

A person wearing a red garment and black shoes is walking on a path made of large, gnarled tree roots. The scene is outdoors, with soil and some dry leaves visible. The person's legs and feet are visible as they step on the roots.

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FAMILY BUSINESSES IN ASIA:

DEEPENING THE ROOTS OF TRUST



About the authors



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FAMILY BUSINESSES HAVE DEEP ROOTS

Family businesses are embedded in the national economies they grew up in. **Trust** has been a key part of their success in these evolving environments and will continue to be so as they explore beyond them.

In 1977, American business historian Alfred D. Chandler predicted that public companies would replace family businesses as modern capitalism's preferred form of **corporate structure**.

More than 40 years later, family businesses have not just survived the challenge from public companies. They continue to play a significant role in economies around the world: in 2017, they accounted for 70% of global GDP and provided 60% of the world's jobs.

As well as driving economies across the globe and providing long-term employment, family businesses play a key role in developing Asia's growth markets. They have been credited with building infrastructure and are widely held to be **better providers of public goods** than governments. Two-thirds of the largest family-owned firms in the world are based in **Asia**. In Singapore, the top 15 family businesses alone have assets equivalent to 48% of national GDP. In India, family businesses are estimated to account for about two-thirds of **GDP**.



Two key characteristics have helped family businesses to flourish.

First, the desire to create a legacy for future generations encourages them to take a long-term view. Less encumbered by quarterly pressure from shareholders, and often driven by the entrepreneurial spirit that helped to establish their family business, they are agile in their decision-making and willing to take risks in pursuit of innovation.



Second, these businesses gained a competitive advantage by establishing themselves early on in key industries and building strong, long-lasting relationships with customers, employees, suppliers and partners. This was essential under the business conditions of what can be described as fairly closed economies in the second half of the 20th century.



Those relationships endured because they were built on trust, which has been a defining feature of how family businesses thrive. According to the **2019 Edelman Trust Barometer** study, 69% of people globally said they trusted family businesses – compared to 56% trusting businesses in general.

Within Asia, there are variations across countries.

While trust levels are high (above 70%) in markets like India, Indonesia and UAE, the trust levels appear to be much lower (less than 30%) in South Korea and Japan.

However, **two years earlier**, the extent of trust in family businesses was even higher: 75% of people said they trusted them. This deterioration in trust gives pause for thought.

It comes at a time when the founders of many family businesses are passing the reins to a new generation who must reaffirm the trust and relationships built up by their predecessors, but in a new and ever-changing context. Digital technologies and demographics are changing the world at a dizzying pace, refining consumer expectations, reimagining products and services, opening up new markets and opportunities, transforming supply chains, creating new partnership-based ecosystems and redefining the nature of trust.



As family businesses look to maintain their trust advantage in this ever-evolving world, they are presented with their next challenge: moving beyond relationship-based trust and establishing themselves as leaders in a new kind of trust that is rooted in the transparency and visibility of the digital world.





A CHANGING HABITAT

Global forces are altering the business landscape, which means family-owned firms must adapt if they are to thrive.

In major Asian economies, the economic protectionism under which many family businesses came of age has been replaced by rapid economic liberalization. At the same time, new technologies are disrupting industries around the world much more quickly and opening up new opportunities for businesses.

In South East Asia alone, these new digital business opportunities could be worth **US\$240 billion** by 2025. The opening up of new business areas brings opportunities for incumbents that often present a dilemma for family businesses: how to capitalize on opportunities that can require them to reimagine their ways of working and their internal and external trust-based relationships.



Growth markets in Asia are becoming not only major production bases but also major consumption economies with new ways to access consumers. It is estimated that US\$4 trillion in new spending and 400 million first-time and upgrading consumers will come into Asia's growth economies in the **next few years**.

The changing expectations of consumers make it a complicated task for family businesses to maintain the high levels of trust they currently enjoy with them. In a data-driven environment, businesses must balance 'micro trust' and 'macro trust'.

An individual consumer's belief that they will benefit from providing a company with access to their data.

Public belief in that company's transparent and ethical operation.

