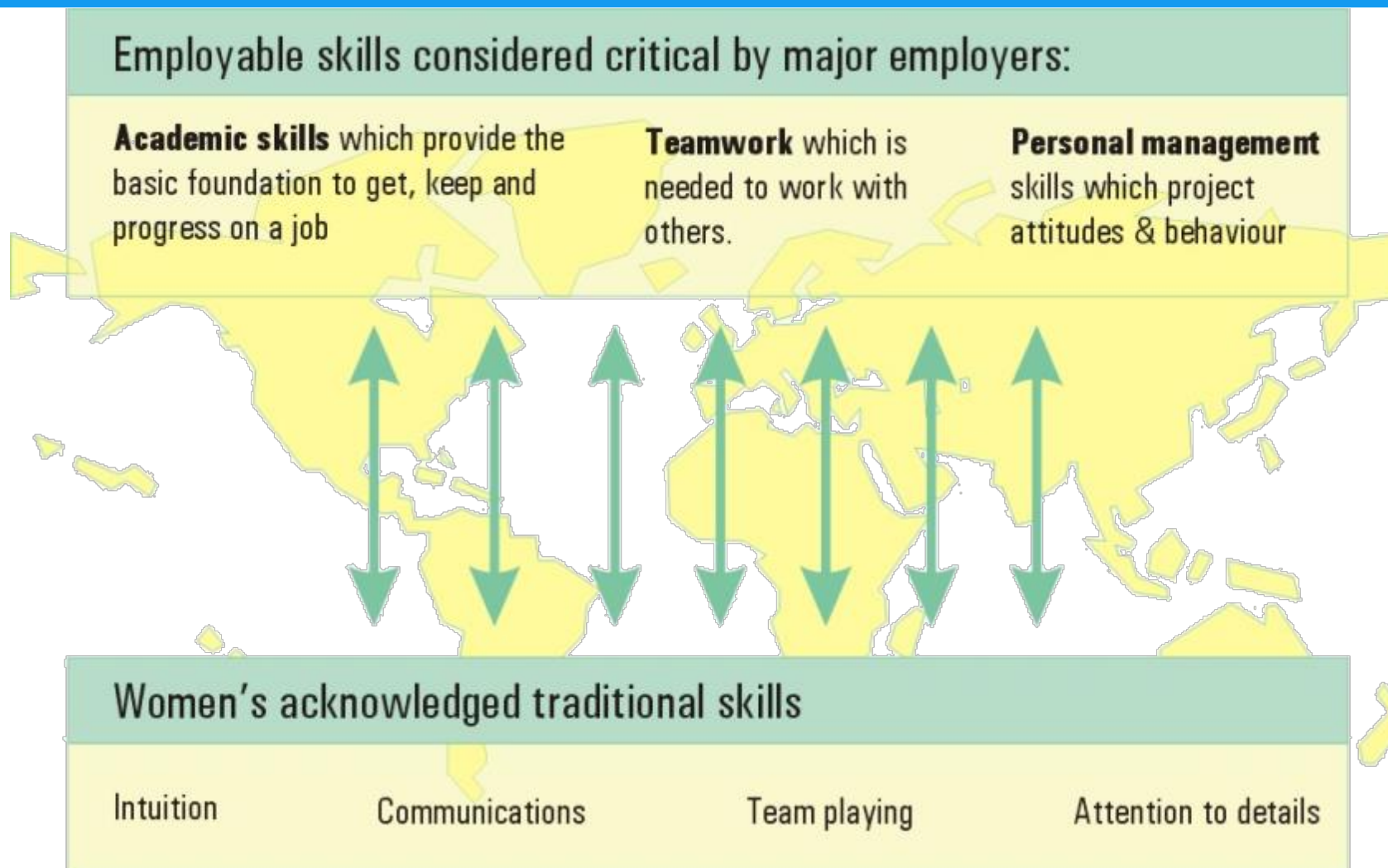
**Transformational leadership strives to create new opportunities for employees in an organization, whereas transactional style works off of an existing structure  
(Tucker, Georgia, Russell, College, and Emory, 2004).**

# Knowledge Economy Trend and Women's Contribution



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





# Women Leader, Transformational Leader



# Q & A

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# Thank you

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