AIM WORKING PAPER SERIES

Asian Institute of Management

BUSINESS AND DEVELOPMENT RESEARCH

Findings for Future Research on Asian Family Corporations

FRANCISCO L. ROMAN, DBA
FACULTY, ASIAN INSTITUTE OF MANAGEMENT

Working Paper 11—002

THE AUTHOR

FRANCISCO L. ROMAN, DBA
AIM W. SyCip Graduate School of Business

Findings for Future Research on Asian Family Corporations[1]

Francisco L. Roman, DBA (froman@aim.edu)

Abstract

The objective of this AIM Working Paper is to identify key issues on Asian family firms for future research by the AIM Family Corporation Group. This paper is divided into four sections: the Overview, followed by the standard classification of family firm issues into three generic categories—Succession, Professionalism, and Governance.

The rationale for this Working Paper is to take the future research on Asian family firms beyond the exploratory phase of idiosyncratic or anecdotal case development by suggesting general directions for more rigorous research—although not necessarily quantitative.

The Overview reviews the basic assumptions and tools underlying the past research. The next three categories review the findings and frameworks that the AIM faculty developed. Each of the four sections suggests research directions. All in all, 16 issues are suggested for future research. The issues were derived from prior research—cases, books, notes, etc. over three decades. Although the AIM Family Corporation Group has undertaken research on family firms for over three decades, cases for classroom use constitute the bulk of the research output. Therefore, the contribution of this Working Paper is to identify the key issues that may be developed into journal articles for scholarly use.

[1] This paper was developed from a presentation delivered at the Asia Organization Development Network Summit 2010.

OVERVIEW

Introduction

The AIM Family Corporation Group has been undertaking research on the subject of Philippine and Asian family firms since the 1970s with an early, now out-of-print manuscript for a book. Over time, over 60 firms were the subject of cases, notes and three books by almost a dozen AIM faculty members who were part of the Group—some of whom have since resigned and many others have moved on to other research areas. AIM's programs—both degree and non-degree, utilized the bulk of the research output. There was no attempt to generate journal articles. The research work therefore generated many useful insights that were translated into teaching frameworks and even consulting tools but there was no sustained attempt at generalizing from the works of different AIM authors.

An earlier abbreviated version of this Working Paper appeared as a PowerPoint presentation titled Professionalism in Asian Family Firms: Frameworks on Succession and Governance delivered by the author at the Asia Organization Development Network (AODN) 2010 Asia OD Summit at the Ateneo de Manila University on October 27-29, 2010.

This Working Paper culls through the records from research of the AIM Family Corporation Group. Most of the research consisted of cases on the Philippines but perhaps 20-25% of the research involved family firms from several other Asian countries, notably India, Indonesia, Thailand, and Taiwan. Unfortunately, except for the cases registered in the AIM case bank, the existing early research that can be properly sourced survives only in the book *Family Corporations in Transition* (2001), which is also out of print. There are no footnotes or endnotes in this Working Paper since the primary source documents are the two books *Family Corporations in Transition* (2001) and *Asian Family Corporations: Governance in the 21st Century* (2009), and these books contain more or less complete citations.

This Working Paper reports only 16 issues. The records—particularly faculty presentations on PowerPoint, suggest many more issues. However, it is possible to develop the issues into journal articles—assuming more rigorous research is the primary criterion used in expounding on the 16 issues in this Working Paper. A secondary criterion is the volume of output on the subject—much of it qualitative, such that future output might be published in empirical but more qualitative journals.

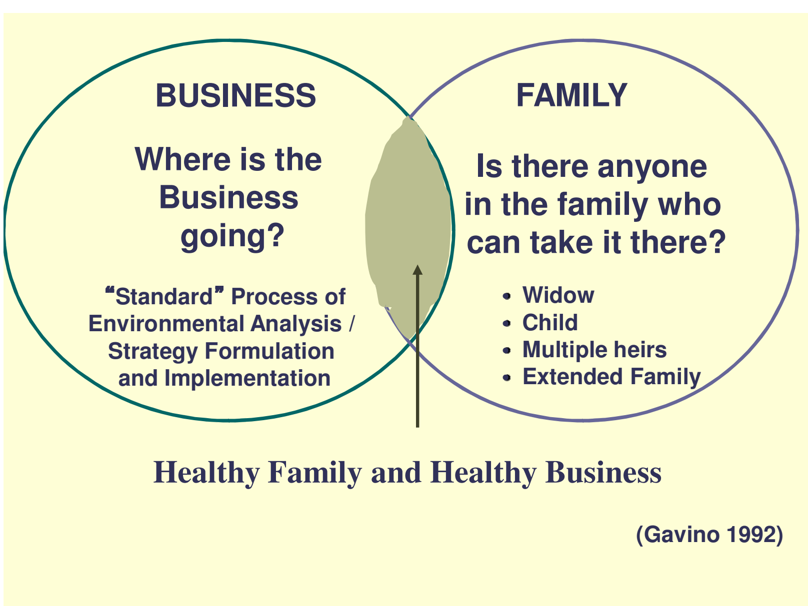
There are two limitations to the enumeration of the issues. One, the author is one of the remaining members of the core AIM Family Corporation Group, and the issues to some extent are biased towards the joint work undertaken between the author and with other AIM faculty members of the Group. Two, the author is an economist and tended to focus on the family structure rather than its interpersonal dynamics. The Group tended to work in pairs and the author's usual colleague was a psychologist who studied family ministry and the latter is better qualified to discuss such issues.

The contents of this Working Paper start with a review of the basic assumptions and frameworks that are the foundations of research by the AIM Family Corporation Group, followed by the traditional classification of issues on the family firm into three categories—Succession, Professionalism, and Governance.

Issue 1: The Fundamental Approach

The fundamental presumption of the AIM Family Corporation Group when it began its research was to study the family firm simultaneously in terms of both the health of the family and the health of the business. *(Please refer to Figure 1)* This approach began some decades ago with the realization that psychologists and sociologists on the one hand, and business professors on the other hand tended to focus on one or the other aspect of the family firm. The Group therefore determined that exploring both aspects simultaneously will generate richer insights into the dynamics of family firms.

Figure 1. The Fundamental Approach: The Healthy Family and Healthy Business



Another component of this basic approach is the emphasis on the future of the family firm rather than in-depth exploration of the past. Thus, the basic question on the business side was “Where is it going?” and on the family side, “Who can take it to where it wants to go?” The way the two core questions were framed in large part established the frame of mind of the AIM Group so that research into the past was a second priority. Therefore, given the management orientation of the AIM Family Corporation Group, it was probably a natural reaction to apply management tools and frameworks for analyzing the business environment and for formulating and implementing strategy while asking the “succession” issue in terms of the qualities and qualifications to run the business well. The categories—“Widow,” “Child,” “Multiple Heirs,” and “Extended Family,” were a result of further research over time with a variety of family firms. Indeed, virtually all the firms under study over the years were subjected to the dual approach.

However, three key questions were generally left unresolved in exploring this basic issue and the underlying approach. One, the tentative conclusion from the cases was that an unhealthy family was more detrimental to the long-term growth of the two elements—family and business as a duality than an unhealthy business. That is, there were cases when an unhealthy business actually brought the family together, according to one concept among Chinese family firms of the family as a “life raft” negotiating the uncertain business environment. On the other hand, there were cases wherein a successful business that generated substantial profits also generated conflicts within the family in terms of sharing the largesse, or by creating divergent life styles. However, this conclusion was not pursued beyond the cases.

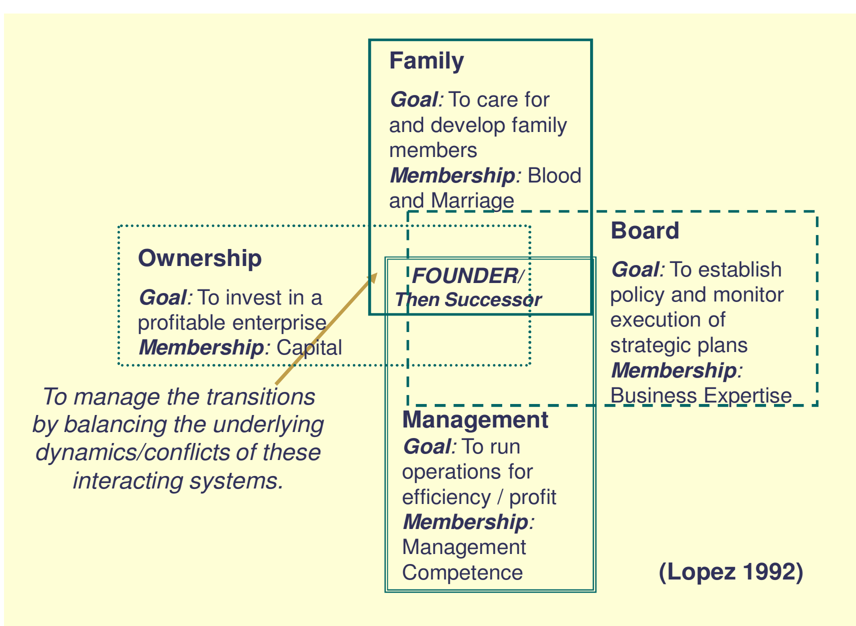
Two, the direction of causation could never be firmly established partly because both the observed business and the family situations did not remain static for long. The cases suggested correlation between the two components but there was no rigorous study of the reasons behind any divergence—whether the business was healthy but the family was dysfunctional, or vice-versa. Moreover, the observed leads and lags were not recorded meticulously. For example, there are management tools that warn of an “unhealthy” position in finance, marketing and operations. Although there may be fewer tools to predict family behavior, it should have been possible to track the impact, at least chronologically, of the unhealthy business on family dynamics. A more difficult issue is to link changes between the health of one or the other given lags in the observed behavior or outcome.

