ASIAN FAMILY FIRMS

SUCCESS AND SUCCESSION

A Study of SGX-listed Family Firms

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Foreword by DBS

In many parts of the world, the driving force behind much of the economic success has been the family businesses, and this is particularly true in Asia.

This excellent research by Dr. Marleen Dieleman, Dr. Jungwook Shim and Mr Muhammad Ibrahim looks at the Asian family business with a particular focus on Singapore.

They first start with defining the family firm by considering family ownership and influence as well as examining their performance and sustainability, thereby uncovering how family firms generally have better return on assets than non-family businesses. The report then moves on to look at the issues, particularly leadership and ownership succession, facing family firms today.

As many of Asia’s family businesses are still owned by their first or second generation of the founding family, one of the biggest issues facing these firms is that of succession.

With the retirement of the founder, succession often involves a change in both shareholding and management. There is a tendency for most families to eventually bring in non-family CEOs and Chairmen. But these are often not endowed with the same powers that the founder had – due to either fragmented shareholdings or the presence of the founder who still has the loyalty of the employees.

Perhaps, Singapore could possibly be seen as an example of effective planned succession where a powerful founder consciously steps back to groom and empower the next generation.

This research provides much food for thought for business owners who may find it hard to let go, but should realise that the value and future of the family business is crucially dependent on a continuation of competent and effective management.

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Executive Summary

This study investigates the success and succession of family firms listed on the Singapore Exchange (SGX). While succession is critical for the long-term survival of all firms, family firms face even greater succession challenges. This is because succession in family firms is often a combination of leadership succession and ownership succession with the transition having most impact when these two occur simultaneously. Furthermore, unlike in non-family firms, succession is not just a business decision. The process is frequently fraught with emotions and tension as family members typically have diverging interests, especially if the family firm moves beyond the founder’s generation and the number of family members involved increases.

Our study finds that there are many reasons to be proud of family firms. Among the SGX-listed firms, family firms are prominent and successful. They comprise 60.8% of all firms and dominate most industries; in particular, construction, hotels, property, manufacturing, services and commerce (more than 50% in each category are family firms). Moreover, family firms generally outperform non-family firms in terms of Return on Assets (ROA), registering 3.7% versus 0.9% for non-family firms.
Who leads the family firm? We find family members play a prominent role within the board of directors, not so much in terms of numerical dominance (family members hold 29.2% of board positions in family firms), but in terms of their role and tenure. Leading board positions such as Chief Executive Officer (CEO) and Chairman are mostly held by family members (78.6% and 72.9% respectively). In fact, 42.8% of the family firms combine the roles of CEO and Chairman in the hands of one person, often a family member. Founders are very prominent in family-firm boards. Family members typically have executive rather than non-executive directorships in the family firm. They also stay in board positions for long periods, with tenures far outstripping that of non-family directors (18.1 years for family members and 7.2 years for directors in non-family firms). Family firms, thus, reap the benefits of continuity and experience in their management. In terms of formal education levels, however, family members score well below other directors.

Who owns the family firm? Ownership of all SGX-listed firms is very concentrated, with it being slightly more so in family firms. Family firms have more individual owners as compared to non-family firms. The top five shareholders of family firms hold an average 65.9% stake (62.7% for non-family firms). Of this, an average 38.3% stake is held by family members (either through individual or corporate holdings). This indicates that ownership is not (or perhaps not yet) very fragmented in SGX-listed family firms. Firms where founders are present tend to be owned through more individual stakes compared to those where founders are no longer on the board.

How do SGX-listed family firms handle leadership and ownership succession? In line with the long tenures of family leaders, we find that transitions to a new CEO or Chairman are infrequent in family firms (3.8% of the CEOs and 3.0% of the Chairmen changed in family firms versus 8.1% and 7.7% in non-family firms). The 24 succession cases we identified showed a trend towards appointing outside professionals as CEOs or Chairmen. But, in most cases, family members hold the other role so we can consider this partial professionalisation. The process of moving from a family leader to an outside leader in a family firm has a number of specific challenges. We, therefore, recommend that family firms understand the pitfalls of hiring outside professionals so as to ensure their continued success.
Introduction

Asian Family Firm Successes

There are a number of persistent myths about family firms in Asia. One such myth is that family firms are small and cannot grow beyond a certain size. The term family business often evokes images of a food stall run by a hard-working husband-and-wife team. It is true that many of the smaller firms are family firms. However, what is less known, particularly in Asia, is that a substantial share of the largest firms are family businesses, too.

