



DBS  
PRIVATE BANK



# Governance and succession

Family offices and the Chinese diaspora in Asia

Written by

The  
Economist

INTELLIGENCE  
UNIT

# Contents

- 1 Foreword**
- 3 About the research**
- 6 Governance and succession: Family offices and the Chinese diaspora in Asia**
- 7** The bamboo network
- 9** A shared optimism
- 11** Cultural constructs
- 15** Modern governance for a modern family
- 18** Key takeaways
- 20 Industry points of view**
- 21** Family office frameworks: Bespoke governance structures for Chinese diaspora needs
- 25** *Key takeaways*
- 26** Governance for family and business continuity
- 28** *Key takeaways*
- 29** Family offices: Mainland china and the factors of founding
- 33** *Key takeaways*
- 34** Holding up half the sky and the family office
- 36** *Key takeaways*

## Foreword

As bankers and trusted advisors to our clients, my personal philosophy is that it is our purpose to help “create wealth, enable success, and enrich lives” – a role that has become even more meaningful over the past two years, ever since the pandemic upended the normalcy we once knew and threw it into disarray.

Whilst ultra-high net worth families and family offices would generally have sufficient capital buffers to emerge from this chapter with their wealth intact, they are not completely immune to its repercussions. The pandemic served as a stark reminder of our vulnerability, be it in terms of our mortality or the transience of our hard-earned assets, and we have since observed many families placing greater urgency on structural, long-term needs such as governance and succession planning, which may not have been top-of-mind previously. Issues such as taxation have also risen to the fore amid the heightened possibility that we are moving towards a world where tightened regulatory regimes and higher wealth taxes are the norm, rather than the exception. On a positive note, however, families have also been prompted to rethink their role in society and give back more proactively, be it by supporting disadvantaged communities in their home countries or by funding social enterprises, which are dual bottom-line companies, to help scale their positive impact.

In addition to these external factors, change is also taking place from within – especially so for Asia, where wealth is a more recent

phenomenon. Many families here have yet to institutionalise a formal system with which to manage and navigate not only their assets, but also their evolving dynamics. Furthermore, the concept of succession or legacy planning, which often require discussions on issues pertaining to death and incapacitation, are traditionally deemed ‘inauspicious’ and taboo in certain Asian cultures.

However, with Asian families now on the cusp of passing the baton to their second or third generations, many of whom may not share their predecessors’ vision for the business and are keen to forge their own path, and as both the family’s wealth and geographic spread of its members continue to grow and become more complex to manage – the old Chinese adage that “Wealth does not last beyond three generations” is starting to resonate more deeply, sparking many families’ desire to establish professional family offices and implement proper governance as a means to keep their wealth and family legacy intact for the long term. The value of good long-term planning should not be underestimated, and we continually advise our clients to do this from a position of strength, rather than to leave it till times of crisis.

Against this backdrop, and as Asia’s economic fundamentals remain primed for robust growth in spite of the pandemic, we foresee continued progress in the region’s family office landscape – a key driver of which is expected to be the Chinese diaspora, one of the largest

diaspora populations in the world, and a key contributor of Asian wealth. According to the 2020 Hurun Global Rich List<sup>1</sup>, China produced more than half (63%) of the world's 412 new billionaires in 2020, bringing its total billionaire population to 1,058 as of the start of this year, and making China the world's first country to have more than 1,000 billionaires. Closer to home in Southeast Asia, The Economist<sup>2</sup> notes that over three-quarters of the region's US\$369 billion in billionaire wealth belonged to overseas Chinese, and that much of this wealth resides in Singapore, which has since established itself as a destination of choice for family offices, driven by a myriad of factors including progressive legislation, innovative tax and residency schemes, 'Singapore Inc' attributes such as its strong force of law, political and economic stability, and high quality of life, as well as its position as a lighthouse to the region's opportunities.

Already, we are seeing a surge of Chinese families that are keen to set up family office structures in Singapore, as well as existing family offices that wish to relook their conventional structures and plans given growing globalisation of their wealth, and to focus on being agile in times of change. At DBS Private Bank, we have seen double-digit growth in clients from the Greater China region over the past three years, and expect this trend to hold strong.

We are thus pleased to bring to you this report by the Economist Intelligence Unit, commissioned by DBS Private Bank, on *"Governance and succession: Family offices and the Chinese diaspora in Asia"*, which chronicles these families' origins, cultural constructs and other factors that shaped their development over time, and their ongoing transition towards embracing new forms of governance and succession in an increasingly complex world. We hope you find this read insightful – and for any families who are still unsure how best to plan, protect and preserve their wealth and legacy for the long term, may this provide comfort that there is a clear path ahead, and we're well on track to walk it with you.



**Sim S. Lim**  
Group Head  
Consumer Banking & Wealth Management  
DBS Bank

1 Hurun Report - Info - Hurun Global Rich List 2021

2 <https://www.economist.com/business/2020/05/28/south-east-asian-tycoons-high-wire-act>

## About the research

***Governance and succession: Family offices and the Chinese diaspora in Asia*** is a report from The Economist Intelligence Unit, commissioned by DBS Private Bank to explore the history, dynamics and governance implications as they relate to families of the Chinese diaspora in Asia and their businesses and family offices.

The report's analysis is based on a literature review and direct interviews with practitioners and academics in the related fields under study.

In the early 19th century, a confluence of outward and inward forces pushed China's Qing Dynasty into a downward trajectory that ultimately tipped the country from its perch as the world's largest economy. That event sparked a mass migration that has shaped history since. A Chinese diaspora—the migration and dispersion of Chinese from their homeland—has permeated the globe; sizable Chinese communities can be found from Vancouver to London to Singapore. Their influence has built foundational infrastructure and founded global companies, with some of Asia's wealthiest families emerging from the same migration trend. That heritage and storyline is still unfolding today. To better understand the complicated and interrelated implications, The Economist Intelligence Unit

has examined the factors influencing wealth-planning decisions and related family-office and family governance structures taking shape today, particularly among the Chinese diaspora in Asia.

The report was written by Georgia McCafferty and edited by Jason Wincuinias.

We would like to thank all interviewees consulted for this study for their time and insight (listed alphabetically by surname):

**Cheong Wing Kiat**, managing director, Business Concept; director of Amber Collections, Glucoscare International; managing director, MarinEx Pharmaceuticals Singapore, and business family strategist

**Roger King**, founding director and senior advisor, Tanoto Center for Asian Family Business and Entrepreneurship Studies, The Hong Kong University of Science and Technology (HKUST)

**Winnie Peng**, director, Tanoto Center for Asian Family Business and Entrepreneurship Studies, HKUST

**Patricia Susanto**, CEO, The Jakarta Consulting Group

**Wang Gungwu AO CBE**, emeritus professor, Australian National University; and professor, National University of Singapore

Supplemental to this report, a range of academics and practitioners were invited to share their points of view in order to provide a deeper understanding of governance structures and offer a variety of perspectives on the topic. Bundled with this Economist Intelligence Unit report are three additional essays and a Q&A interview. Each contributor was selected for their unique experiences and years of industry involvement. We are also grateful for their time and insights.

Listed alphabetically by surname:

**Stacy Choong**, partner, private client and tax, Withers KhattarWong, Singapore

**Joseph P H Fan**, professor, Chinese University of Hong Kong Business School; founder, Family Glory Institute

**Hao Gao**, director, Global Family Business Research Center; deputy director, Research Center for Green Finance Development, Tsinghua University PBC School of Finance

**Patricia Susanto**, CEO, The Jakarta Consulting Group

**Lei Xu**, research fellow, Global Family Business Research Center, Tsinghua University PBC School of Finance



Companies started by ethnic Chinese entrepreneurs and investors in South-East Asia are so well known for their connections and success that they are often referred to as the “bamboo network”.

## Governance and succession: Family offices and the Chinese diaspora in Asia

Hong Kong condiments company, Lee Kum Kee, may not have become the multi-billion dollar success story it is today were it not for strong family-office governance. Founded in 1888 by Lee Kum Sheung, a restaurateur in Southern China,<sup>3</sup> the family-owned company survived wars and pandemics but was almost undone in the late 1990s by family in-fighting.