Three, the answer to the succession issue "Who in the family will take the business where it should go?" implied a sequence. That is, wives tended to outlive husbands but the tenure of the widow either in her role as new successor versus caretaker was not fully explored. The choice of multiple heirs implied a failure of the child-as-successor or a lack of qualified successors among one or more children. The final sequence of looking beyond the immediate family appeared less frequently and was therefore neglected even though the choice implied a failure in the pattern of succession. No criteria were developed between the requirements of the business and the qualifications and competences of the potential successor(s) at any of the stages.

Issue 2: Multiple Drivers

Figure 2 below attempts to take a systems perspective of the factors affecting succession, professionalism, and governance, at the higher levels of decision-making within the organization. All three factors are interrelated. Professionalism requires sound succession planning and good governance. The latter is involved at the board level in succession and human resource development (HRD) with particular attention to the upper management levels—for both family and non-family members. Succession often brings out the conflicts among the four core groups—the owners, family, board and managers.

Figure 2. Multiple Drivers



One research area that was not explored in depth was the application of Agency Theory to the framework. The common hierarchy places top management as the agent of the board as the principal. However, the board in turn is an agent to its shareholders as owners who, as a group represent a higher-level principal. It is not clear, though, that the owner-shareholder is necessarily the agent to the family. The problem of course is that business policy has no distinct place for the family in its hierarchy. On the other hand, the family represents a unit within which individual members must respond to and be responsible for, regardless of level. Even the autocratic founder maintains a relationship with the family, especially if the founder needs to sustain the firm as his or her legacy. The founder may be a principal as far as the business is concerned but he or she is to some extent an agent to the family's values and behavior.

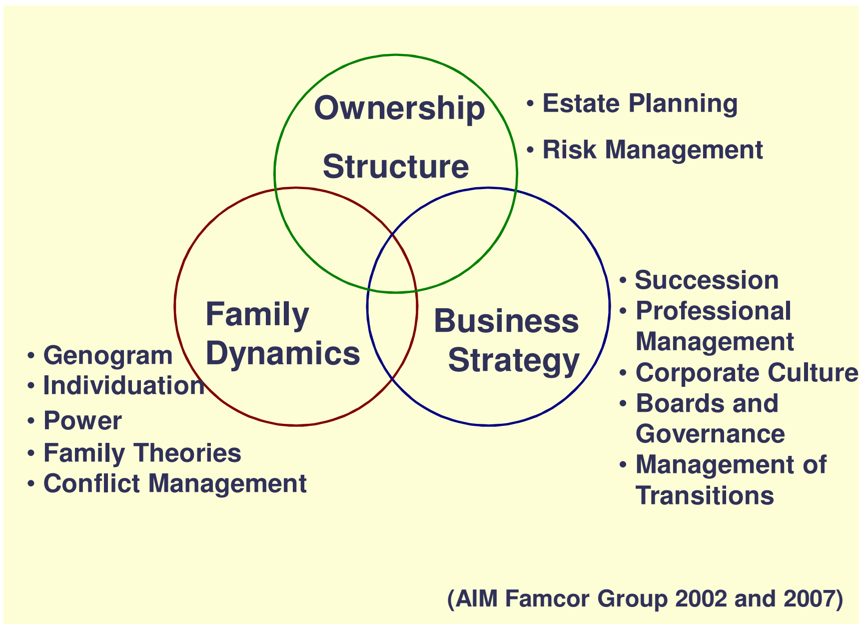
The principal-agent relationship presumes potential goal conflict among the key decision-making groups. However, the framework adds another dimension by including membership into the groups. The asymmetry of goals and the existence of different agenda among individuals and groups is a standard theme in management and governance. The added insight for family firms was to link goals with membership as the key driver within each group. However, the challenge of managing the transitions and balancing the conflicts across the four groups was stated but not developed. Nor was there concerted effort to integrate all the goals given the proposition that the gamut of relationships constituted a system.

For example, a family member with a larger number of children might have less capital as an owner than a bachelor, and might have a greater need for funds for non-business purposes. Management competence and a professional, more objective perspective on wealth might create different demands on capital. For example, what policies and practices would govern the distribution of the profits or surplus from the business operations between reinvestment into the firm and payout as dividends to (family) shareholders? Moreover, the membership in the board often includes more than simple business expertise; thus affecting the goal of effective supervision of corporate strategy. There was also an accepted distinction that management competence meant day-to-day, specific functional expertise while board business expertise meant a long-term broader strategic perspective. Likewise, the possible transition from management to board member was implied but not studied with respect to family firms. Rewards to managers and board members, especially family members, often included shares of stock so that the ownership transition from one group to the other already incorporated prior goals and membership considerations.

Issue 3: Managing Three Systems

The AIM Family Corporation Group developed the Managing Three Systems analysis approach for case study. The tools and frameworks that were applied to the analysis of the three systems evolved over time. Figure 3 below illustrates the Three Systems Model.

Figure 3. Managing Three Systems



The management tools and frameworks surrounding the *Business Strategy* were the first to be applied to the study of family corporations since they were part of the MBA tool kit taught in AIM's programs. Professionalism involves building functional knowledge and skills. There are standard frameworks for assessing corporate culture in terms of differentiation and integration across and within levels. Meanwhile, governance in terms of board policies and practices evolved out of regulatory guidance—for example, the Securities and Exchange Commission (SEC) or the New York Stock Exchange manual or handbook for corporate directors. The study of succession was first based on the business guidelines to boards that focused on competence and expertise. The final component on managing transitions actually evolved out of the study of the business strategies of family firms and ultimately became incorporated into the eponymous first AIM family corporation book.

The study of *Family Dynamics* followed soon after, when two or three faculty members of the Group took up graduate studies at the Ateneo de Manila University's Center for Family Ministry (CEFAM). The program combined systems thinking where problems and opportunities are inter-related, and causation can run in both directions with family dynamics, and where family theories focus on the family as a system. For example, anger is analyzed using the causal-loop analysis of systems thinking. The relationships among family members were analyzed in terms of a spectrum from distant and disengaged to enmeshed—a somewhat similar approach to organizational and team and individual tension between differentiation and integration within a corporation. There were other overlaps, for instance, between the business and family theories and approaches to power and conflict negotiations.

The analysis of *Ownership Structure* began with evaluating the state of or lack of good governance in family firms as that issue became an important element in measuring business strategy and board behavior. Governance even in business was a belated subject of inquiry—possibly brought about by repeated crises that predate the current meltdown. Criminal intent and mendacious behavior aside, the crises indicated complacency in board behavior and even incompetence by directors who too willingly acquiesced to the policies and projects of the Chairman who may also have been the CEO. Note that the separation between the two powerful positions is still honored in the breach in many firms—both family and non-family.

The application of estate planning and risk management was a fairly recent inclusion in family systems analysis—in part because in the Philippines at least, the line between tax avoidance and evasion was often very thin. Thus, estate planning was often ignored, and the risk management process was often opaque. Over time, the tax agency in the Philippines and in other parts of Asia became more efficient, and the two tools and frameworks became more important in the analysis of ownership structure and dynamics. Moreover, internally, as family firms grew more professional, the realization also grew that estate planning reduced tensions within the family at the very least by having formal and legal documentation around which to refer arguments. Risk management was a more gradual process in family firms as it first involved professionalism from the bottom up—with management then to the board and finally to the family itself.

If the preceding description appears accidental and haphazard, that perception accurately mirrors the development of the analytical approach to family firms. The basic and crude approach was simply to match tools with systems and it is only in the next issue, *Family Tree and Company Organization,* discussed in the succeeding section, that a more robust approach developed in the study of family and organizational relationships.

Succession

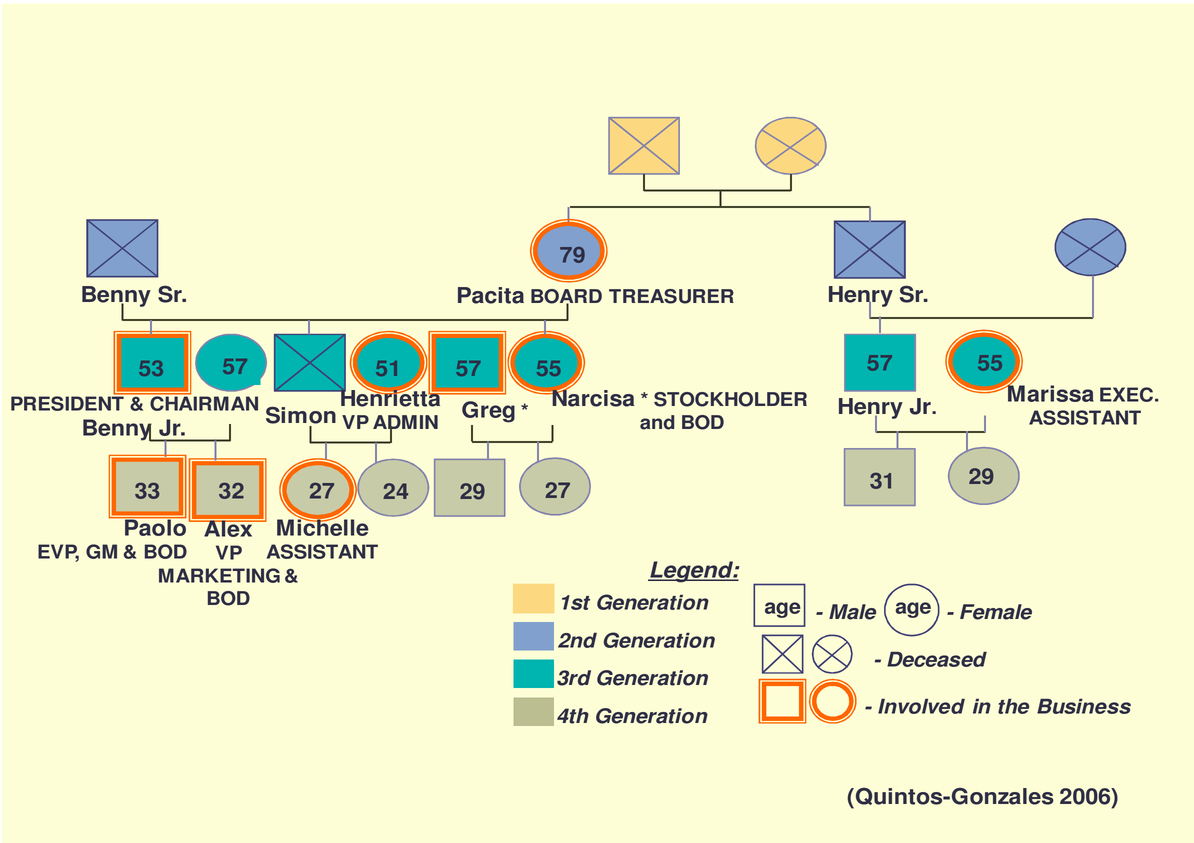
This key component in family firm dynamics is arguably as old as Adam and Eve. Despite the time period, one key issue that is already well-documented in family firm research is the lack of progression of succession from a one-time (but infrequently repeated) legacy event often initiated by a crisis, such as when the founder falls ill or dies, to a continuous (hopefully orderly) process of planning well before any crisis of succession can occur. The planning process for succession is well established among non-family private enterprises at least through lip service. On the other hand, some family firms still regard succession with superstition as a self-fulfilling prophecy, or as a taboo given comfort zones that neither family nor non-family managers wish to leave.

