A new wave

Brunswick's **SUSAN HO** and **SUNITHA CHALAM** say that as new leaders take the reins of family businesses, Asia is poised for one of the biggest transfers of power and wealth it has ever witnessed

THE CHINESE PROVERB "FU BU GUO SAN DAI (富不过三代)," which translates as "Wealth never survives three generations," sums up a widely shared belief in Asia: the first generation builds the family fortune, the second reaps the benefits, and the third squanders the wealth. This saying is a timely and cautionary reminder for many of Asia's family businesses today, as the patriarchs who built Asian capitalism after World War II retire and a new generation assumes control. These young leaders will face the difficult task of leading the business into the future, while also preserving the knowledge, cultural insights and rich tapestry of relationships that paved the way for the success of their forefathers.

It is difficult to overstate the importance of the longevity and stability of Asian family businesses for the region – around 85 percent of businesses in Southeast Asia valued at $1 billion or more are founder- or family-run; in India, that figure stands at 67 percent, while in China, it is 40 percent. The 15 wealthiest families in Hong Kong control assets worth 84 percent of Hong Kong's GDP; in Malaysia, they control 76 percent, and in Singapore, just under 50 percent.

Yet many of these families aren't as prepared for succession as they should be. Joseph Fan of the Chinese University of Hong Kong studied succession in 250 publicly listed family businesses run by ethnic Chinese in Hong Kong, Taiwan and Singapore, and found succession carried enormous costs. On average, over an eight-year period (five years before and three years after a succession), companies lost 60 percent of their value.

Fan's best theory for this decline is that much of the value in an Asian family business is intangible. Investors look at who is running a company, what their values are, and the owner's connections and reputation in society – different from the fundamental analysis of revenue and earnings that would drive investment decisions in the West.

At such a critical juncture, these intangible perceptions, and protecting the company's reputation, become even more important. Businesses must work even harder to earn the trust and confidence of key stakeholders. To ensure future success, they need to be able to attract talented non-family managers and be perceived as a fair place for professionals to build their careers. They need to communicate more effectively with investors, many of whom do not have a favorable view of asset-heavy business models or conglomerate structures. And in a climate of higher customer and shareholder expectations, they also need to be able to demonstrate the value they bring to society and commitment to international standards of corporate governance and transparency.

There are signs of change. While family businesses have traditionally been associated with paternalism and risk aversion, younger leaders are ushering in a wave of innovation and creativity.

Adrian Cheng, grandson of the late Cheng Yu-tung, the founder of New World Development, is modernizing Chow Tai Fook, a leading jeweller in mainland China, Hong Kong and Macau, to make it more accessible to a diverse range of customers. He also founded K11 Art Mall, combining his passions for art and entrepreneurship.

Technology has been another disruptive force to the traditional family business model, and under the guidance of new leadership, some firms are making big bets and taking risks to stay ahead. John Riady, grandson of Mochtar Riady, founder of the Lippo Group in Indonesia, is leading the company's charge into e-commerce through MatahariMall.com, the online version of one of Indonesia's biggest mid-priced department stores.

Many of Asia's young business leaders have been trained at top international business schools and cut their teeth at renowned management consultancies before returning home to run the family business.

This has helped to introduce a higher level of professionalism within management structures, though it remains a delicate balance to maintain family ownership while also instilling professional and effective governance to attract more funding.

While their education and willingness to embrace change and innovation are encouraging, these up-and-comers face many challenges, principally the need to prepare the business to compete on a global stage while maintaining the entrepreneurial culture and the personal networks of the founder.

Navigating these challenges in such a rapidly changing economic and business environment will require the new wave of family businesses leaders to emulate the entrepreneurialism of their forebears, charting their own course for the business against a pole star of established family values.

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Designing a dynasty

The third-generation CEO of Longchamp, **JEAN CASSEGRAIN,** tells Brunswick's **AGNÈS CATINEAU** the secret of his family's longevity

Longchamp, purveyor of luxury handbags and accessories, is one of the last family-owned leather goods manufacturers in France. In business for over a half century, the company branched out from its roots in small leather goods and became an important player in the fashion world, with a brand presence in 80 countries and an annual revenue of €566 million ($600 million).

A third-generation direct descendent and namesake of the Longchamp's original founder, CEO Jean Cassegrain joined the family enterprise in 1991 after graduating from the École Supérieure de Commerce de Paris and working at the French Trade Commission in New York and a management consulting firm, eventually becoming CEO.

Cassegrain spoke with Brunswick about how the company and the brand have evolved with each generation and his strategies for navigating the digital marketplace.

Longchamp has grown into a large company. What were the key turning points?