Meanwhile, social media and a 24-7 news cycle bring a new level of scrutiny. Family businesses – and family members in particular – have a strong ‘brand reputation’ and presence in home markets. In today’s world, many things can create immediate adverse reactions on social media, impacting reputations and jeopardizing trust.

At the same time, new platform-based business models are disrupting industries and forcing incumbents to rethink their approach to collaboration and ecosystem partnerships. The new business environment can necessitate an opening up of the business itself. As family businesses consider the possibilities around new partnerships, they must be conscious of the enhanced risk of working with new partners with emerging models and processes, as well as the challenges of maintaining a trust advantage in new environments not fully under their control.



As family businesses look to expand to new areas or new markets, some might require external investment, which introduces the issue of the changing nature of the trust expected by investors. In particular, family businesses must recognize the increasing importance of environmental, social and governance (ESG) factors. For example, a significant number of mutual funds and banks now use ESG filters to pre-select the businesses they will consider for investment. Making it past these filters requires businesses to be strongly committed to taking concrete action in those areas.



Successful adaptation to the changing world of today means balancing micro-trust and macro-trust considerations in order to get the new ‘trust equation’ right. Get the trust equation wrong and family businesses risk losing a longstanding competitive advantage and ultimately being left behind.

Trust was once considered a 'soft' issue for businesses and its connection to corporate strategy and business value was unclear. Today, it is no longer just about having corporate social responsibility initiatives; it is an ever-present concern with material financial impact.

54% of companies on the Accenture Strategy Competitive Agility Index that experienced a drop in trust* forfeited a conservatively estimated US\$180 billion in revenue.

* Trust with stakeholders including customers, employees, suppliers, media, analysts and investors.

The three sectors that showed the greatest revenue decline were banking (-22%), retail (-13%) and industrial services (-9%) – sectors where family businesses have had a strong presence.

In particular, loss of trust with end consumers has significant consequences. Recent Accenture research showed 46% of consumers who had switched companies did so because of a **loss of trust**. In a separate survey, consumers identified setting false expectations as their top frustration, with 75% describing it as **'extremely frustrating'**. It is a breach of trust with serious consequences: 63% of respondents indicated it would prompt them to start looking for alternative providers; and 53% would stop doing business with that company immediately.



The severity of impact from loss of consumer trust can be felt by B2C and B2B companies alike. For example, a B2C firm launched a sustainability-oriented publicity event that backfired when it failed to consult with environmental experts. The resulting negative viral publicity caused its trust score to drop, with revenue estimated to have declined by US\$400 million because it **lost trust** with customers. Meanwhile, a B2B company that was named in money laundering allegations saw its trust score drop 9% in one quarter. Revenue dropped almost 34% the following year, with EBITDA diving almost **61%**.

The same Accenture research found 37% of consumers identified the way in which a company secures personal data as their top determinant of loyalty.