The three issues discussed under the "Succession" heading focus on the structural almost macro elements of succession rather than on the family dynamics, for example, of individuation versus dependence, of hierarchies and gender preferences, and so on.

Issue 4: Family and Organizational Relationships

The relationship between the family and the business as organizations is compared and captured in the family tree or genogram and in the firm's organization chart, an example of which is shown in the following chart.

Chart 1. Family Tree and Company Organization of the Gotong Family (Disguised) and Garments Company



The genogram establishes a generational hierarchy but it is more than a descriptive family tree. It is also used as a tool to probe the health of the family. The more obvious application is in tracking medical and psychological health—a history on one or both sides of the family of diabetes, hypertension, congenital heart problems, as well as a propensity to vices such as gambling, drugs, alcohol or mistresses. The less obvious application is in associating conditions that may transfer across generations or create conflict within and across generations.

The tentative findings however, are not conclusive. Cases of family firms indicate children following in the footsteps of their parents—both in terms of interest in the family business as well as in medical (ex. diabetes) and psychological (ex. alcoholism) conditions. Unfortunately, there are also situations where family members did not follow in their parents' path but maintained the entrepreneurial drive to set up their own completely independent businesses. Therefore, the genogram by itself helps to uncover outcomes, but it is not a tool to determine causes. The genogram is used extensively in family therapy to assess the family's health but it also found an analytical niche in combination with the company organization chart.

The organization chart presumably establishes the competence of particular persons or managers in specific fields. One implication is that a manager who moves up the organization chart is also establishing competence and expertise beyond a functional area such as marketing or operations; then he or she is moving towards the more strategic position of "chief" such as chief executive officer (CEO) or chief finance officer (CFO), among others.

Both charts are useful analytical tools in their own right. However, important insights emerge when the family genogram and organization charts are superimposed, literally and figuratively, one on top of the other. It is therefore possible to visualize and analyze the relationship between family and business in terms of the key personalities involved or sometimes excluded in both. The resulting analysis may offer further insight on how the organizational relationship affects the health of the family and the business.

One problem is that company organization charts undergo more changes than family trees within a given period of time. The latter are partly a function of mortality and aging while the organization chart should be dynamic. It may be regarded as a sign of an unhealthy business if there were no upward changes or even lateral promotion observed over time.

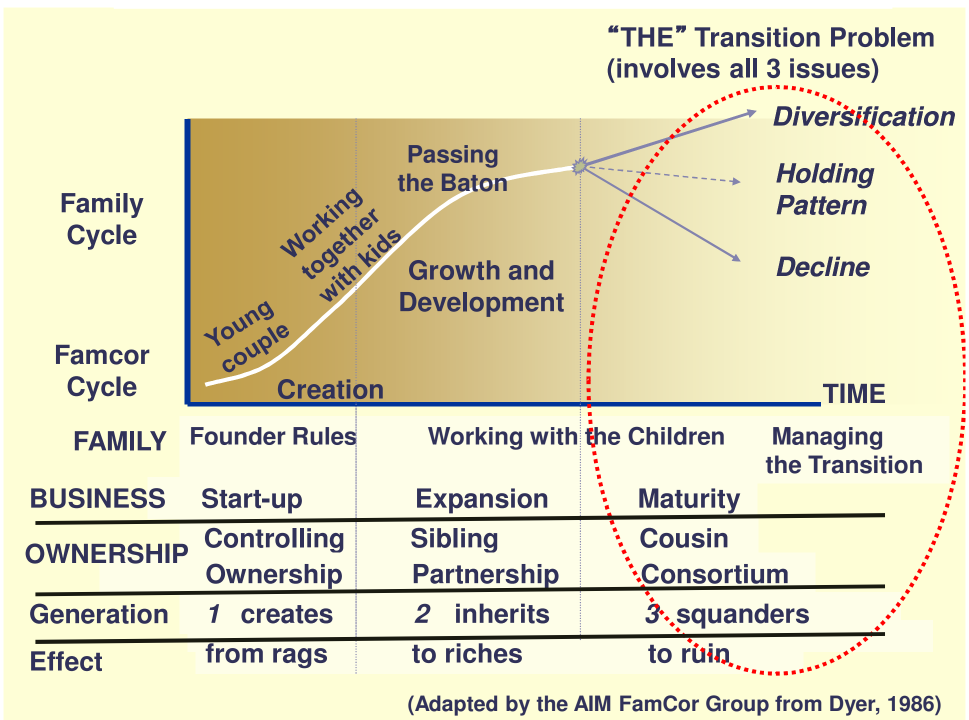
The preceding chart illustrates from a real but disguised case the differences between the family and company hierarchies. Pacita is the surviving widow and remains as treasurer—an indication of trust in Chinese-Filipino family firms that also implies positive gender bias; women are considered to have fewer vices than men. However, Pacita's son rules the roost and no in-laws of his generation are active in management, while a sister-in-law is a manager but apparently not an owner. Pacita's son has two children only a year apart in age but with a clear hierarchy in their management positions; perhaps competence was involved and perhaps conflicts may have to be resolved.

The AIM Family Corporation Group applied this approach primarily in consulting. Records were therefore proprietary and existed as stand-alone documents without any research referencing—comparison by size, industry, generation, among others. Valuable potential research was therefore lost or undeveloped.

Issue 5: New Life Cycles

The concept of stages of growth (and decline) and the projection of a life cycle is common in biology, economics and business and has been translated into the Three Generation Effect, illustrated in Figure 4. It is a well-established framework in the analysis of the histories of family firms. Globally and in the Philippines, it probably occurs often enough to be credible as a forecast and a cautionary rule-of-thumb. On the other hand, especially among Japanese artisan enterprises, there are family firms running into the centuries—surviving if not growing.

Figure 4. New Life Cycles



The Three Generation Effect is already part of the global language of family firms; the concept of going from rags-to-riches-to-ruin, for example, has been translated in the Philippine context of a family moving from a modest thatched hut to a large stone house and settling back to a thatched hut. The preceding framework is an adaptation from a well-known author that formed one aspect of the development of the concept of managing transitions in the first book.

The basic assumption was that all businesses undergo a growth transition—involving key outcomes of maintaining the status quo, expanding or diversifying, or declining. The three key outcomes are a generalization and they are not mutually-exclusive. A family firm may be paralyzed into a holding pattern and then be forced to change—sometimes for the better. On the other hand, a company may unwisely diversify beyond its core business into another business or industry that the family does not have the capability to compete effectively with already established firms. Moreover, changes in the health of the business could occur at any stage of the family life cycle; one might envision that the transition issue is movable across generations and occurs in every generation. However, only the actual outcome of a decision can be easily observed.

The observation of the AIM Group was that the transition occurred most often and was most pronounced in the third stage. Observations from cases and consulting indicated that the first generation founder usually had the entrepreneurial capability to successfully grow the business. The second generation was close enough to understand and empathize with the founder's vision and values and to carry on the work that the founder built routinely if not competently.