The patriarch, Lee Man Tat, who passed away on July 27, 2021, had a fortune of US\$17.6bn<sup>4</sup>. Determined to prevent a familial and corporate fracture, he engaged outside advisors in the early 2000s and established a family office guided by a comprehensive governance system.<sup>5</sup> Now managed by fifth generation Lee family descendant, Charlie Lee Wai-chung, the company sells its products to over 100 countries and has expanded into real estate and healthcare. In the process, the Lee Kum Kee story has proven that having a structured governance approach was key in avoiding the Chinese adage: wealth does not pass three generations (富不过三代: *fù bù guò sān dài*).

Although an astute decision for the family and its business, the adoption of a formal governance system by the Lee family was unique at the time. Governance—succession planning and risk-management strategies that are applied within a single family office or multi family office—is common practice with high-net-worth (HNW) families and individuals in the West. However, for

ethnic Chinese families, formal rules and regulations that govern a family office are a relatively new construct that may clash with other strong cultural or unique family values.

**Family governance:** Effective family governance consists of a written agreement and/or formalised structure that includes guidelines for succession planning and risk management, designed to preserve a family's wealth, harmony and legacy. The structures or processes aim to resolve conflicts, organise objectives and outline any interrelationships with a family business, charity, foundation or commercial entity. Rather than restrict family members, governance structures should create the clarity to manage, grow, transition and protect family wealth.

**Family office:** A private wealth management organisation founded by and in service of a single or multiple families providing a spectrum of wealth management, tax planning, personal budgeting, charitable giving, or other financial services, typically to high-net-worth families.

Despite this, the Lee family has proved a resilient role model. As the number of ethnic Chinese billionaires in South-East Asia grows, family offices and systems

3 Lee Kum Kee, "About Lee Kum Kee", <https://www.lkkprofessional.com/about-lee-kum-kee.php>

4 Bloomberg, "Billionaire Lee, Called the 'King of Oyster Sauce,' Dies at 91", <https://www.bloomberg.com/news/articles/2021-07-27/billionaire-lee-called-the-king-of-oyster-sauce-dies-at-91>

5 Bloomberg, "A \$15 billion oyster sauce family plots to survive 1,000 years", September 1st 2019, <https://www.bloomberg.com/professional/blog/15-billion-oyster-sauce-family-plots-survive-1000-years/>

of governance are becoming more widespread as families hope to create a legacy and preserve their wealth. This is no folly; according to research based on an examination of market value of 250 listed family firms in Hong Kong, Taiwan, and Singapore by Professor Joseph Fan at the Chinese University of Hong Kong, listed family firms lose almost 60% of their value in the first transfer of power, when the founder steps down.<sup>6</sup>

### The bamboo network

Companies started by ethnic Chinese entrepreneurs and investors in South-East Asia are so well known for their connections

and success that they are often referred to as the “bamboo network”. Formed on a pillar of Confucian values—including respect for hierarchy and harmony, relationships and networks (or *guanxi* 关系: *guān xi*), and time orientation<sup>7</sup>— these businesses have grown through hard work and a sharp eye for commerce, and though often facing challenges in their adoptive countries, many now dominate economic landscapes in Hong Kong and South-East Asia.

“Underlying the whole process was the Chinese instinct for trade, business and entrepreneurial activities,” says Wang Gungwu, emeritus professor at the Australian National University and university

**Figure 1. Bamboo network effects**

Influence of Confucian values on three dimensions of social construct

Confucian value	Structural	Cognitive	Relational
<b>Filial piety</b>	Stronger intergenerational ties; Easier transfer of social capital between generations	Preservation of shared codes and narratives across generations	Greater expectation for obedience; Implicit rules for decision making; Increased trust
<b>Traditionalism</b>	Relationships created by past generations nourished by future generations		Preservation of norms such as the importance of face
<b>Guanxi</b> (关系: <i>guān xi</i> )	Network expansion; Stronger and longer lasting network ties; Transfer of relationships from one generation to the next	Stronger cultural identity	Increased trust; Reciprocal obligations

Source: Hong Kong Baptist University<sup>8</sup>

6 Morten Bennedsen, Joseph P.H. Fan, Ming Jian, and Yin-Hua Yeh, “The family business map: Framework, selective survey, and evidence from Chinese family firm succession”, *Journal of Corporate Finance*, Volume 33, 2015, pages 212-226

7 Jia Wang, Greg G. Wang, Wendy E. A. Ruona & Jay W. Rojewski, “Confucian values and the implications for international HRD”, *Human Resource Development International*, 8:3, 311-326, February 2007, <https://www.tandfonline.com/doi/full/10.1080/13678860500143285>

8 Archimedes David Guerra, “Confucian values and family businesses: effects on firm performance and capital structure”, Hong Kong Baptist University

professor at the National University of Singapore. “That was probably the most important driving force that saw the businesses that ethnic Chinese started in Asia thrive from the beginning.”

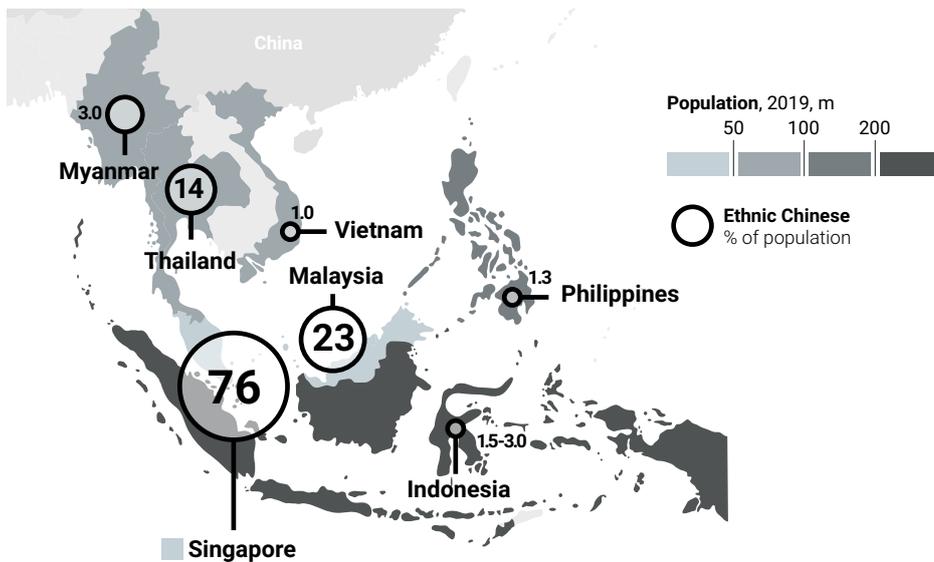
Professor Wang says there have been four waves of migration from China that changed the shape of commerce in South-East Asia. The first Chinese trader or *huashang* (华裔: *huá shāng*) wave began with entrepreneurs seeking trade with their neighbours in the 17th and 18th centuries. The second wave, from the 1840s to the 1920s, saw Chinese workers flee poverty for new overseas opportunities. The end of slavery in the US and the UK and its

colonies also drove labour shortages, which saw the establishment of a “worker-trader class” of ethnic Chinese, as Professor Wang describes them, seeking work, predominantly in the gold mines and railroads in North America and Australia. A protracted third wave then followed as China, which had previously been closed, opened its doors to foreigners and sent its well-educated professionals and academics abroad to foster trade and diplomatic relations.

The end of the second world war marked the start of what Professor Wang calls the fourth wave. Initially migration stalled, as the war’s impact forced Chinese citizens living in

**Figure 2. Migration waves**

Ethnic Chinese populations in Asia (%)



Source: National statistics, The Economist<sup>9</sup>

<sup>9</sup> *The Economist*, “South-East Asian tycoons highwire act”, May 30th 2020, <https://www.economist.com/business/2020/05/28/south-east-asian-tycoons-high-wire-act>

South-East Asia to choose between staying in their adopted countries or returning home. “As empires receded, and the British and the French and the Dutch all went home, new nation states were building up and the indigenous political leaders now wanted to create their own nations,” he explains.