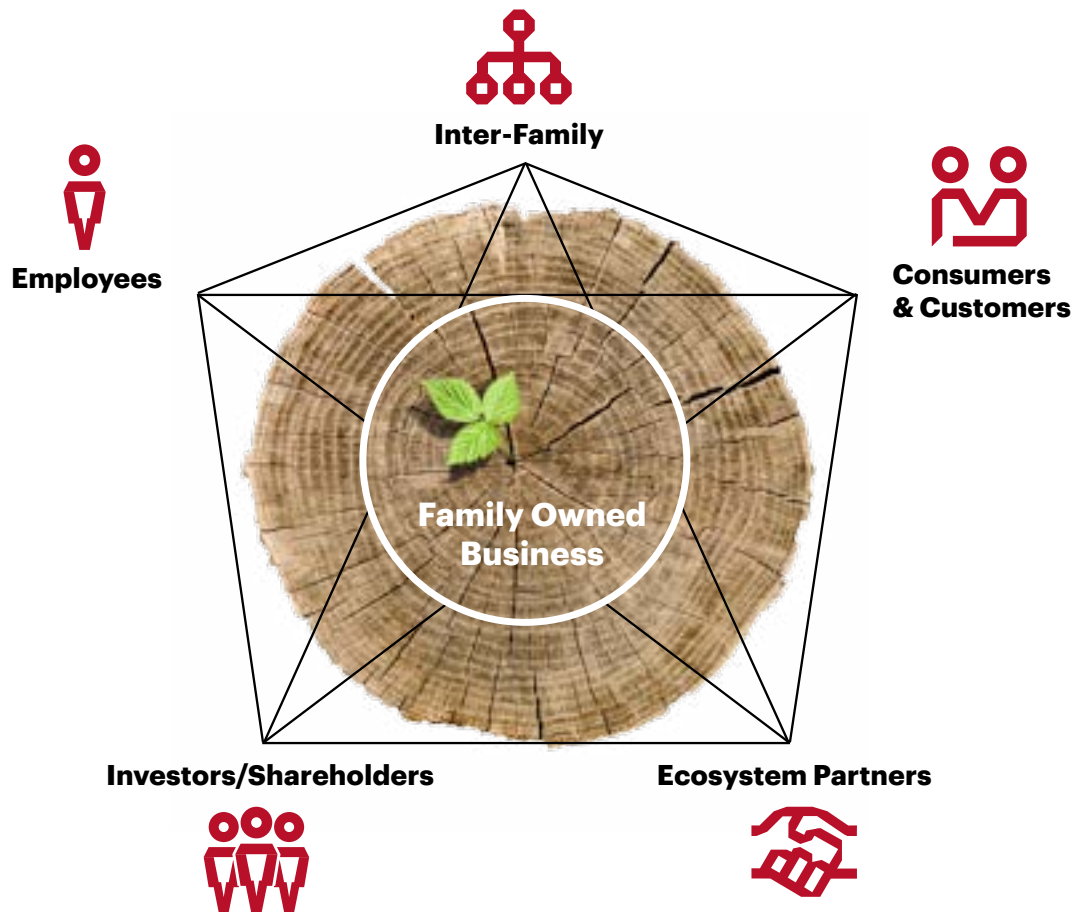
If family businesses are to preserve their **legacy and leave a strong foundation for future generations, they must not only maintain their traditional trust advantage. They need to build the right capabilities in order to establish **digital trust**.**



THE GREEN SHOOTS OF RENEWAL

As family businesses seek out fertile new ground, **trust is an invaluable commodity** that has to be carefully cultivated.





Accenture defines **trust** as a consistent experience of competence, integrity, honesty, transparency, commitment, purpose and familiarity. In a digital age, trust is not just about cybersecurity, firewalls and encryption; it is a reflection of an organization's core principles and its methods of working.

Trust defines the quality and sustainability of relationships with all stakeholders. Let's look at some key pillars of trust that family businesses must remodel if they are to maintain their trust advantage.

Figure 1: The pillars across which trust advantage needs to be maintained



Elevate trust to an inter-family and board-level strategic priority

Trust needs to be embedded in group strategy – now and for the future. As leaders modernize their family business, trust and responsibility should be central to the C-suite’s vision of the business and a key part of decision-making and succession planning. The next generation must appreciate its importance and understand the new imperatives around it. Family constitutions can be a useful tool for codifying governing principles, supporting inter-family trust and ensuring an optimal trust environment.


Trust needs to be a true strategic priority. When making strategic choices, the profound long-term benefits of a trust advantage should be favoured over shorter-term revenue gains or cost savings.

To create sustainable, long-term value, trust must be an integral part of an organization’s value framework – a key test to evaluate future opportunities.

Build trust with the next generation of employees

Family businesses are **trusted** by employees and perceived as more value-driven than large non-family businesses. A strong company culture of trust and transparency will also help to attract the workforce of the future, which prizes employers that share their employees' values. The next generation of employees expect to work in an open, transparent environment. They also expect to be empowered. Leadership must open up family businesses to empower employees and teams, giving them the independence to take ownership of individual initiatives.

For family owners to smoothly hand over some decision-making to professional managers, **relationships between the two groups must be built on two-way trust.**



In a fast-changing environment, decentralization enables agile decision-making that can help organizations embrace new opportunities fruitfully. At the same time, data-driven decision-making encourages trust in leadership that percolates across levels and increases accountability. It also offers up new insights, which can unearth further opportunities to drive growth and operational excellence.