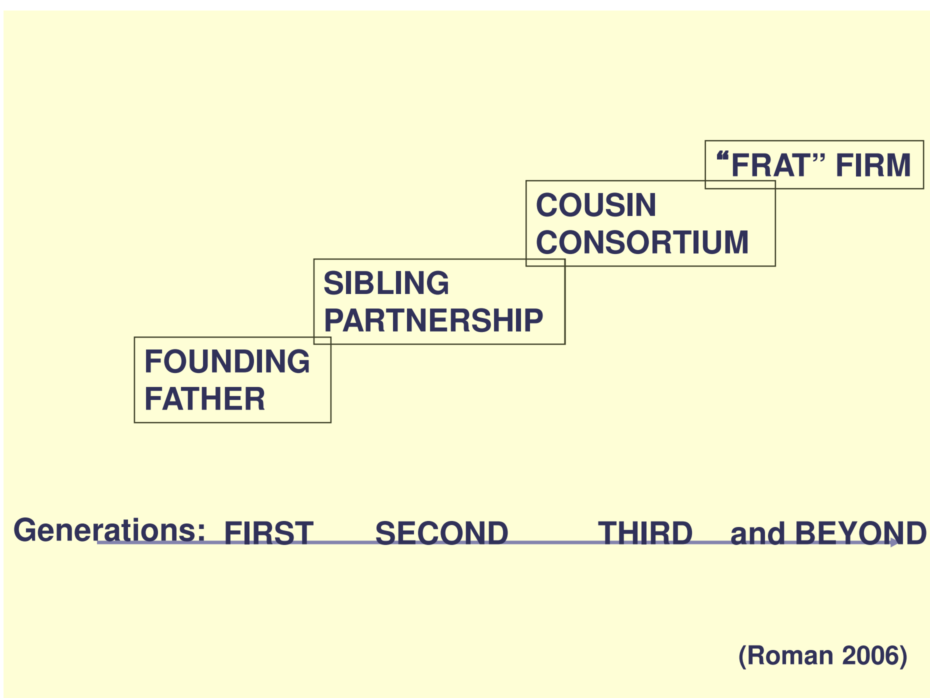
However, the third generation was often far removed from the founder, and their perception of business growth depended upon the decisions of the second generation. The third generation is classified as the cousin consortium and its members faced issues within the family that the prior generation usually did not experience. One issue is the often-geometric expansion of cousins that diluted decision-making within the family. This family indecisiveness may be that transferred organizational osmosis, discussed in *Issue 4*, and could also result into inept decision making and even delayed and subsequently fatal decisions—for instance, whether or not to take advantage of a one-time expansion or diversification opportunity.

The preliminary assumption was not developed into a hypothesis although several cases were written to explore the issue. Its importance for research is the potential for the transition issue to be a robust explanatory variable for the Three Generation Effect. Some explanations for the latter involve the aging and physical fatigue of the hands-on founder and the psychological fatigue of the family and the organization. Business-focused explanations usually revolve around an internal assessment of management competence or an external threat of which the transition issue is a variation. There is also the observation that the status quo or holding pattern merely delays the inevitable transition and therefore it is not a legitimate explanatory variable in the Three Generation Effect. However, the nuances of managing the transition were not subject to generalization.

Issue 6: A Future Cycle

This issue was observed only relatively recently. Further study suggests that it is a more common occurrence in North America and possible elsewhere than in Asia, specifically the Philippines. The AIM Group began its research on Philippine family firms. Many, if not most Philippine family firms emerged from the ashes of World War II as entrepreneurial ventures that transformed into the founders' drive for a legacy to protect the next generation (their children) from the uncertainties of business development. Many Philippine family firms therefore went through the three-generation process and in the late 20th century, many firms were in the cousin consortium stage. With more cousins to study, the differences began to emerge—family firms split up and some grandchildren set up separate businesses, albeit with family financial and even technical support. The most interesting divergence is the notion of a "frat firm" as a viable option to the unwieldy cousin consortium and as still another explanatory variable to the Third Generation Effect. Figure 5 illustrates the cycle.

Figure 5. A Future Cycle



The argument is partly historical and structural—as family firms professionalize, the founders are no longer able to enforce the “school-of-hard-knocks” approach to management development and the founders’ successors are more inclined to consider the MBA as a vehicle for professionalizing their firms’ family members. Moreover, as the business environment changes over time, the trading and licensing opportunities and the rent-seeking manufacturing monopolies that characterized the founders’ businesses gave way to the information technology-age with higher-technology and service (people-oriented) opportunities that the younger MBA generation with family connections and entrepreneurial ambitions could take full advantage of.

One outcome was for a young member of a family firm to meet another similar fellow compatriot in the business school. In the Philippines, connections sometimes occur with the Filipino-Chinese (Chinoys) at Wharton—the Chinoys seem to take to finance rather than general management, for example. These scions will then get together to establish their own start-up business—not necessarily with the legacy-motivation of their grandfathers.

The AIM Family Corporation Group’s limited overseas research also indicated a predilection for the members of the third, and occasionally even of the second generation of overseas Chinese family firms educated in the United States of America to form their own start-up enterprises. The motivations included escaping from the family hierarchy, the innovative entrepreneurial culture in American universities if not business schools and in high-technology enclaves from Silicon Valley to Boston’s I-128, the reward in new ventures for capability rather than seniority, and the bonding during business school among non-family peers. However, the cases also noted that the family firm core business still supported some ventures via financial assistance sometimes involving minority stock ownership as well as the use of the family firm network for bulk purchasing and contacts in the supply chain and business-to-business marketing. One family firm actually encouraged its third generation to seek new opportunities and to build new wealth outside the core business as long as the family had the right of first offer for any expansion of the new business.

Professionalism

Professionalism is not a “co-equal” problem among Philippine family firms relative to succession and governance. The current generation—second and third and even first-generation entrepreneurial founders with a legacy motivation include many with the MBA-education and professional perspective to complement their work experience. To a large extent, the MBA-degree appears to complement the requirement for on-the-job-training and work experience; in the past, the latter was regarded as superior to the former and the MBA was once regarded as an unnecessary expense and not an investment on which to build the future of the family firm.

However, family firms are professionalizing based on their own logic. That is, the MBA degree is part necessity to bolster functional weaknesses and part reward for demonstrating a commitment to the family business. Moreover, non-family managers tend to be sent to non-degree continuing education programs not only to underscore their importance to the firm but also because of the concern that a degree might increase their market value for other firms and tempt them to depart.

The research by the AIM Group on the general issue of professionalism in the last decade focused on the relationship between the family and non-family members. The focus was primarily market-or customer-driven. Professional non-family firm managers (the NFMs) outnumbered the family managers even at the upper levels of management as the size of the family firm's core business increased and as family firms—especially those firms founded by serial entrepreneurs diversified into both related and unrelated businesses.

The rational family firms recognized the limitation in sheer numbers and even in terms of capability for their members to run growing and diverse businesses and NFMs made their inroad into the family firm. Professionalism crept in starting with the large family corporations and conglomerates. In Asia, the large family firms together with state-owned enterprises and global multinational enterprises dominate the economic and business environment. NFMs nowadays are either hired directly or transferred to large family corporations. The banking and investment sector is one example of these human resource transfers as family firms move out of core trading and manufacturing businesses into service and people-oriented industries with specialized expertise. Ownership in banks is a favored leg of a family conglomerate—following real estate and property holdings due to the potential to access a large pool of cheap funds that will not threaten equity control—DOSRI regulations notwithstanding.

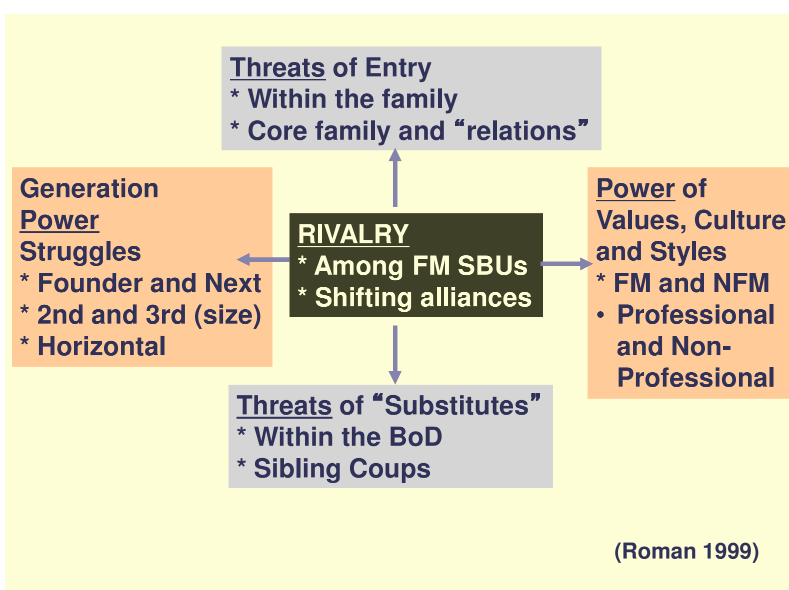
Professionalism in Asia appears acceptable if the MBA degree is regarded as a proxy for it and if non-degree continuing education is regarded as a complement to learning from experience. However, other modes of professionalism exist. For example, among overseas Chinese family firms in the Philippines and elsewhere, the practice of apprenticeship persists—a trusted relative or uncle (usually male) may temporarily adopt a scion or potential successor. In another case, a company in Indonesia with a large bank maintains a small branch in the old Chinatown area as the training ground for its family managers based on the premise that a branch manager must behave as a general manager with knowledge of and responsible for all bank activities—loans, investments, trust and treasury functions, among others.

The three issues presented in this section deal with family firm and non-family managers (FM-NFM) relationships and tensions.

Issue 7: The Challenges of the Non-Family CEO

Michael Porter's Five Forces Framework analyzes industry structure to position the firm within its industry environment. The framework, according to Porter describes the rivalry among competing firms in the wake of threats from the power of buyers and suppliers, new entrants and substitutes. The 5-Forces thus seem to focus more on threats rather than opportunities and the AIM Family Corporation Group internalized the framework as a way to conceptualize the tensions that the NFM CEO faces. Figure 6 illustrates this framework.

Figure 5. The Challenges of the NFM CEO



The NFM CEO clearly must establish his or her relationship with both the founder and the potential successor to ensure that the CEO is not regarded as a rival or threat to either of them. However, rivalry accelerates with the growth of the firm. A large conglomerate with several strategic business units that are run by a combination of family and non-family managers will tend towards empire building and overlaps among strategic business units (SBUs) leading to shifting alliances even for unrelated SBUs. The CEO may be able to exercise a degree of control if the headquarters manages the flow of funds to and from subsidiaries and SBUs; the holding company is usually under the control of the founder and/or the successor.