That started a negotiation process with ethnic Chinese business owners concerning residency and commercial interests; only 20 to 25% returned to China, according to Professor Wang. Those that remained had to build relationships with the new political elites, in what Professor Wang describes as a “major renegotiation of roles”.

After China’s reform and opening in 1978, migration again increased, and a new succession of people seeking education, trade or financial opportunity travelled abroad.

Optimism is an inherent part of Confucian values and Professor Wang believes it plays an important role in modern success stories. “There’s a very deep Chinese optimism. And when you’re optimistic, you believe that there’s such a thing as luck—opportunities. And this luck is not fate or destiny, it is something that you can make for yourself. You look out for it; you are alert and prepared.”

That preparation is key to family office governance in the modern era.

## A shared optimism

Present estimates of the overseas Chinese population range from about 40 million<sup>10</sup> to over 60 million.<sup>11</sup> Yet whether *huaqiao* (华侨: *huá qiáo*)—citizens of China living abroad—or *huaren* (华人: *huá rén*)—foreign citizens who are Chinese by descent and ethnicity—this migration of people and entrepreneurship has transformed the shape of many modern industries and businesses. South-East Asia hosts some of the most well-established and successful ethnic Chinese business families.

*The Economist* estimates that over three-quarters of the US\$369bn in South-East Asian billionaire wealth was controlled by *huaren* (华人: *huá rén*) in 2020.<sup>12</sup> And although they make up around 5% of the region’s 650m or so people, ethnic Chinese dominate the region’s US\$3trn economy. Thailand and Singapore are home to the largest proportion of this wealth, with 20 billionaire *huaren* (华人: *huá rén*) residing in each country. However, this wealth is spread across the region, from Malaysia and Indonesia to the Philippines and beyond.<sup>13</sup>

Many of this group have assimilated culturally and taken up local names. The Charoen Pokphand Group in Thailand, for example, one of the country’s largest conglomerates and owned by the Chearavanont family, was founded in 1921 by Chia Ek Chor,<sup>14</sup> a seed importer from

10 Poston, Dudley and Wong, Juyin, “The Chinese diaspora: The current distribution of the overseas Chinese population”, 2016, *Journal of Sociology*, [https://www.researchgate.net/publication/307898102\\_The\\_Chinese\\_diaspora\\_The\\_current\\_distribution\\_of\\_the\\_overseas\\_Chinese\\_population](https://www.researchgate.net/publication/307898102_The_Chinese_diaspora_The_current_distribution_of_the_overseas_Chinese_population)

11 China Daily, “Overseas Chinese can help build Belt, Road”, June 13th 2017, [http://www.chinadaily.com.cn/china/2017-06/13/content\\_29719481.htm](http://www.chinadaily.com.cn/china/2017-06/13/content_29719481.htm)

12 Ibid

13 Ibid

14 Charoen Pokphand Group, <https://www.cpgroupglobal.com/about/Milestones>

### Figure 3. Huaren holdings

South-East Asia billionaires and ethnic Chinese billionaires by country

All	Number of billionaires	Wealth, \$bn
Thailand	31	94.8
Singapore	22	71.3
Indonesia	21	78.5
Philippines	17	49.6
Malaysia	13	61.6
Vietnam	5	13.6
Myanmar	nil	nil
<b>Total</b>	<b>109</b>	<b>369.4</b>

Ethnic Chinese	Number of billionaires	Wealth, \$bn
Thailand	20	69.3
Singapore	20	66.8
Indonesia	12	59.4
Philippines	15	37.4
Malaysia	11	53.7
Vietnam	nil	nil
Myanmar	nil	nil
<b>Total</b>	<b>78</b>	<b>286.6</b>

Source: Forbes, The Economist (2019 data)<sup>9</sup>

Chaozhou, Guangdong.<sup>15</sup> In Malaysia, Robert Kuok was born to Chinese parents and oversees an empire that spans sugar trading to the Shangri-La hotels. And in Indonesia, the Lippo Group, owned by the Riady family, was founded by Mochtar Riady,<sup>16</sup> also known as Lie Mon Tie, an Indonesian who was born to ethnic Chinese parents and started his business from a bicycle shop in Java.

Yet while many no longer sound ethnically Chinese, these families often maintain strong links to their ancestral homeland. The first characters of Chia Ek Chor's four sons' names—Zhengmin, Daimin, Zhongmin, Guomin—spell out “fair great China”,<sup>17</sup> while Robert Kuok openly attributes his success to his Chinese heritage.<sup>18</sup>

These roots run deep for all ethnic Chinese, according to Professor Wang; they still think of their ‘homeland’ as the ancestral village. For however many generations these families may have lived outside China, they still send funds back and make regular visits to support their villages. “All the main lines from their big family try to visit. And they have this big feast, and you meet the mayor and everything, and the family donates, and then you build schools and it's important for the family business to kind of show off,” says Patricia Susanto, CEO of The Jakarta Consulting Group.

Roger King, founding director of the Tanoto Center for Asian Family Business and Entrepreneurship Studies at The Hong

Kong University of Science and Technology (HKUST), agrees.

“If you think about the overseas Chinese diaspora—whether you call it a strength or weakness—they always think about returning to their homeland. And their homeland is always the village that they come from.” And in that village, he explains, there will be schools, or hospitals, all named after successful business people whose heritage extends from there.

## Cultural constructs

These overseas Chinese clans may have a shared heritage and connections, but their makeup and business interests differ widely. This is reflected in the unique nature of the family offices they establish and what definition of governance is adopted, if any. For some offices, governance can simply be a framework that guides decision-making or succession. In others, like Lee Kum Kee, family governance is a comprehensive agreement and legal construct that includes a family constitution, a family foundation and a family learning centre that co-ordinates business training for family members.<sup>19</sup>

While there may be different practical applications, there are several key accepted factors that go into a formal definition of family governance. At its broadest, it

15 Nikkei Asia, “Dhanin-Chearavanont 2: From Chaozhou landowner to Bangkok businessman”, September 2nd 2016, <https://asia.nikkei.com/Spotlight/My-Personal-History/Dhanin-Chearavanont/Dhanin-Chearavanont-2-From-Chaozhou-landowner-to-Bangkok-businessman2>

16 Nikkei Asia, “The story of Lippo Group and modern Indonesia: Mochtar Riady's story”, September 10th 2018, <https://asia.nikkei.com/Spotlight/My-Personal-History/The-story-of-Lippo-Group-and-modern-Indonesia-Mochtar-Riady-s-story-1>

17 *The Economist*, “South-East Asian tycoons highwire act”, May 30th 2020, <https://www.economist.com/business/2020/05/28/south-east-asian-tycoons-high-wire-act>

18 South China Morning Post, “Chinese – the most amazing economic ants on earth: the Robert Kuok memoirs”, November 26th 2017, <https://www.scmp.com/week-asia/opinion/article/2121085/chinese-most-amazing-economic-ants-earth-robert-kuok-memoirs>

19 Kellogg School of Management, “How to Motivate the fifth Generation? Balancing Engagement and Entitlement at Lee Kum Kee”, June 10th 2016, <https://hbsp.harvard.edu/product/KEL949-PDF-ENG>

can be considered an agreed framework that guides decision-making across all aspects of a family office and/or a family business, whether leisure decisions like family holidays, or agreed strategies to guide investment decisions, dividend ratios or employment criteria (for either or both the family office and family business). At its heart though, family governance should consist of a written, formalised structure that includes guidelines for succession planning and risk management, which are designed to preserve certain conditions, according to Professor King.

## These overseas Chinese clans may have a shared heritage and connections, but their makeup and business interests differ widely.

“This is what we call the concept of the three Ps. The first is ‘preservation of family financial wealth’ and that tends to be what everybody looks at, especially on the concept of family office itself. The second P, which is important in Asia, is what we call the ‘preservation of family harmony’, and

we have all come across many families that unfortunately are not very harmonious. The third is ‘preservation of family value and family legacy,’” explains Professor King.