In fact, family-owned firms constitute a major proportion of businesses in most developed economies all over the world, dominating the private sector and stock exchanges in many emerging markets. Not all these family firms are small. On the contrary, some of the world’s largest firms are family firms. Samsung, Tata, Cargill, Porsche, Hermès, L’Oréal and Wal-Mart are but a few examples.

Family firms are even more prominent in Asia, especially among the larger firms. Many of the Asian family firms have evolved into conglomerates that consist of a large number of separate firms, several of which may be listed on stock exchanges in the region. A number of studies show that Asian family businesses listed on stock markets in the region have outperformed their non-family peers in most Asian markets¹.

Some people might wonder how these firms can still be called “family firms” if they are listed on stock exchanges around the world, and, thus, are publicly listed companies. It is not necessary to own 100% of a firm to influence it in a meaningful way. So, a family that controls 51% of a listed firm can, within the boundaries of corporate governance regulations and in consultation with minority shareholders, determine its strategic direction. Hence, there is wide consensus that even with smaller ownership stakes, families can still exercise influence over a firm and we can, therefore, speak of them as family firms.

A second myth about family firms is that these are less professional than non-family firms. This myth arises because family firms are assumed to be run by family members rather than supposedly more qualified professionals such as those at the helm of non-family firms. As the family firm grows larger, the family cannot supply all the labor and professionals will need to be hired. At some stage in the growth of any successful family firm, the question of whether to hire an outsider in a leading position will come up.

The dichotomy between family management and professional management is, strictly speaking, flawed as family members can be equally professional compared to non-family members. Many family executives, in particular those in generations beyond the founder, are educated and qualified to lead a business. In fact, some firms run by family members are managed in a very professional manner.

Research shows that family firms typically outperform non-family firms, especially if performance is measured over a longer period of time. It is better to think in terms of family management and non-family management rather than to label family members as necessarily less professional than outsiders.

However, it is clear that one key challenge for family firms is how to combine outside professional management with family ownership and leadership. The long-term success of the family firm is not a given, and the transitions that need to be made can be painful for the family firms and for individual family members.

Family leaders cannot survive. But, family firms can. However, there is no fixed recipe for a lasting family firm. Some family firms have hired outsiders as CEOs to run the firm while staying on as owners. In other family firms, the top management roles are filled with many family members. Yet, other families think that leadership should not be shared and have given the leadership role to just one family member. All these succession choices require far-reaching changes which pose a risk to the long-term success of the firm.

It is a fact of life that succession poses a major challenge to the sustained success of the family firm. Research on Asian firms indicates that firms lose value in the period around leadership successions\(^2\). It is not a coincidence that most cultures have sayings that predict the downfall of the family firm in the hands of the third generation.

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Given the economic history of Asia where many new family firms arose in the decades following World War II, a large proportion of Asian family firms are now led by second-generation family members although the founders are often still present. Many of these firms are undergoing or preparing for the entry of the third generation. It is not surprising, then, that business families are anxious about the survival of their firms.

Leadership succession and ownership succession have a profound impact on the family firm, even more so when they occur simultaneously.

Research indicates that only about 13% of the firms make it into the third generation. However, while this survival rate may sound modest, one has to keep in mind that non-family firms also occasionally go out of business. The sustainability of family firms is a matter of effort, good leadership, and planning combined with a generous dose of luck.

Succession in family firms differs substantially from that in non-family firms. Family firm succession involves not just the transfer of the leadership of the firm, but, frequently, also the transfer of ownership. This is normally not the case for non-family firms. Both leadership and ownership transition processes have a profound impact on the future of the firm, even more so when they occur simultaneously.

In this report we will provide unique data on how Asian family firms listed at the Singapore Exchange are handling succession. We will begin by taking a close look at the leadership of family firms, then at their ownership, after which we will investigate succession patterns.
What’s in a Name? Defining the Family Firm

Can we still speak of a family firm if the CEO is an outside professional? How much ownership is enough for a firm to qualify as a family firm? What if the family owns just 5% of the shares but the Chairman is the founder and the CEO is the founder’s daughter? All these questions highlight the importance of defining what exactly constitutes a family firm.