Entry remains a constant if infrequent threat to the stability of the relationship between the CEO and the family. There are occasions of the exiled black sheep returning to the business; of competent professional family members retiring from their 8-to-5 jobs in other businesses and re-entering the family business at a deservedly high level; of a competent daughter usurping an incompetent son with or without the founder’s acquiescence; or of a fast-growing and cash-rich SBU providing a potential replacement.

Substitution is a threat at the board level. The NFM CEO exercises some control over the choice of directors and seeks alliances among NFM directors—bank representatives, independent directors, professional lawyers and accountants, for example. Board membership in family firms tends to be static with few changes over the years, but second generation sibling coups represent a threat especially if the founder has departed from the family and the business. A strong founder may simply have suppressed and postponed tensions and rivalries that surface later in the life of the business.

Within the business, there is tension between the corporate culture and the family values and between family and non-family managers. Tensions may not escalate but they represent a threat to the CEO since his or her job responsibility includes maintaining smooth interpersonal relations between professionals and non-professionals and between family and non-family, particularly when the issue of promotion surfaces. Moreover, different managers may have individual styles and each manager may attempt to fit the style to the culture of the organization. The stereotype holds some validity—NFMs tend to prefer arms-length relationships while family members try to establish personal bonds of fealty.

Finally, there are generation power struggles, vertically and horizontally, that are exacerbated in the cousin consortium stage where the NFM CEO may appear as an acceptable second choice to cousins who do not perceive a superior manager in their midst. For example, there is considerable overlap among family managers from the second and third generation exacerbated by numbers—one family may have more members than others and may (or may not) have proportionally larger roles as managers in the family businesses.

There were insufficient cases to probe more deeply into the threats and tensions facing a family with particular reference to the NFM CEO whose role is to grow and professionalize the business or businesses.

Issue 8: Variations from the POC Cycle

The concept and sequence that "***s**trategy dictates **s**tructure*" that in turn determines the control **s**ystem is many decades old. More **S**s' were added over time—**s**taff, **s**tyle, **s**kills, **s**uperordinate goals, but the **3S** framework remains firmly in place. For convenience, the somewhat older sequence of "*planning-organizing and controlling*" is employed here simply to make changes in the sequence more easily recognized. Chart 2 summarizes these variations in the POC sequence. Observations from individual cases are used for each of the five illustrative sequences in the chart.

Chart 2. Variations from the POC Cycle

P C O: Exercise C to get info prior to O (MIS)

O C P: Re-O before C to avoid resentment (internal threat)

O P C: Re-O for better P (external threat)

C P O: C asserts authority (frequent but problematic)

C O P: C where O represents stocks and people (ownership)

(Roman & Quintos-Gonzales 1997)

The P-C-O Case: One Spanish-Filipino family firm took over from a Chinese-Filipino family firm in the cigarette business. It had a strategy for expansion in place but it had to re-establish formal and informal controls before being able to execute the strategy (or plan) and reorganize the company. For instance, the sales force spoke Chinese so the firm had to hire their own Chinese-speaking sales personnel to deal with (or control) distributors—there were issues of kickbacks and petty corruption. The control system was informal and largely cash-based and not computerized. The replacement NFM CEO had to exercise control and establish authority before implementing the expansion strategy.

The O-C-P Case: The case is similar to the preceding example, although the threat was more pronounced because it involved conflicts between two siblings within product divisions of the core business in a diversified trading (export-import) company. The firm was preparing to expand nationwide and the issue involved either staying with the existing large market in the National Capital Region (NCR) and within easy reach of headquarters where the power lay, or building a power base in the growing provincial areas. The choice affected not only the sibling rivals but also the large sales force and supply chain under each sibling. The elder successor CEO had to reorganize the human resources of the firm and secondarily establish a new control system for a larger scope and scale of business before executing the rollout strategy.

The O-P-C Case: The sequence resulted from an external threat of a new global competitor entering the cement industry as it was in the process of consolidating—company brands were under threat, companies were buying and selling plants based on location and scale advantages, and relatively new (energy efficient) technology was replacing old technology. Organization occurred at both the industry level and at the company level. Indeed, the consolidation resulted in a major "*changing-of-the-guard*" as the older generation of family managers accepted the entry ahead of schedule of the newer generation who were younger and more globally-minded to carry on the family business in the future.

The C-P-O Case: This and the next example where *control* precedes the other two components is perhaps both an admission of failure and a predilection of family firm managers. The unexpected death of the potential successor after only a few years as CEO and the very old age of the founder required that the second choice exercise control over a business where loyalties lay with the founder and the chosen successor. The new successor's instinct was to keep the plan in place, to ignore the control issue and to focus on reorganizing the business as a source of power. Admittedly, the business was healthy and there were no control issues to address. However, the reorganization implied a power play and led to the departure of several competent NFMs.

The C-O-P Case: This case involved a board level power play in a third generation family-run reputable university with several large branches nationwide. One recognizably-competent and dedicated cousin succeeded in growing the previously small nursing and information technology/business process outsourcing schools under him. Indeed, he transformed the units into cash cows for the rest of the school system. He was a candidate to succeed as the symbolic but important position of Chancellor of the school but he came from a larger branch of the family and he himself held only minority shares. He felt that his competence and track record by themselves might be insufficient to capture the position that he wanted and possibly deserved. He also felt that it was important to gain a majority ownership of the holding company so he undertook a series of negotiations and made deals with family owners who were not managers.

In essence, he assured them of payouts through a combination of preferred shares in addition to growth and capital gains through non-voting common shares. Once he had control, he reorganized the school system into growth and sunset departments, then worked out the strategic plan for both the university as a whole and for each unit—the latter, through a decentralized process of planning and control.

Issue 9: Cross-Generational FM-NFM Relationships

The AIM Family Corporation Group was always interested in the relationship between the FMs and NFMs. However, linking the relationship with age as the key variable did not receive sufficient study. The succeeding table indicates how age could affect such relationships. As the chart indicates, there are three age-based generations that in turn appeared to generate three different types of focus.

Table 1. FM-NFM Relationships Across Generations

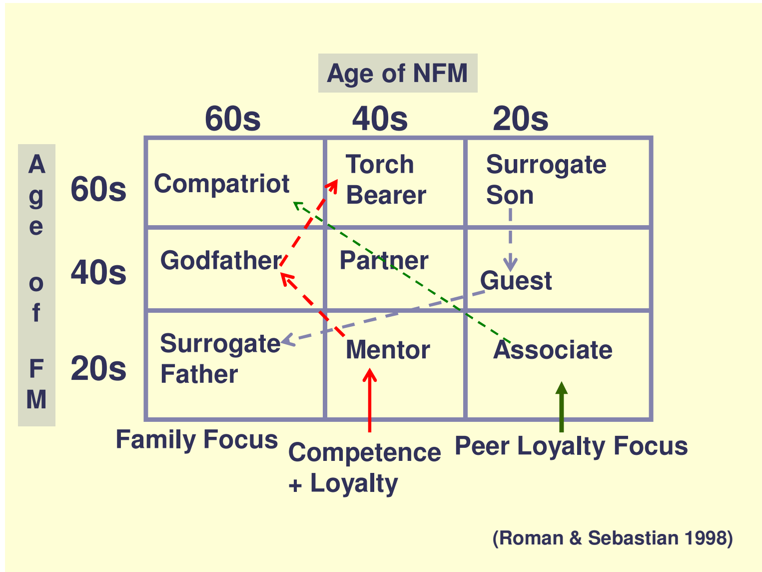


Table 1 may be interpreted from any direction. Assuming similarities and a pair rather than an unequal number, if both FM and NFM are in their 60s, then the relationship is one of compatriots who with shared experiences and the latter is often a trusted advisor and counselor. The trusted NFM may also be able to broach the issue of retirement and to persuade the founder that retirement together is in everyone's best interest. If individuals are both in their 40s, the relationship is more likely to evolve into a business partnership where complementary competence in building the organization is valued as friendship. On the other hand, if both are in their 20s, they are likely associates trying to build on relationships that began perhaps when both were taking their MBA degrees in the same business school. These three categories are generalized into a *peer-plus-loyalty focus* where the latter is the glue that cements the sometimes-uneasy relationship of seeming equality as peers.

Dissimilarities in age result in two other classifications. Thus, if the family firm manager is 60 and the non-family firm manager is 40, the latter may be regarded as a likely torchbearer for the family or the elder's values—in addition to existing family members. The NFM torchbearer is a role model for other NFMs to demonstrate that NFMs have a secure place and career in the family business. If ages are reversed and the NFM is 60 and the FM is 40, then the latter is godfather—sometimes literally in a Philippine Catholic culture and is considered an objective source of wisdom. If the FM is 20 and the NFM is 40, then the latter plays the more active role as mentor since the NFM is likely to be in the upper levels of management with recognized competence and expertise while the FM, regardless of the nominal position is still expected to learn the business. This is the *competence-plus-loyalty-category* where the former is necessary from the start, in order for the latter to develop over time.

The *family focus* occurs if the FM is 20 and the NFM is 60 and the latter becomes a surrogate father. Although healthy families presume open lines of communications across generations, there may be issues that a younger family manager may want to bring out to the older NFM, as a sounding board for ideas. For example: to avoid the embarrassment of being turned down, the young FM may want to test the pros and cons of a new business opportunity he or she discovered. On the other hand, if the FM is a practicing manager in the 40s and a newly hired NFM joins the firm, that person is in the precarious position of guest. The NFM may be trying to determine whether to bring in the new NFM into the family fold or to maintain an arms-length relationship with one among many newcomers and young NFMs, as will be discussed further in Issue 12.

Finally, the FM at 60 who observes the NFM at 20 may see a surrogate son—another uncertain position for the NFM. Elder FMs sometimes try to bring out new qualities in new and young NFMs that they were unable to accomplish within their own family. The FM may be learning from past errors and eager to rebuild a prior relationship—especially if the elder's children are already mature.