Professor Winnie Peng, director of the Tanoto Center for Asian Family Business and Entrepreneurship Studies at HKUST says that families need to think about these objectives when considering a family office, and plan accordingly. Family governance doesn’t necessarily need to be instituted inside a family office structure, and most family offices start with the purpose of managing a family’s wealth, not establishing governance. She says the Lee Kum Kee example is particularly uncommon in this respect, as their family office was established primarily as an administrative vehicle for family governance, with their wealth managed by a separate family investment division.

“This is an example that the Chinese diaspora can learn from. Whether governance exists in a family office, or external to that, however it is implemented, it is a wise idea to have separate teams to manage family governance and family investment,” Professor Peng adds.

Although governance is accepted in the West as a typical approach to business management, it is not always understood or welcomed among ethnic Chinese. Cheong Wing Kiat, a family business strategist who is managing director of Business Concept; director of Amber



The Chinese have preferred to do these things on a very, very informal basis. And the matriarch or patriarch still wants to control everything. And the idea of hiring an external manager to run the family office is still not necessarily a well-accepted concept itself.

*Roger King, founding director and senior advisor, Tanoto Center for Asian Family Business and Entrepreneurship Studies, HKUST*

Collections at Glucoscare International; and managing director of MarinEx Pharmaceuticals Singapore, says part of the hesitation could be explained by the Chinese characters for governance—**治理**: zhì lǐ. Mr Cheong, who started helping wealthy families with governance after going through his own family business challenges said these represent five specific aspects of governance. “The information flow, the written policy and procedures, the council, accountability, and the segregation of duties. That is governance to me,” he explains.

For example, in the second character of the word for governance, the upper right-hand side has a square box with a cross inside, which represents a paddy field (田: tián). This can be interpreted as yield, or the result of your actions, which is accountability Mr Cheong explains. The word also includes a character on the left (王: wáng), which is the king, although, as Mr Cheong notes, “even in Chinese history, the king or emperor will have a group of people to help him to decide, so there is also a council.”

This reference to the emperor, and its application among ethnic Chinese families where the patriarch or matriarch are the overarching decision-makers, is something that HKUST’s Professor King also believes plays a large part in the hesitance to adopt governance. He says Chinese families are used to a highly hierarchical approach to business, where outside advice is unwelcome, and an informal set of guidelines or notions—

rather than a rigid set of rules—is used for management.

“The Chinese have preferred to do these things on a very, very informal basis. And the matriarch or patriarch still wants to control everything. And the idea of hiring an external manager to run the family office is still not necessarily a well-accepted concept itself,” says Professor King.

## In the past, the question of entrepreneurship depended on trust.

However, there is a further component to the aversion to outside advice, which comes from ancient Chinese legal and business systems, according to Professor Wang. As the emperor made laws, with bureaucrats acting as judges, there was no legal system or formal laws to speak of in ancient China. Without laws, business was built on trust, with family members, preferred business partners and individuals they knew within their village.

“In the past, the question of entrepreneurship depended on trust. Because there was no law, trust was between two businessmen who could trust one another. And the trust you could rely on most is that within the family. So the degrees of trust, or a hierarchy

of relationships, are understood as being part of the given factors in your business interest,” says Professor Wang.

### **Modern family governance for a modern family**

For overseas Chinese (diaspora families), the fundamental need for trust in business relationships has not changed. However, new generations are bringing their Western education and different perspectives into the clans, while family structures themselves are undergoing rapid transformation. This, along with growing wealth, has been a key driver behind the increased adoption of family offices and family governance systems among wealthy overseas Chinese.

For the large established families that often need to manage multiple generations and their offspring—as well as the occasional mistress or additional wives, according to Professor King and Mr Cheong—succession becomes the first step considered within a family governance structure. “Especially after they enter into second generation, when family size gets larger, proper governance structure is needed. The siblings need to work out a structure to make decisions, otherwise they will fall into trouble,” says Professor Peng.

Professors King and Peng say exposure to Western business practices and education was the catalyst that made many overseas Chinese families more amenable to new advice that helps them understand the

importance of managing succession and the role a family office can play in preserving their wealth and legacy. In the past 18 months, covid-19 has also helped them to appreciate the importance of incorporating risk management into their approach. “Especially after covid-19, people really woke up and realised, the external world can become crazy. Even if you perform well internally, it doesn’t mean that you can survive,” Professor Peng explains.

**For overseas Chinese (diaspora families), the fundamental need for trust in business relationships has not changed.**

These diaspora families are now more aware of the different kinds of risk that may impact them—geopolitical, health, divorce, climate, investment—and are beginning to adopt different risk mitigation approaches for each. “You need different kinds of tools to tackle each kind of risk,” Professor King adds. “And each family office should decide their priority, whether it’s wealth preservation or family, legacy preservation, and then think about how to manage their potential risks accordingly.”

Matching the change in attitudes is a change in family structures, with Professor Wang noting that ethnic Chinese families are becoming less extended and more nuclear, where a couple and their immediate children form the primary unit. “It is not quite as nuclear as in the West. But they’re certainly not often the kind of genealogical approach that the Chinese had for millennia,” he says, referencing the historically large families common in China before the 20th century.

## The shift in attitude has seen many new generations of wealthy ethnic Chinese families reconsider their legacy

The shift in attitude has seen many new generations of wealthy ethnic Chinese families reconsider their legacy, which makes the need for risk management and outside advice especially important, according to Mr Cheong. He says this is particularly relevant as younger generations, who are often exposed to Western education, may no longer see an attraction to the traditional family business and instead may want to pursue their own investments in technology companies or develop entirely new technology-related businesses without the need for family money.

“They have an attitude that is completely different from the patriarch and matriarch. They only like to do their own thing, they don’t want to inherit the parents’ business and follow in their footsteps,” Mr Cheong says, emphasising that many have become successful in their own right by branching out into technology “This generation doesn’t need money to make money. They need ideas and innovation to make money. You have a good idea? The VC [venture capital fund] will give one million to any start-up with a good idea,” he adds. As with many new fortunes globally, wealth in Asia is increasingly linked to tech ventures rather than the more traditional commodity or real-estate-based businesses of the past.

According to CB Insights, a private equity market research firm, there were over 200 unicorns (tech start-ups valued at US\$1bn or more) in Asia-Pacific as at July 2021. Only North America claims more. In the future, if the entrepreneurs behind those firms follow current trends, growth in family office founding is likely to expand in Asia too.

At the same time, the demographic profile of family offices is evolving. Women are taking on more management roles, and many of the family offices of overseas Chinese families are now run by daughters, according to research conducted by Ms Susanto. She found that daughters were more adept at balancing input from all family members—whether a father, brother, aunt, or uncle—which has seen many of them bear responsibility for managing the offices. “It’s not intelligence; it’s not a competency

that's most important—it's communication skills and empathy," says Ms Susanto (see *Holding up half the sky and the family office* by Patricia Susanto).

Newly wealthy mainland Chinese are also becoming a contemporary driving force in family offices as they seek business opportunities and investment diversification outside of China. Beijing, with 100 billionaires, overtook New York, which has 99, as the city with the most billionaires globally in 2021,<sup>20</sup> and this number is estimated to continue to grow rapidly, with China outpacing the US in the number of billionaires created by three to one in 2019.<sup>21</sup>

"The whole world's wealth is moving to Asia, and China is a booming market. That's why there's huge demand for setting up a family office in this part of world, especially in China. Newly wealthy mainland Chinese families now set up a family office in mainland China, or they move out and choose Hong Kong or Singapore or other places around the world," says Professor Peng. These family offices are usually tightly controlled by the family themselves, as most newly wealthy Chinese families from the mainland have just one heir and strong cultural ties, but over time families are becoming more complex (with a greater number of members and generations) and more aware of the benefits that a family governance structure can bring.

"In Asia, we still have a long way to go in terms of using outside professional managers to manage their family

business or wealth. Maybe it will take 10 to 20 years to establish some trust," Professor Peng explains, referring to the willingness of Chinese families to trust in legal structures or external advisors. "Most of the Asian family office is still controlled by family members themselves. And many are particularly good at investments themselves and prefer not to hire somebody else. But as they grow, they hire people. And at that time, they should have a formal and professionally run structure as more people are joining a team."