Establish digital trust with consumers and customers

As organizations strive to meet changing consumer expectations and personalize their products and services, they tread a fine line between adding value and being intrusive. Because consumers have traditionally trusted family businesses more than competitors, the stakes for those firms are now higher: break this trust and the blowback could be much greater. Organizations need to develop the 'listening infrastructure' to understand what matters to consumers and build this into their products and services. A key guiding principle in today's data-driven world is to capture only data that is essential to meeting a business objective and capture it transparently. Empower customers by allowing them to set their own data-sharing preferences. Always give them something in return for their data.

A 2018 Accenture survey found 62% of consumers wanted companies to take a stand on issues they felt strongly about, including transparency, sustainability and fair employment practices. Corporate social responsibility is increasingly important to consumers – especially younger ones – so organizations must make their values and purpose transparent.





The digital world has also enabled companies to build new business models with business customers. These include alternative sales and distribution methods that increase market access but, on the flipside, increase the risk of disintermediation for distributors. Data sharing between businesses and customers can unlock new pools of value for both parties, which can help to deepen and lengthen relationships. Whatever the new business model, there needs to be an increased focus on building and maintaining trust with partners, and communicating a commitment to customers' success.

Governments in many countries are also paying more attention to data sharing between corporations. For example, authorities in Singapore recently introduced the [Trusted Data Sharing Framework](#). Designed to encourage data sharing for new product and service development, and to bolster consumer confidence, it helps organizations establish trust with new partners while complying with data-protection regulations. It also confirms that being a trustworthy user of data is no longer a reputational nice-to-have. It is an operational must-have.

A large, ancient tree trunk with thick, gnarled bark and a massive, spreading root system. The roots are covered in vibrant green moss and spread across a forest floor of brown leaves and soil. The tree trunk is the central focus, extending from the top of the frame down to the roots.

Safeguard trust with new partners

As broader ecosystem partnerships and platform-based business models gain momentum, participating in them has implications beyond revenue and profit. Under new kinds of collaborative models, non-financial objectives such as autonomy and control, status within the ecosystem and customer loyalty will also need to be designed. Because collaborative, ecosystem-based business models can increase cybersecurity risks, their structure is important and so is strong governance.

Partners should share the organization's understanding and commitment to trust. Consistent protocols for transparency, data sharing, traceability and security will help to maintain trust inside and outside the ecosystem.

Demonstrate trust to external investors

The investor community places more and more weight on environmental, social and corporate governance (ESG) factors when it evaluates potential investments. For example, the US\$1 trillion [Norwegian sovereign wealth fund](#) has tight restrictions on funding for mining companies, with caps on both absolute coal mining volumes and the percentage of revenues coming from coal mining.

For family businesses, a genuine commitment to transparency and responsible business is crucial to [earning the trust](#) of external investors and thus securing funds that might be needed for growth.



SEEDING A BRIGHT FUTURE

If family businesses use **trust as a guiding principle** for the changes they make today, they will put themselves at the heart of the most abundant ecosystems of tomorrow.

Family businesses have traditionally held a trust advantage and must now enhance that by navigating the challenges and capitalizing on the opportunities of a new business landscape.

Trust needs to be a core part of business strategy; a critical factor in strategic decision-making; and an integral part of company ethos. As leaders start to rethink trust in the digital age, there are some key actions they need to consider.

1

Board and leadership teams must embrace trust as a core component of vision and strategy. It should be a key influencing factor in strategic choices.

2

To embed trust across the organization, make decision-making transparent. Decentralization and data-driven decision-making can help with this, so can building a culture of celebrating trust.

3

Develop a 'listening infrastructure' to understand what matters to consumers and build this into products and services. Be transparent about how their data is used.

4

What gets measured gets done. To confirm current positioning on trust, use the Competitive Agility Index or some other robust measurement. To set expectations for internal and external behavior, deploy trust metrics (e.g. ESG commitments) and share them with partners.

5

When building ecosystem partnerships, incorporate best practice on protecting data flows. Ensure there are clear data principles and governance to guide the extended ecosystem.



ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 469,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com



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