Governance

Governance among family firms is the new frontier since family firms are probably the most egregious violators of good governance. Minority shareholders, even family members, have little decision-making power; transparency and accountability is closed to a select few; and family values and rules may be opaque, even to the family members themselves. Growth sometimes encourages governance: firms with joint venture partners or global bankers become used to sharing information and policy-making at least at the board level. Growth may require listing of shares and that may be a first step to improving governance.

However, size does not always bring with it better governance. As one scholar and analyst noted with respect to a well known global Korean electronics *chaebol* or conglomerate—he would have no problem recommending the purchase of shares of stock of the SBU of this *chaebol* because of the enhancement of shareholder value in both dividends and capital gains. However, he would caution not to expect good governance since key decisions are confined to a select few members of the family and top management and even if some of the latter, though unrelated to the family, share the same surname.

This observation would be worth a research effort since the basic assumption is that good governance promotes shareholder value and vice versa—lack of governance policies and practices is detrimental to shareholder value.

This Working Paper has seven out of 16 issues on governance, in part because good governance is not only a relatively new and fruitful area for research in family firms but also because it is also an advocacy position in the AIM Family Corporation Group. The AIM Group attempts whenever possible to promote principles of good governance.

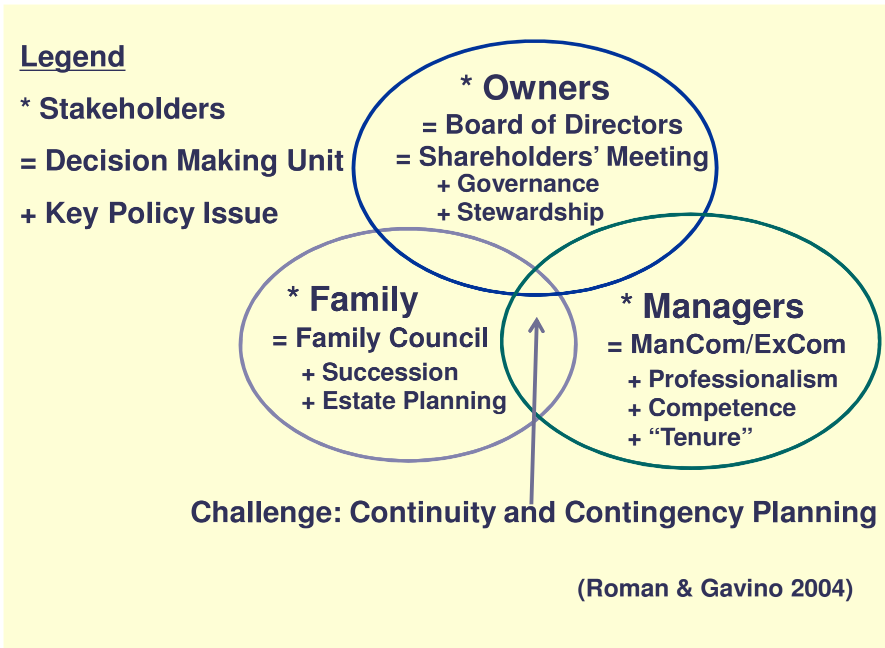
Issue 10: Governance Structures

Figure 6 summarizes the research on governance in Asian family firms, as follows:

- There are still three major stakeholders: Owners, the Family and Managers.
- Each has its own decision-making unit: Owners (should) hold regular board meetings and provide a report to, and preside over the annual shareholders meeting. The Family creates a Family Council that develops and works with a family constitution. The Managers have top-level executive committee sessions and operating-level management committee sessions.
- There are key policy issues that are summarized as follows:
    - Owners as directors are concerned with: (1) governance that includes oversight but not interference with strategic planning—the task of the CEO and (2) stewardship of the firm's assets including human resources to ensure sustained long-term growth.
    - The Family Council works together with the Owners—membership often and should overlap on issues of succession and estate planning since both issues affect both the family and the business.

- The Managers worry about strategy and capital needs to support business growth. Additionally, Managers, especially the NFMs, are often concerned about their tenure and career path.

Figure 6. Governance Structures



If the summary appears rather basic, it reflects the state of governance in many Philippine and Asian family corporations. The delineation of roles and responsibilities is unclear, thus leading to tensions, turf battles and conflicts of interest. Owners who are also Managers must balance the growth of the firm with stewardship over the business and family assets and become hands-on managers in formulating and implementing strategy. Ownership and management must be clearly separated even if the same persons are involved. One Indian firm has a business holding company to cover normal expansion and diversification needs, and a special family holding company to deal with emergencies. There is a vague definition of a state of emergency but it appears to cover costly political repercussions as well as unusual external circumstances that managers may either be unaware of or are incapable of handling—for instance, if the government appears to change industry rules and regulations. Conflicts between Family and Managers are less evident, but there is a slightly humorous situation of a family matriarch of an investment bank trying to get the best deal for interest rates long-term placements while seeking the lowest rates for personal loans (unrelated to the business), and then complaining to management about the low spread of the investment bank.

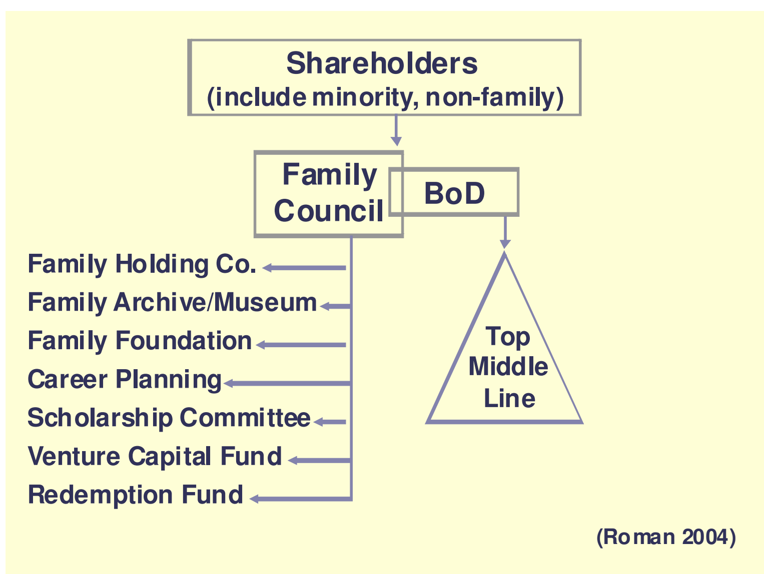
The real challenge lies at the intersection of the three circles—the area where contingency planning for the short-term happens when a crisis occurs, and continuity planning for the long-term both for the business (when a market matures) and for the family (when the time comes to discuss succession) occurs. Observation of companies indicates that both activities often occur by accident rather than on purpose.

Further research is needed to separate actual behavior from advocacy. Family firms do understand the rationale but emotionally seem incapable of carrying out basic governance reforms. For example, there may be an instinctive reaction to the suggestion to publish quarterly reports. The structure may influence behavior, as will be discussed in Issue 13, because many family firms have informal concentric circles that determine how much information and decision making are available to whom—whether family or NFM.

Issue 11: A Possible Structure

Figure 7 represents a composite from cases and other research and consulting activities of the AIM Family Corporation Group on existing business and family structures.

Figure 7. A Possible Structure



In general, almost all the family firms studied had a formal Board of Directors as mandated by the Securities and Exchange Commission, and a Family Council—usually an informal affair where chosen family and non-family members and managers met on weekends or every other weekend at the home of the patriarch or current successor. The traditional business three-level structure of top-middle-supervisory ranks was also prevalent partly because the hierarchy corresponds reasonably closely to the family genogram structure. Shareholders were more or less represented in annual meetings usually via *prox*y that the owner-managers took pains to solicit once every year.

While the form was evident, the actual operations in terms of governance obviously varied considerably among family firms, mainly following the preferences of the founder and his or her successor. These preferences often became the entrenched values of the family and of the organization. There were founders and successors who were authoritarian and others who were more transparent.A man of letters dominated one sibling partnership and as a result, written missives became the skeleton for the family constitution. Still another second-generation successor ran regular meetings during the week with his children, their respective spouses and his business NFM; he therefore saw himself as the hub for information, and with information came power.

Not all the families had all the different components under the Family Council. Even the family holding company was not present in all family councils although special cash-in-bank accounts were present in all family firms under observation. Interestingly enough, while the larger family firms maintained family, the "museum concept" prevailed in informal ways. For example, one family kept a scrapbook—later digitized for distribution, another family kept a room full of (fading) memorabilia across three to four generations, another family kept a diary and invited others to add to it at each annual Christmas party. The family foundation was also present informally. Each family group of siblings (and cousins) kept a cash-in-bank account for emergencies that ranged from hospitalization for severe accidents to buying out a black sheep.

However, the family foundation, formal or otherwise, represented a vehicle to discuss other components such as a scholarship committee and education fund. One family involved in a university for example, offered financial aid for anyone interested in acquiring a doctoral degree in particular academic disciplines, but would only provide loans to finance MBA studies. The scholarship committee in turn became a vehicle to discuss career planning—admittedly focusing on family members. The second and especially the third generations were interested in a formal venture capital fund especially for those family members who were investing or building new businesses unrelated to the family firm's core business or industry. Finally, the notion of a redemption fund expanded to include not only transfers of ownership and sales and repurchase of shares, but also as a vehicle for formally setting retirement funds.

There appears to be continuous movement in the way a family council is rebuilding itself. However, the process is by no means straightforward. Some families go directly into the different components of a family council and work backwards to a family constitution while other families start with the family constitution and the family vision and values and then progress towards building particular components on an as-needed basis.