Wealthy ethnic Chinese families in South-East Asia have also learned from other families, like the Hong Kong Lees, that formalising and implementing a written family governance structure can help preserve harmony among family members and protect family assets from systemic and extrinsic risks for generations to come. Importantly, however, regardless of the family structure, heritage or business interests, Professors King and Peng say that any family governance structure adopted by these offices should not just be a Western cookie-cutter approach.

"Chinese families value the Chinese tradition and value family togetherness, so they place more value on collectivism versus the individualism of the West," says Professor Peng. "They may adopt a Western concept of family governance and family constitution. But they also have a good balance between East and West."

20 Forbes, "Beijing Overtakes New York City As City With Most Billionaires: Forbes 2021 List", April 6th 2021, <https://www.forbes.com/sites/johnhyatt/2021/04/06/worlds-richest-cities-the-top-10-cities-billionaires-call-home/?sh=5f5ebace43e3>

21 Reuters, "New Chinese billionaires outpace US by 3 to 1: Hurun", February 26th 2020, <https://www.reuters.com/article/us-china-economy-wealth-idUSKCN20K0YB>

## Key takeaways

- Companies started by ethnic Chinese entrepreneurs and investors in South-East Asia are often referred to as the “bamboo network” due to their localised Asian connections and success. Formed on a pillar of Confucian values—including respect for hierarchy and harmony, relationships and networks (or *guanxi* 关系: *guān xi*), these businesses have grown through hard work, optimism and a sharp eye for commerce.
- Wealth sources in Asia are increasingly tech driven.
- Estimates indicate that in 2019, overseas Chinese families controlled more than three-quarters of billionaire wealth in South-East Asia.
- The adoption of a family office among overseas Chinese HNW business families in Asia is growing, but there are various cultural reasons as to why family governance mechanisms, such as succession planning and risk management strategies, are slower to catch on, including a hesitation to seek or trust outside advice or an unwillingness to break with birth-order hierarchy or succession traditions.
- Effective family governance consists of a written agreement and/or a formalised structure that includes guidelines for succession planning and risk management, designed to preserve a family’s wealth, harmony and legacy.
- As wealth in Asia grows, new Chinese families join the HNW ranks, and the structure and investment objectives of Chinese families change, the adoption of family governance has the potential to protect family businesses for generations while allowing all family members to be involved in advancing their legacy and wealth into the future.
- Family governance in the East does not have to strictly follow Western guidelines and can incorporate a more collectivist approach to its implementation, seeking a balance between the East and West.



Newly wealthy mainland Chinese are also becoming a contemporary driving force in family offices as they seek business opportunities and investment diversification outside of China.

## Industry points of view

This report includes views directly from practitioners in the family office and family governance field to supplement the main Economist Intelligence Unit research findings with their distinctive perspectives. The insights of these individuals (listed below alphabetically by surname) can bring an extra depth of understanding of the functioning of family offices and governance structures in Asia.

**Stacy Choong** is a partner at Withers KhattarWong, Singapore. She advises clients on tax and estate planning, giving her a view into both the problems and solutions that many families in HNW ranks have experienced or implemented across Asia. She has also advised The Economist Intelligence Unit on the topic of family offices for previous research. A separate Q&A session adds an important legal perspective to the question of governance structures. See Ms Choong's interview on page 21.

**Joseph P H Fan** is a professor of finance and accountancy at the Chinese University of Hong Kong Business School. He is a highly cited researcher of governance and succession of Asian emerging market corporations, teaches executive courses and serves as a succession-planning consultant for family businesses and diffusely owned companies. His co-authored book, *The Family Business Map*, has been frequently cited in global business publications. His essay touches on core fundamentals for governance structures and founding a family office. See Professor Fan's essay on page 26.

**Hao Gao** is the director of the Global Family Business Research Center, and the deputy director of the Research Center for Green Finance Development at Tsinghua University PBC School of Finance. His essay, with contributions from his research fellow, **Lei Xu**, gives a specific view from inside mainland China. Mr Gao also contributed to earlier Economist Intelligence Unit research on family offices and his essay contribution in this report allows readers to compare and contrast governance structures in China with those of the diaspora throughout Asia. See his research on page 29.

**Patricia Susanto** is the CEO of Jakarta Consulting Group, a management consultancy firm in Indonesia. She has published several books on management, corporate culture and family business, including *The Dragon Network: Inside Stories of the Most Successful Chinese Family Businesses*. In the past 15 years, she has consulted with family businesses in Indonesia and Singapore to improve communication, governance structures, ownership and preparations for next generations. Her observations of Chinese diaspora families in South-East Asia is an on-the-ground point of view. See her perspective on page 34.



## Family office frameworks: Bespoke governance structures for Chinese diaspora needs

**Stacy Choong, partner, private client and tax, Withers KhattarWong, Singapore**

---

There is no one-size-fits-all legal approach to family office governance, according to lawyer and family office specialist, Stacy Choong, a partner with Withers Khattarwong in Singapore. Even defining governance as it relates to individual family offices, Ms Choong says, can be a complex area. Therefore, it's best to start with questions rather than answers, with an aim to find the right fit for a particular circumstance.

### There is no one-size-fits-all legal approach to family office governance

For example, established overseas Chinese families who already have some form of a family office structure in place may be seeking more complex and overarching solutions. Chinese families who have only just moved abroad or who are considering diversifying

investments from the mainland may be at the information and learning stage. Some families require a control vehicle that spans the breadth of a family's operations. Others may only need help with family coordination.

Ms Choong maintains that family office governance should not be considered in absolute terms. Instead, it should build from a series of decisions, prioritised around a family's unique situation. The right decision should result in checks and balances that help a family to achieve their goals, not hinder them, and should enable patriarchs and matriarchs to show the next generation how to deal with difficult family situations with grace and openness.

The Economist Intelligence Unit (The EIU) spoke with Ms Choong to explore what legal purpose a family office can serve, the issues families may encounter when embarking upon governance decisions, and the role outside experts can play in providing clarity to family decision making to help cement legacies into the future. *Quotes have been edited for clarity and brevity.*

### **The EIU: What is the legal purpose and function of a family office?**

**Stacy Choong:** The purpose and the function of a family office is something to be agreed upon with each family. A family office can do many things, but it doesn't have to do everything for every family. So it's important to understand what a particular family wants and needs.

A family office can do many things, but it doesn't have to do everything for every family.

For some Chinese families, especially those whose wealth spans numerous jurisdictions and asset classes, and who already had in place one or more personnel assisting them with family investments and governance, their approach to establishing a formal family office may be more considered and focused. But if we are meeting with clients who are new to this concept, then part of our job is to tell them what is capable of being achieved by a family office. Together, out of the index of possible menu items, we will determine what the office is designed to achieve—whether that be succession planning or investment management or a vast array of other functions—and to guide them through the impact of each different function.

From there, other decisions are required. The impact of the location of a family office needs to be considered, including whether you have trusted people in any chosen jurisdiction to serve that function. Families also need to consider if they are ready to implement a full family office from the start, or if it will require an evolution to develop and to achieve holistic objectives.

### **The EIU: Is family office governance a singular set of rules or is it a much wider, more flexible concept?**

**Stacy Choong:** This is the kind of question that triggers many other questions. Does it mean governing a family office itself and its team of people that serve as the family? Does it mean governance relating to the private investment fund and family asset holding vehicles (which may be held for instance through one or more family trusts) and managing how that is organized and structured? Or are you talking about governance relating to the family's operating businesses or the family philanthropic vehicle?

When I say family governance, I generally think of it as more than just corporate governance relating to each operating entity within the family but rather I think of it as building bridges that connect all these various pillars in the family empire. The bridges may comprise guiding principles and rules of ownership, control, communication and wealth transfer. As the various pillars are expected to grow and move organically, the bridges should therefore function more like floating bridges than rigid bridges so that it will not lock everything together and restrict growth nor snap under pressure.

On top of that, the family office is sometimes a service vehicle. In this case, its role is to understand the various needs and functions of the family, collate information, prepare reports, facilitate meetings, record the results, and help with the review process. Then there are other situations where the family office is on the apex of the pyramid. It is meant to function as a control vehicle and therefore it is staffed accordingly. But whether it's a service vehicle, or a control vehicle, again it is not a one-size-fits-all solution. It depends on the needs of the family, what stage of development they are at, and how willing and ready they are to implement that.