My grandfather founded the company in 1948 focusing on leather-covered pipes. Brands weren't as prevalent then but we realized that one way to develop the business was to create the Longchamp brand. We extended our product line from pipes to smoking accessories, including tobacco pouches and cigarette cases, but always covered in leather, the common thread. We targeted men for the first 30 years, but later marketed to women, which was an important development. We created nylon bags in the 1970s, which was innovative. More recently, we expanded into clothing and footwear.

The company also expanded abroad. We've always had an international clientele, starting with the young Allied troops in the early days in Paris after the war. Today we have distribution in 20 countries, including through our own stores. Single-brand stores didn't really exist in the 1950s, 1960s and 1970s, but it's now impossible to survive as a brand if you don't have them. In the 1990s and 2000s, we bought back our distributors in the US, Japan, China and Russia, which meant new investments and teams to integrate. We also invested in the production team, our people, our *savoir faire*.

How has the company been handed down from generation to generation?

One key moment was the death of my grandfather, who died suddenly in 1972 – my father found himself in charge at the young age of 35, and decided to gradually buy up his brothers' and sisters' shares. He felt that his children were ready to join him, but perhaps not his siblings.

You have a longstanding relationship with supermodel and designer Kate Moss. Why did you decide to enlist her?

In 2006, we recognized that the brand was evolving and doing exciting things, but we needed to communicate it in a more affirmative way. So we made the choice to have Kate Moss as the face of the campaign. That was seen as a controversial move, but it gave the brand a lot of visibility.

What advantages does being a family business add to the brand's value?
It gives the brand a lot of stability. We have few competitors that are still familial. We also are sheltered by not being publicly listed or owned by a private equity fund. Market pressure can be good but often leads to short-term reasoning. With family stability, there's not a risk of a 180-degree strategic shift, which is appreciated by employees, customers and suppliers. But we do challenge ourselves. We are in a dynamic market and you can't let yourself fall asleep at the wheel.

What are some of the risks you have to keep an eye on?
In the fashion world, the designer collections change regularly, in a kind of a rhythm. That imposes a constant renewal challenge for the company and its product lines. Also, the mechanism behind competition in our sector is more Darwinian, with the weakest being taken out and only large, efficient operators remaining. Twenty years ago leather goods and fashion were separate and we had less of that pressure, but that's no longer the case.

What does being family owned mean in terms of business investment?
We're independent and independence only works if the company is sufficiently profitable. Being a family-owned company doesn't absolve you of the responsibility to make the same level of investments as others. To finance that, some will go public, others will take on a new partner. Since we choose to remain independent, the self-financing has to be there.

What do you see for the next generation?
In my generation, everyone is on board, including my brother and my sister. Everyone has their own role. Our children are still young but I hope that we have people ready to carry the baton in the next generation.

Are you open to outside managers who might want their own stake in the company?
We have four family members and five outside members on our management team. Managers who have worked for big companies are happy to be in an environment that is a bit healthier and less political. There are possibilities for career advancement that we can't offer as easily. But people are happy to be able to contribute to building something and seeing the brand develop over the long run.

How do you attract talent?
Communication and visibility. People increasingly want to consume more intelligently and ethically and thus want to know the companies behind the brands. So that has us communicating not only through the brand but also through the company. If a brand is caught doing something negative, it exposes it to considerable risks. Is being virtuous compensated in the same way? I'm not so sure, but I do think that it's a differentiating factor and a source of long-term value and attractiveness.

How do you cope with Millennials, who typically don't like to stay very long at a company?
We recruit a lot of young people. We are lucky this sector is attractive for them – the brand too. We often wind up with too many candidates for the number of positions available.

Family-owned businesses tend to generate more employee loyalty – is that part of the appeal for the younger generation?
I'm not so sure they ask themselves that question. They are first and foremost attracted by the brand.

How have you managed the digital revolution?
Longchamp became the first French brand to start selling online in 2001. We were able to make the decision quickly because of our independence and short line of decision-making. We also decided to do it all ourselves. A lot of mid-sized and large companies have subcontracted their internet sales. But given its growing importance, it's a bit like giving the Champs-Élysées flagship store to a franchisee to manage.

Does digitalization imply stores will close, putting longstanding employees at risk?
The goal is to keep everyone on board, but you have to be able to evolve. If you think about it as a zero-sum game, that you are transferring profits from one place to online, you are sure to have social consequences. Our approach is one of curiosity, of trying new things and assessing what works to maintain growth; this is rather well-adapted to the digital universe.

JEAN CASSEGRAIN

A graduate of the Ecole Supérieure de Commerce de Paris, Jean Cassegrain worked for a year at the French Trade Commission in New York City. He later worked as a management consultant before coming to work for the family business of Longchamp in 1991. He later succeeded his father as CEO of the company.

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