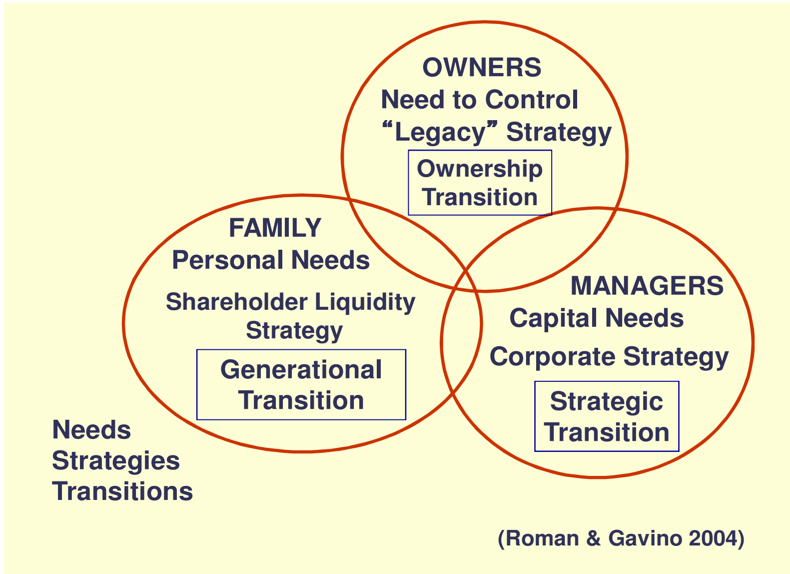
Issue 12: Multiple Priorities

The fundamental assumption in maintaining both a healthy family and a healthy business is the management of transitions. Family firms are in a dynamic state of change in both areas and transitions overlap. For example, a succession crisis will affect the morale of both the family and the organization—including NFMs.

Cases and notes led to an array of changes that have not been comprehensively analyzed. One specific observed outcome can be characterized using the standard Owner-Family-Manager (O-F-M) classification: The need for capital is the recurring problem of generating liquidity and dividing between growth for the firm and payouts for the family in the context of shareholder control. Family firms are reluctant to raise capital that might dilute their shareholder control. Some family firms are reluctant to take on debt. The result is a predictable cash problem that usually occurs in the Philippines and in Asia around Christmas time or Chinese New Year.

In general terms, the O-F-M classification, as illustrated in Figure 8, indicates that Owners are concerned about the stability of ownership and control, the Family worries over the transition across generations, and Managers are responsible for strategic change.

Figure 8. Multiple Priorities



Ownership transition is partly a result of a larger family base. Once the cousin consortium stage approaches as many of the cousins come of age, issues appear regarding 1) active versus inactive shareholders, 2) family owners who are active managers versus those who are simply investors, 3) conflicts and coalitions among the different branches of the expanded family of cousins and their elders, 4) the differences in the estate planning horizons of those the previous generation nearing retirement and those still young, active and relatively unconcerned, and 5) distinctions of ownership based on blood lines—some Chinese family patriarchs maintain a tradition of keeping more than one legal wife.

The generational transition of the family is defined by the perceptions and values of the age of the baby-boomers. Whereas the founding fathers may have core businesses in mind in terms of their legacy, members of the younger generation are more willing to diversify and change the nature of the business risks. The new generation may have lifestyle differences including the provision for family time and redefining what constitutes frugality in terms of education and travel, among others. Each generation must decide between keeping part of the legacy and values and making changes that define their own legacy and values. In one case an argument resulted between the thrifty founder who only travelled economy class for business purposes and his children who pointed out that he only travelled to Hong Kong whereas the new business opportunities and partnerships required travelling much farther to Japan, North America, and Europe. The new generation is probably more

Internet-oriented and used to different perspectives and points-of-view and may be more open to change, diversification, and risk-taking.

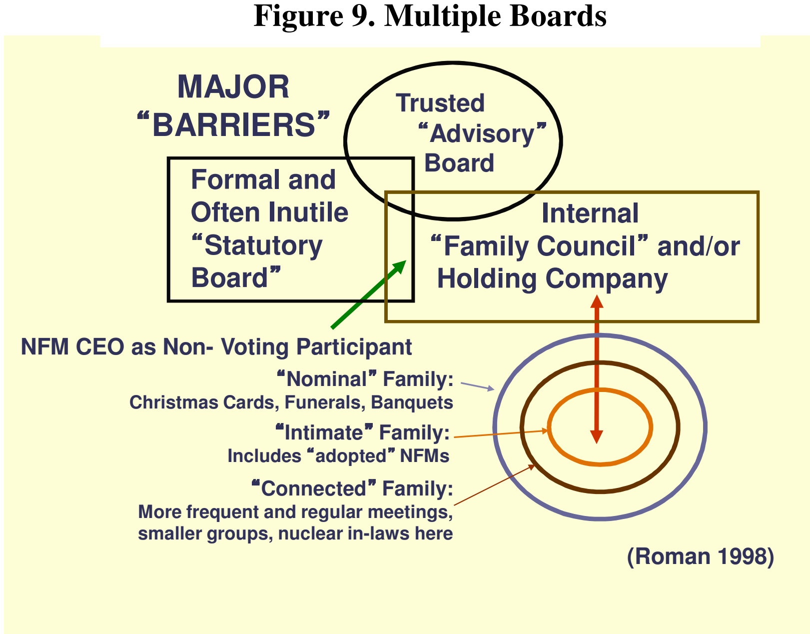
Managers, both family and non-family, are concerned over strategic transitions or change in strategy brought about primarily by the market and external environment. Markets are more open and global competition is fierce but the latter also offer opportunities for partnerships; business investments are both offensive to gain market share and defensive to protect it. Technology shifts market leadership. However, the most important strategic transition is the emotional capital in the family: Is the entrepreneur-founder still interested in the day-to-day administrative tasks of growing the business? Is the second generation still motivated by the legacy of the core business? Is the third generation capable of crafting a cohesive strategy for the large conglomerate?

Transitions thus present opportunities for exploring change in family firms in all its diversity. However, a more systematic research protocol is required not only to redefine and reclassify the transition issues, but also to convert the assumptions into workable hypotheses.

Issue 13: Multiple Boards

With multiple priorities come multiple boards (Figure 9). From a management perspective, this practice seems anomalous. Simple parsimony implies as few decision-making structures or units as possible. Non-family firms normally have a single board of directors.On the other hand, families need as many venues for expressing their views as possible and the "pillow board" —discussions between the absent partner expressing his or her views after a meeting of the family board, must be avoided.

Figure 9. Multiple Boards



Observations from Chinese-Indonesian companies formed the basis for the preceding figure. The board structure in Indonesia is slightly different from North American companies, in that family and non-family firms have a board of commissioners and a supervisory management board—somewhat along the lines of a German dual-board structure. However, the parallel with North American firms is that of a board and an executive committee although membership may vary between the two boards.

In any case, there is the formal and often inutile statutory board. This phenomenon is not distinct to Indonesia. For example, one Thai family firm maintained a formal board consisting of the founder's old and equally aging compatriots where the directors' meetings were primarily social events to reminisce, while the second generation ran the decision-making board. The Family Council and business holding company formed another board, although the AIM Group's advocacy is to keep the two decision-making units distinct and separate even if membership overlaps. There was also a trusted advisory board made up of non-family members from two generations; the members had no statutory responsibility and were independent-minded, and the personal relationship allowed for and even mandated differences of opinion. This board usually discussed business matters. The NFM CEO was present but non-voting, although more variations occurred here. His or her role was to craft working compromises from the opinions and decisions among the different boards.

The bottom of the figure shows concentric circles that define inclusion in decision-making both in the family and in the business. These circles are also evident in Philippine and Indian corporations. The former was largely defined by language—that is being fluent in Spanish or Chinese, for example, while the latter had gender distinctions—women were prominent in the family foundation and family council but less of a voice in formulating business policy. There were also prevalent cultural structures—Asian family firms adhere to a godparent tradition that is religious in the case of the Philippines and extends to weddings and baptisms. Other Asian countries have similar non-religious bonding events. The concentric circles are better visualized as shaded rather than solid. It is obviously possible to move inward—the trusted NFM could marry into the family. The reverse occasionally takes place—family disputes can move members outward at least temporarily.

Since the circles also represent symbolic events, invitations are a critical signal of status. In the Indonesian context, especially for large family conglomerates with joint venture partners and non-Indonesian managers assigned for several years, the position of the expatriate in the circles proved confusing. All of them were part of the outer ring of the nominal family. However, entry into the other circles was by invitation and temporary; the expat could be called in for the expertise provided rather than for a desire to expand family connections.

Issue 14: Continuity and Governance

The AIM Family Corporation Group observed the allocation of tasks among decision-making units in the larger and more progressive family firms in the second and the third generations, as summarized in Chart 3 below. The chart likewise represented an advocacy to improve continuity and governance.

Chart 3. Continuity and Governance

ACTIVITY	EXCOM	BoD	FAMILY COUNCIL
Strategy	Generate and Convey	Respond and Support	Respond and Support
HRD	Generate	Respond	Respond
Constitution	Respond	Respond	Generate
Estate	Respond	Respond	Generate
Succession	Respond	Generate	Respond
Retirement	Respond	Generate	Respond

(Roman 2004)

The simple distinction between generating and responding was an attempt to distinguish between a proactive and a reactive (or passive) role based on six key activities and three decision-making bodies. Observations of family firms constituted the elements in the two axes. Research however did not go beyond the exploration stage and there was likewise no research on the validity of the framework and its underlying assumptions and its dispersion across family firms.

As the chart indicates, the basic assumption was that each of the three units was responsible for generating decisions and solutions for two of the issues in the vertical axis—to which the other units could respond. One obvious gap is that the response could influence the final decision, so the relevance of the generation-task might be argued. Perhaps the only clear capacity for solution was in the Family Council's determination of its constitution and its estate planning. Succession planning and retirement policies were the most contentious since both elements overlapped and implied changes in the power structure.