**The EIU: What unique challenges do Chinese diaspora families face in establishing governance structures in a family office and how can they navigate these?**

**Stacy Choong:** I believe many high-net-worth families, regardless of where they are from, face many of the same challenges when it comes to their family offices. I regularly hear that wealthy Chinese families don't like giving up control, but all my clients don't like giving up control, unless the control is given up for strategic purposes, in a way that they can still monitor and trust the engine to continue to run smoothly. It's important to explain to them why they should have an independent governance process—because they will not live forever. Therefore, they need to trust the system they put in place either to self-regulate or to ensure it's subject to suitable checks and balances.

The family structure and characteristics, not their cultural background, determine the fundamental building blocks of a family office and define the issues they will need to consider. If they are a family with a relatively modest number of children and family members, the solutions cannot be too complicated. The right advisor is also important. They must have the right set of cultural relatedness, the ability to understand the nuances, the ability to propose sensible solutions that match the background and needs of the client. Taking small steps can also be an important way to progress and to show the family what can be achieved by even small changes. And it's important to continue to progress in establishing governance structures. To not keep going back to the beginning.

**The EIU: What are the most common family conflicts you encounter that a governance structure may help to resolve?**

**Stacy Choong:** There are hundreds of unique family challenges I come across. But I think one of the key governance planning issues is the inability of the head of the family to see everything functioning when they are no longer around. It is hard enough for them to imagine who you pass the baton to next. It's even harder to imagine that you're passing it to a structure, which is a faceless individual that just meets certain characteristics. And I think if true family governance is to work, it needs to be defined by characteristics and qualifications, rather than defined by the face you can see. Another key challenge is coming to grips with what they truly regard as their family wealth that is capable of being passed onto

the next generations. Do they regard that as limited to their financial wealth and their equity in their family businesses or does it include their family's human capital and the intangible family core values and responsibilities that make the guardianship, application and growth of their wealth beyond their own existence more meaningful and relevant?

**I always tell my clients, you have the luxury of having the wealth and to decide how you're going to spend it.**

**The EIU: What questions should the heads of wealthy Chinese diaspora families ask themselves before embarking upon the process of establishing a family office?**

**Stacy Choong:** They need to understand the key driving objectives for their family. What are the issues they are trying to resolve; what motivates them to think about establishing an office like this? After we understand the key objectives, the next phase is an honest discussion of what the assets are and where they are located, what they want to achieve, what the legacy is that they hope to leave behind and what are the key concerns that worry them the most today. There is an entire framework and list of questions to go through. So often I don't need the clients to have asked themselves in-depth questions. I need them to take at least two to three hours

of their time and I will ask them the questions that will help them prioritise the right approach for them to kickstart the process.

**The EIU: What role do location or jurisdiction play in establishing a family office and its governance structures?**

**Stacy Choong:** I think it's very important to know the location of your wealth, the location of the head of the family, the location of the business, and the location of your family members or stakeholders. Not just where they are today but where they're likely to move to. Because it impacts all forms of regulatory framework. The family needs to consider what is a suitable structure not just for themselves but also for their next generations. Whether you are to move somewhere you want to be and accept that you will pay a bit more in tax, or whether they are willing to actually move somewhere different to achieve a more tax-efficient result. It's all about cost-benefit analysis.

I always tell my clients: you have the luxury of having the wealth and to decide how you're going to spend it. You could achieve greater savings or lower savings, but sometimes you will have to compromise your lifestyle, more effectively delegate key controlling powers or be more disciplined about the time you spend in every jurisdiction. If you decide not to do that and you're willing to pay a little more in tax, then stay put, you have the prerogative to do so. And different people are at different phases of their life and that can also impact how important location is and how flexible they are with their current lifestyles and pattern.

**The EIU: In our research, we find of the biggest hurdles many Chinese diaspora families say they face when making decisions related to governance is trusting outsiders to help manage a family business. How do you suggest to overcome this?**

**Stacy Choong:** It starts with being able to share relatable experiences. People will fall asleep if you start talking about tax regimes, and provisions and tax law, so you need to put yourself in their position and share the experiences of how other families have dealt with issues and are achieving certain results. Then they are more able to decide. It's also important to help them realise that with guidance they can still have autonomy and choose different solutions. And that these solutions are not entrenched but can evolve and change with time. So they can see how one decision can improve a situation, then by making the next decision

you can improve again, and understand that you can always review and refresh.

It's also key to distil the matters of concern and explain them in a way that doesn't make a family feel as if they are wasting time trying to understand something that is not decipherable. Governance needs to be relatable not just to the founder, but to the relevant family members, so the head can also see that when they are not around there will be core principles and structures to guide the next generation. With the wealth transition process, the ability to connect with more than one person within the family is key. Acceptance and buy-in from the next generations will not happen suddenly upon the passing of the founder. Good governance therefore certainly includes education, communication, training and planning for this eventuality. The best relay team doesn't just happen by putting four great runners together—it takes practice.

### Key takeaways

- Governance is tightly linked to goals. Families should consider their succession, legacy and financial goals when setting up a formal office and its governance structures.
- While Chinese diaspora families share many common circumstances, individual family characteristics, more than wealth levels or cultural or national background, determine the fundamentals for a family office.
- Families should consider not just where family members and/or wealth are currently located but also potential changes or development for planning a family governance structure.



## Governance for family and business continuity

*Joseph P.H. Fan, Professor of CUHK Business School, Founder of Family Glory Institute*

---

While the Asian nouveau riche are passionate about creating and managing their fortunes, they often fall short with family relationships and business continuity. The outcome is not surprising though, since managing family relationships require different mindsets and tools that even successful wealth creators may not possess.

The issue is not about financial investment, tax compliance, or asset protection, which can all be delegated to trusted agents. The major issue is about educating and incentivising family members as a collaborative team at home and at work. The family should follow pre-agreed principles and rules to build and accumulate integrity of their relationships through reciprocal and repeated giving and sacrifice.

The resulting relationship integrity is a source of productivity that is unique to the family and becomes a family asset. Any member leaving the family would suffer a loss of access and his previous contribution to that family asset. This is why and how family governance cultivates resilience of family relationships—independent from legal enforcement.

In practice, collaborative families educate and discipline members to pursue self-growth, share goals, values, and love, to communicate, make joint decisions, and resolve differences.

**For a small family,  
family governance is  
about an oral tradition  
and learning by doing.**

For a small family, family governance is about an oral tradition and learning by doing. As family size grows, structured principles and rules are necessary to coordinate increasingly complex family interactions. From then on, family members are not only qualified by blood and marital relations but also abiding by a family agreement. It requires members to join a family assembly, elect their representatives as members of a family board, and delegate the board to make family decisions such as family education, healthcare, emergency support, business venturing, employment, philanthropy, conflict resolution, and

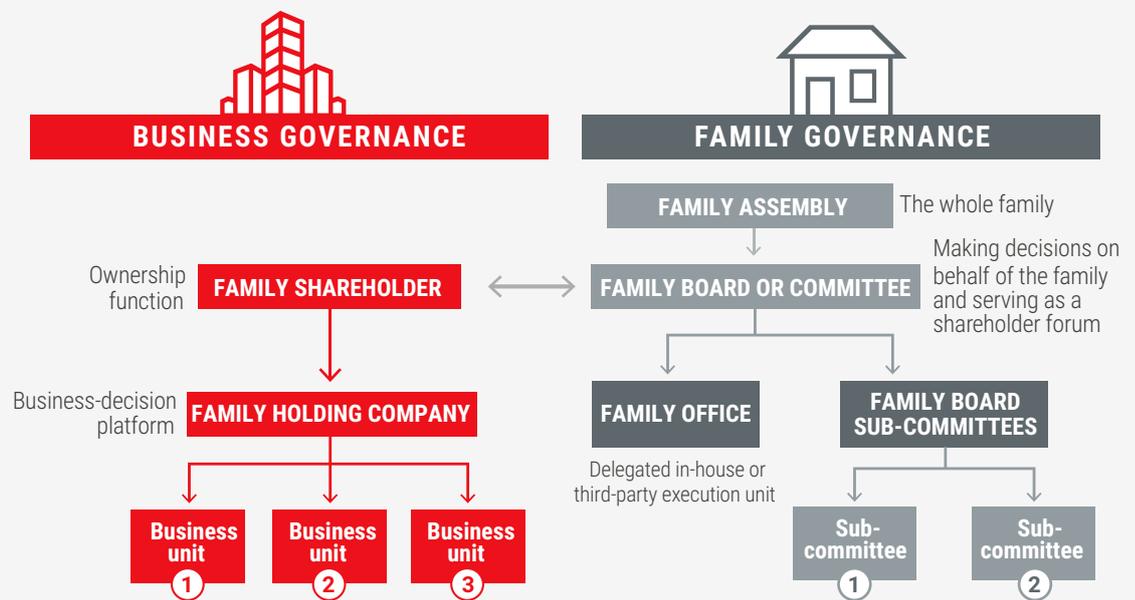
financial management. The execution of the family decisions can be delegated to an in-house family office or external agents.

For a business family, family governance gains its special importance in preparing and qualifying future family business owners and managers. As an essential part of the family business governance system, the family should have a business ownership structure and associated mechanisms governing the two-way exchanges of family personnel and business resources. For example, the family might establish a holding company and consolidate family

assets under one roof, distribute and circulate holding company ownership shares among qualified family members based on a pre-determined share transfer scheme. Moreover, the family might follow an agreeable procedure to elect directors of the holding company board, who represent family shareholders to make business and dividend decisions, and appoint or monitor delegated managers.

All the components in the governance system should be customized and coordinated to create a sustainable ecosystem in which the family dedicates

### Family business governance system and components



Source: Professor Joseph P.H. Fan; The Economist Intelligence Unit

to caring, educating, and qualifying its members, the family members collaborate in family and business activities, and the family and the business create values and utilities to be shared by the family members, and so on.

However, patriarchs of Asian business families are usually the biggest roadblock of family governance and business continuity. Men who have built successful businesses on their own instincts can be hesitant to

accept or engage structural governance— not only because it is a departure from how they have become successful, but also due to a lack of self-confidence or a personality type that hinders their ability to delegate responsibilities to next-generation family members or outside business managers.

For a family office to succeed, patriarchs will need inspiration as well as expert guidance to begin the first step of their journey to the future.

### **Key takeaways**

- All components in a governance system should be customized and coordinated to create a sustainable ecosystem in which a family dedicates itself to caring, educating, and qualifying its members.
- A major goal of governance structures is educating and incentivising family members as a collaborative team at home and work; following pre-agreed principles and rules helps build integrity for those relationships and financial decisions.
- Patriarchs who have built successful companies, largely on their own business instincts, can be hesitant to cede control, thereby becoming roadblocks to their own family governance and/or business continuity.



## Family offices: mainland China and the factors of founding

*Hao Gao, Director of Global Family Business Research Center, and the Deputy Director of Research Center for Green Finance Development at Tsinghua University PBC School of Finance*

*Lei Xu (Vicky), Research Fellow of Global Family Business Research Center at Tsinghua University PBC School of Finance*

---

In mainland China, the concept of family governance is still a rare topic within the family office practice. For most, the primary function of an office is mainly for financial investment and asset allocation. Occasionally, for specific family businesses circumstances, a family office may also take strategic business objectives into consideration when planning investment activities, such as with a business's diversification or industrial upgrading.

As a family grows to incorporate multiple generations, that is typically when relationships between members become extended and more complex. Therefore, the need for a governance structure will also gradually emerge. Well-designed family governance provides guidance and a code of conduct for a family's long-term development and wealth succession—rather than relying on tradition, or conflicting interpretations of tradition, to set the rules. The clarity that a governance structure can provide plays an important role in family development strategies, implementation

of family values and culture, and dispute avoidance. With the help of family governance, a family's wealth should continue to grow, benefiting from family unity and avoiding the pitfalls of family conflicts so often blamed for lost fortunes.

The urgency of succession, sale of a family business, increases in the number of generations or members of a family, conflicts among family members and marital problems are among the common stress factors that wealthy families may face. Such pressures are likely to be the driving force for adopting more formalised governance structures.

Some Chinese families have begun to set up formal mechanisms, such as family committees, family constitutions or family conferences. However, most families have limited members, therefore these governance mechanisms may yet lack practice and verification.

In China, Confucian culture still has significant influence and family governance

activities typically follow the Confucian tradition and etiquette. Many Chinese family offices may not yet have a clear governance structure, but the code of conduct of family members would be in line with these traditions. In the process of setting up family offices, some Chinese families have opted to combine a Western governance experience with their own cultural traditions to formulate a set of guidelines that meet the unique needs of the family. Just as every family is different, so are their governance structures. The key is to formalise and codify the tradition and etiquette they wish to follow so that it is transparent and available to all family members.

Still, some Chinese families (especially among the elder generation) believe that family members only need “responsibility, love and respect” to guide their behaviour, rather than formal regulations and constraints.

### Where and why

According to our family office research, the top consideration for the establishment of a family office is the wider social environment that the family operates in, followed by more specific personal factors, and finally corporate circumstances.

We also find that the most important determinants for where a family chooses to locate its office derive from the quality of service providers or talent available, openness of the market, and

quality and/or accessibility of relevant investment opportunities. Based on these considerations, mainland China is still the most common choice for families in China. However, some may have multiple offices or seek further diversification outside China. In these cases, most families prefer setting up a family office in Hong Kong, Singapore or the US.

Many Chinese family offices may not yet have a clear governance structure, but the code of conduct of family members would be in line with these traditions.

**Environment:** These considerations refer to the entire social environment that may affect the location of family offices, including politics, economics, national policies and regulations, and talent. Among environmental considerations, it is the quality of service providers and talent that many families value most. The quality of third-party service providers,

such as banks and trusts, greatly influences families' decision-making, while professional talent is fundamental to the successful operation of family offices.

Some Chinese families (especially among the elder generation) believe that family members only need “responsibility, love and respect” to guide their behaviour, rather than formal regulations and constraints.

Immigration and visa policies are also important factors families consider. Favourable immigration policies will attract more of China's ultra-high net worth (UHNW) families. Convenient visa policies will also play an important role in talent aggregation. Better social security or welfare, and a well-developed education system would be a plus.

The openness of the investment market and the accessibility of investment

opportunities for the family are another important environmental factor. Families hope to locate their family office in a highly open financial centre, such as Singapore or Hong Kong. Singapore's strength lies in its prominent influence on Southeast Asian regions and its role as an open investment platform. Hong Kong has long been seen as a bridge, connecting mainland China's high-quality projects potential to offshore capital.

A sound legal system and a stable political environment will also attract families. The stability of an economic system and standardised banking and regulatory environments hold attraction for families. A stable economic environment provides the basic conditions for long-term, stable operation of a family office. A formalised and institutionalised banking and regulatory environment also ensures standardised services from financial institutions, which can reduce investment risk.

**Personal:** These considerations mainly refer to specific details related to the family or individual members, such as a family residence status, interpersonal relations, educational conditions, succession planning, or similarly related issues. Among all the factors, the current place of legal residence is often the most important reference for the family to choose a location for its office. The closer the family office is to family members, the more convenient it is for them to interact with it and other family members. Established this way, a family can

easily understand the decision-making and operations of the family office, take control of its development direction, and monitor the operating performance to better ensure that the office fits the actual needs of the family.

A location's tax environment can also determine the location of a family office to a large extent. For tax planning, wealthy families prefer locations where income tax will be more favourable to their types of assets, holdings or income. In addition to that, families tend to be more willing to locate a family office where they face the least time, language or cultural differences (or as few as possible).

## A location's tax environment can also determine the location of a family office to a large extent.

Personal network connections are also important considerations. A network can create advantageous conditions for the development of family offices. Business synergies and opportunities often grow from the family business founder's connections and as a network develops, it too contributes

to the development of the family office. Maintaining constructive and personal relations with local government and institutions can bring access to projects and other opportunities for investment that both enhance the community and capital returns.