However, as one company explained, its board consisted of several non-family members so that different perspectives were bound to emerge on these two issues. The family, through the council, could then take the plans generated by the board into consideration as more objective, if not completely neutral documents. Finally, strategy and human resource development represented the middle ground. The executive committee normally consisted of family members as managers and often as owners so the generation of strategy already included family concerns such as liquidity and diversification. The human resource plan was obviously contentious when family members were discussed as part of the career path for the corporation's upper-tier managers.

On reflection, further research should include a third dimension in terms of the degree of influence that each unit had on the specific issues. The initial observation may have emphasized the concept of creating or generating the plan, and presumed that the response would not substantially alter the basic plan. This observation was apparent in the large, progressive family firms that initiated the process described in the chart. However, since the process itself became an advocacy, the actual progress among other smaller and less professional firms could not be independently observed. One emerging assumption was that size based on diversification—that is, a multi-product, multi-market conglomerate structure--may have strained the time and energy of the relatively few managers at the top of the hierarchy leading to a division of labor between planning and responding.

The distinction is important not only for good governance but for continuity, as the chart title implies. Moving responsibilities to plan and to respond across units may create confusion and result in a less stable decision-making process and environment. Continuity, by definition requires some institutionalization of the process beyond the control or whim of the current leadership.

Issue 15: The Governance Scorecard

The Governance Scorecard (Chart 4) outlines an advocacy position for good governance when both authors held the position of Executive Director of the AIM Governance Center one after the other. Although developed several years before (2002), it was not pursued as a research subject due to changes in positions. One proponent, Juan Miguel Luz, recently returned to AIM as a faculty member and Associate Dean of AIM's Center for Development Management (CDM), while the other, the author, is currently Executive Director of the AIM RVR Center for Corporate Social Responsibility (RVR CSR Center). The Scorecard, is still used in forums and in consulting activities as a suggested checklist for good governance. After a period several years, it may be an opportune time to measure the extent and depth of governance in family firms based on the six components.

Chart 4. The Governance Scorecard

Shareholder Value. This is the starting point. Standard financial measures such as RoI, RoE, RoCE, can be aggregated or indexed to use at the industry level.

Management Competence. This refers to top management's capacity to formulate AND implement strategy. Efficiency measures include growth in market share & RoS. Value-chain management is probably important.

Accountability of Actions. This applies to both board and senior managers. Independent committees should regularly monitor and evaluate performance of the relevant/key actors in the corporation.

Responsiveness. Recently, this item has been broadened to include responsiveness to sustainable development initiatives (of which the environment is a major issue-- waste management, pollution abatement, etc.).

Transparency in Policy/Decision Making. This can be assessed through the quality (and frequency) of documents available to the public. Transparency is essential to ensure both high quality and industry-wide acceptability.

Stakeholder Concern. Finally, governance moves from the SHAREholders to the broader base of STAKEholders, from respect for minority shareholders to active cooperation with the community.

(Luz & Roman 2002)

There was only one situation where the framework was tested. There was one Thai family firm in the hotel industry where two cases on governance and strategy were written several years apart. There were major changes between the two cases. In the more recent case, the second generation successor was firmly in charge and his strategy involved linking his local hotel chain with global hotels—incidentally an industry where families still dominate the branded chains even as they professionalize. The two cases are textbook examples of changes in governance—both internally, at the initiative of the new generation successor who wanted to build at least a regional if a not a global brand, and externally, as the *Thai Stock Exchange* and global hotel affiliates demanded better governance. For example, the directors' compensation was made public and risk management reports were undertaken every quarter and published in the annual reports. The case also provided a favorable comparison of the contents of the Thai hotel's annual report to the board and to the shareholders with a similar report by the Marriott hotel chain—also a family firm.

The Scorecard implied a progression from delivering shareholder value to a concern over stakeholders. In the Thai case, the company adheres to the responsive measure, since it is ISO-certified for environmental sustainability (responsiveness), and created a training center to improve services not only for its hotel but also for other hotels that lacked the capability. The family firm also had a small hospital, and staff received additional medical benefits. This aspect of corporate social responsibility (CSR) went beyond the firm's existing philanthropic activities.

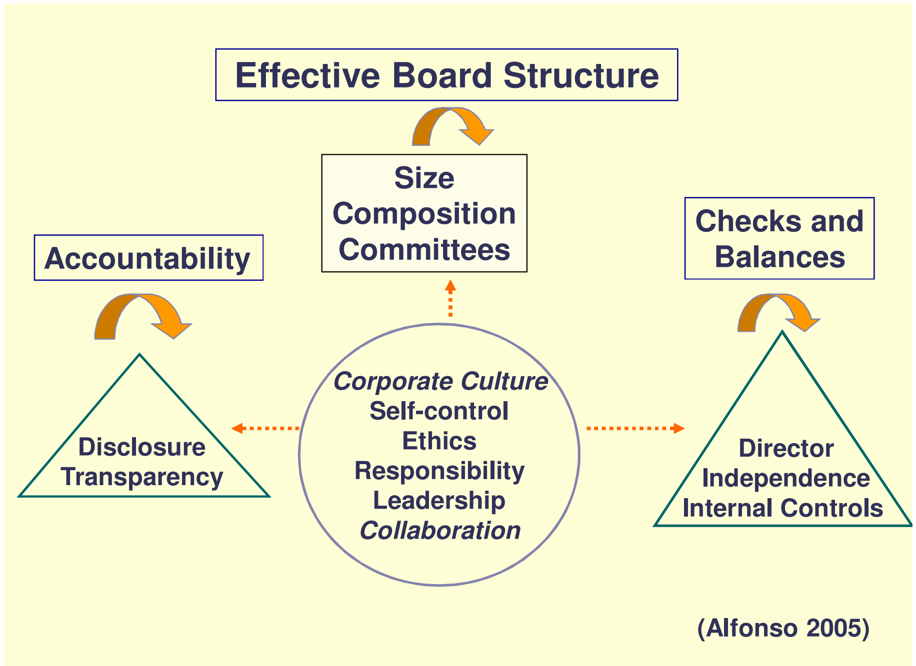
It is obviously unwarranted to generalize from a single case or from a few other observations. However, it appears that shareholder value has taken root among family firms, if for no other reason than the presence of the family as major shareholders. As noted in previous charts, professionalism is also more widespread, and competent management is obviously a prerequisite to sustained growth especially in competitive global industries such as hotels. Accountability and transparency in family firms still appear to be limited to a select if larger audience. Responsiveness in terms of concern over environmental sustainability seems to be noticeably lacking—although perhaps not only in family firms; and stakeholder concerns, even including minority shareholders, may be some ways off.

Issue 16: Conclusion: Corporate Culture and Good Governance

The final illustration, Chart 5, serves as the conclusion for the reflection on areas for future research on family firms. Felipe B. Alfonso, AIM's former Dean, President and RVR-CSR

Center Executive Director and co-author of the first AIM family firm manuscript in 1976 or thereabouts developed the chart below.

Chart 5. Conclusion: Corporate Culture and Good Governance



At the center of Alfonso's framework is the presumption of a viable corporate culture—without which governance will not prosper. The governance-oriented corporate culture requires individual self-control, ethics and a code of conduct, corporate social responsibility, and leadership that is collaborative rather than individualistic. The board of directors as visualized by the rectangle emerges as an outcome of the corporate culture. There are issues to be resolved on board size, selection and composition and the use of various committees. However, membership should be based on the corporate culture of the organization as embodied in its chairperson—who is hopefully not the CEO. The two triangles indicate two necessary conditions: Accountability includes transparency and disclosure. Checks and balances incorporate the system of internal controls and the mandate for director independence—as opposed to the nominally defined independent director mandated by law.

Unlike the previous 15 illustrations, Alfonso's articulation represents an attempt to generalize his observations on family firms to embrace the broader population of non-family firms including state-owned enterprises—to offer a broader scope of research as well as to establish differences in the management of the different elements that make up his view on good governance.

The framework is complex by itself, and over time, other elements will enter the picture. However, the chart represents a suitable basis for research involving not only family firms but other types of organizations as well.

References

Abrina, Ma. Elena, Jacinto C. Gavino, Ma. Virginia Quintos-Gonzales, Mary An K. Gonzales, Denise J. Lopez, Francisco L. Roman, and Ma. Andrea L. Santiago. 2001. *Family corporations in transition.* Manila: Asian Institute of Management.

Gonzales, Ma. Virginia, Francisco L. Roman, and Grace S. Ugut. 2009. *Asian family corporations: Governance in the 21st century.* Manila: Asian Institute of Management.

The Asian Institute of Management (AIM) is a pioneer in international management education in Asia. It is committed towards making a difference in the sustainable growth of Asian societies by developing professional, entrepreneurial, and socially responsible leaders and managers. Its programs and research focus on the nexus between business and development in Asia.

PROGRAMS

- Master in Business Administration
- Master in Development Management
- Master in Management
- Executive MBA
- Executive Education
- Development Executive Programs

RESEARCH CENTERS

- AIM Policy Center
- Gov. Jose B. Fernandez Jr. Center for Banking and Finance
- Amb. Ramon V. del Rosario Sr. Center for Corporate Social Responsibility
- Ramon V. del Rosario Sr. – C.V. Starr Center for Corporate Governance
- TeaM Energy Center for Bridging Societal Divides
- Dr. Stephen Zuellig Center for Asian Business Transformation

Eugenio López Foundation Bldg.
Joseph R. McMicking Campus
123 Paseo de Roxas, Makati City 1260
Metro Manila, Philippines
Tel. No. +632 8924011 to 25
Fax No. +632 8179240
aimnet@aim.edu | www.aim.edu