**Corporate:** The family business often sits at the centre of a family's wealth, so its particulars, such as physical location, public listing location, tax regime, the direction of development, and other relative advantages or disadvantages in the family's view greatly influence family office locations. Among the first things families consider is whether the office should be located in the same place that the family business is located or has a public listing. Having the same location allows family offices to better coordinate with business development in a strategic sense.

For a family still vigorously engaged in developing an industrial business in China, the country's large market is typically an important consideration. Even for a mature business, much of the potential growth opportunity is still largely to be found within mainland China. Therefore the decision to locate the family office on- or off-shore might depend on their future business development plans. If the intent is for a business to remain closely linked to the Chinese market, it then makes sense to base the family office in the same jurisdiction. Families may also

choose to locate an office in mainland China because they are satisfied with the correlation between market potential in China and the direction of their family business development.

Conversely, we have found that for families that have already sold their business, the convenience of other investment options becomes their major consideration. In that case, the family is more likely to choose a region where there are abundant investment targets unrelated to the original business. For families that are still operating their main business (especially those in traditional industries), considerations are mainly about assisting the development of the family business.

## **Conclusion**

For all of the conditions that can influence the location or structure of a family office, none is more important than the family's own comfort level with each of those factors, and the relative importance the family places on each. Every family is unique and their tolerances and decisions can vary greatly even under very similar situations. Family governance structures should follow the same format. There are few hard rules and families need to be comfortable with the guidelines they set down. The idea is to take what is already there in spirit (in the form of tradition or founder intent) and make it a formal structure that is transparent and enduring for the longevity of the family.

### **Key takeaways**

- Well-designed family governance structures provide guidance and a code of conduct for a family's long-term development and wealth succession, rather than relying on tradition, or conflicting interpretations of tradition, to set rules.
- Urgency of succession, sale of a family business, increases in the number of members/generations, and conflicts among family members or marriages, are among the leading stress factors that wealthy families in China face, which governance structures help address.
- The decision to locate a family office inside or outside of mainland China often depends on a family's business location and/or its chosen market for future expansion.



## Holding up half the sky and the family office

*Patricia Susanto, CEO, The Jakarta Consulting Group*

---

A great debate about determining educational paths for children is at the core of many Asian families. The decision is not taken lightly and all members, including extended family, will often discuss details at length.

A great debate about determining educational paths for children is at the core of many Asian families.

“You should be a doctor; you should be a lawyer!” The old cliché is still very much alive and it is why so many of Asia’s students choose to pursue those very ‘practical’ majors at university. For many young women coming from a Chinese-family business background, the practical path turns out to be a major in business, economics or finance.

The initial thinking behind this decision is also quite practical in nature. From the

parents’ point of view, the wish is to enable daughters to help out in the family business without them having to put in the same long hours as the founders (her parents typically) or getting their hands dirty; and, by being in the back office, the expectation is daughters will be able to better balance their time between family and the company. Moreover, an educational background in business or finance provides daughters with essential business understanding and more importantly, insight and ability to steward the family’s future wealth.

The result of all this is that in many of South-East Asia’s Chinese-diaspora family businesses, we are seeing more and more women at the helm of family wealth management. They are entrusted with safeguarding the family wealth with one thing in mind: to make sure it can sustain the family lifestyle in the long run.

Though the tradition of sons taking over a family business is still large, it does not translate that whoever runs the business holds all the wealth. While sons may take charge of running the day-to-day business, overseeing expansion, and determining new business courses, daughters increasingly are the ones who control the investment portfolio. The combination of roles between

sons and daughters creates new dynamics and checks and balances for both the family and the business.

As more women take the helm of the family office, they are in charge of sustainability of lifestyle and providing new investment for the next generations. As women tend to be the glue of a Chinese family, they are expected to think about more than their own nuclear family into extended branches. Throughout Indonesia in particular, it seems that daughters are poised to take over the role of steward, guarding the business for the next generations to come. They are placed to create a collaborative leadership where the next generation can prosper together. As leaders, women are more prone to tap into intuition to bring harmony for the family, reducing tension, solving problems in creative ways to resolve conflict while thinking beyond their own nuclear family.

**When placed at the centre of the family, women are expected to pass down the family values.**

When placed at the centre of the family, women are expected to pass down the family values. Many overseas Chinese family business owners still hold to very traditional

Chinese values. One of the most common examples is Confucius and his altruism concept, where concern for the wellbeing of others is stressed. When translated to leadership values, it becomes the voluntary act of helping others selflessly—just for the sake of helping. In a family business environment, this translates into promoting harmony within the family with concern and appreciation for both self and others.

In many families, Chinese or otherwise, women often take up roles as bridges between generations, helping those who are older and younger than them. In the complex world of family businesses—where family dynamics can determine both how the family interacts and how the business is managed—we see women taking central roles in the same way. Today's family office concern is about more than sustainability because sustainability also includes creating opportunity for the next generations. Providing leverage for them to get ahead is one of the most common themes we see discussed within families. With enough resources, many family offices have ventured into new business and enhanced their business ecosystems, partly or sometimes entirely as a platform for the next generation. Women play a key role here because within families—as mothers and aunts—they may be seen as more approachable for new ideas. Therefore, as the head of the family office, they can manage the risk/reward associated with new ventures.

As the role of women evolves into a mentor and generational translator capacity, they are also still tasked with installing family values. Where traditions may have started to fade, women take or are put in charge, with resources to keep tradition alive. One of the notable traditions for overseas Chinese families is to reconnect to their homeland, or more specifically their home town, where they go back to ancestral villages and help build them up, donating time, resources, funds or all the above to help construct schools, hospitals, and other facilities. This tradition peaked decades ago, but now with the rapid economic growth in China and the generations growing further apart, this tradition shows signs of beginning to fade.

Yet these ingenious Chinese family businesses still tap into another Chinese value: GuanXi (关系: guān xi), or the personal connection between two people in which one is able to call on a favour easily regarding their social status or standing.

Guanxi (关系: guān xi) can also be used to describe a network of contacts that an individual can call upon when something needs to be done and through which influence can be exerted on behalf of other connections. We see women getting ahead here too; with daughters traditionally having more time to accompany their fathers, they are building more informal connections for the family to use. These connections create a strong network between an overseas family business/ office and the China family in expanding business opportunities.

As women's roles in Chinese family business and offices evolve, their traditional role as binders and bridges for multiple generations and family members are more evident and more central than ever. Today's women instil family values and keep traditions alive while at the same time creating a new art of wealth preservation that opens opportunity for the next generation.

### Key takeaways

- Generally, families in Asia hold 'practical' education paths in high regard, prompting many Chinese diaspora students to choose such studies at university. For women particularly, that path often entails a major in business, economics, or finance, which also can be good preparation for running a family office.
- Increasingly, women are entrusted with safeguarding family wealth with one thing in mind: to make sure it can sustain a family long term.
- Chinese diaspora families and others in Asia often expect women to follow traditional values while leading a family business or office, which can translate into a non-business role of promoting harmony within the family in a governance-style capacity.

## DBS Private Bank

---



**Lee Woon Shiu**

Group Head

Wealth Planning, Family Office and Insurance Solutions

woonshiulee@dbs.com



**Aida Soon**

Deputy Regional Head

Wealth Planning, Family Office and Insurance Solutions

aidasoon@dbs.com

While every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd. cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.



In the lexicon of Chinese imagery, the pine tree (松树 Sōngshù) is a symbol of longevity. As an evergreen, it is one of the illustrious “Three Friends of Winter,” along with bamboo, another evergreen, and the plum tree, which is the first blossom to break winter’s long cold spell. The three plants are representative of fortitude and integrity in the face of adversity and are commonly carved or painted together in traditional Chinese artwork. Pine trees may also be paired with other motifs to form a rebus that evokes an adage or proverb. For example, pine with peony flowers should be read as a wish for longevity, wealth, and honor. Pine depicted with a crane alludes to a wish for enduring youth. As a symbol of longevity and fortitude, the pine tree makes for an appropriate design for a report on governance structures, which are also meant to ensure longevity for the family.