Unfortunately, there is no consensus on the definition of “family firm”. What is clear, however, is that at least two factors matter in order to determine whether a firm is a family firm: family ownership and family involvement in, or influence over, the firm. We will provide several definitions of family firms and apply these to firms listed in Singapore.

Our broadest definition of family firms states that a family firm is one in which (co-)founders or their family members are present among the 20 largest shareholders or as board members. A narrower definition is that (co-)founders or their family members are among the top 20 shareholders, and either the CEO or Chairman role is held by a family member. An even narrower definition sets a minimum threshold for ownership and only considers those firms to be family firms when the (co-)founders and their family members own at least 5% of the firm. Our most narrow definition requires that a family member holds the CEO or Chairman position and the ownership held by the family be at least 5%.

Figure 1 illustrates the different definitions we will use. If there is neither family ownership nor family influence in the form of board positions, we classify it as a non-family firm (quadrant IV). Most family firms display both family ownership and family board leadership and fall in quadrant I. Quadrant II is a family-owned but professionally-managed firm. Quadrant III covers family firms in which founders or their family members hold the CEO or Chairman role, but the family does not hold substantial ownership stakes.

Our broadest definition covers quadrants I, II and III. In this study, we will use the broadest definition except when otherwise indicated. In Chapter 1, we add requirements on management influence and/or ownership to give a full picture of the type of family firms present at the Singapore Exchange. Our narrowest definition only considers firms that meet both stricter requirements on ownership and management roles (quadrant I).
1. Family Firm Success

How Important are Listed Family Firms in Singapore?

In this section, we measure the success of family firms listed on the Singapore Exchange (SGX) by looking at their numerical importance, significance, sustainability and profitability. Firstly, we investigate the prevalence of family firms by looking at all SGX-listed firms. As an East Asian hub, many firms from China, Malaysia, Indonesia and elsewhere have opted to list on the Singapore Exchange. As such, studying SGX-listed firms gives us a perspective of Asian family firms that is broader than just Singapore.

Let us start by defining family firms as those firms where (co-)founders or their family members are present among the 20 largest shareholders or as board members. This definition of family firms is the broadest definition we will use, and is a definition that is also commonly used in academic research on family firms. If we use this definition, our study found that family firms make up the majority of listed firms in Singapore. Out of the 692 SGX-listed firms covered in this study, 421 firms, or 60.8%, can be classified as family firms (see Figure 2).

Figure 2: Family firms among SGX-listed companies
Source: CGIO database

Family Firms 60.8%
Non-family Firms 39.2%

3 Our sample consists of companies listed on the SGX Main Board and Catalist, and is based on annual reports with the financial year ending October 2010 to September 2011.
This percentage is similar to a study by Credit Suisse which covered a more limited sample of listed firms from Singapore, but also covered several other markets in Asia\(^4\). According to the same study, family firms account for more than 60% of listed firms in other Asian stock markets as well, such as Malaysia, Indonesia, Hong Kong, Philippines and Thailand.

We will now narrow down our definition to have a better understanding of the prevalence of family firms. We set one additional requirement: family members have to hold the position of CEO or Chairman of the firm. We re-classify family firms into non-family firms when family members do not hold a CEO or chairman position. When we did so, we found that out of the 692 SGX-listed firms, 358 firms, or 51.7% of the total, still qualify as family firms.

We now set a requirement on the ownership of the firm. We re-classify family firms into non-family firms when family ownership is lower than 5%. In other words, we only focus on those firms where family ownership is at least 5%. If we follow this narrower definition, our study showed that out of the 685 SGX-listed firms, 352 firms, or 51.4% of the total, still qualify as family firms\(^5\).

Lastly, we use our most narrow definition and set requirements for both family ownership and family leadership. We only consider those firms where family members hold the CEO or Chairman positions and where family members own at least 5% of the shares. If we follow this definition, our study showed that out of the 685 SGX-listed firms, there are still 301 firms (43.5%) that can be classified as family firms.

In conclusion, if we follow the broadest definition of family firms, they represent 60.8% of SGX-listed firms. If we follow the most strict definition, they still represent 43.5% of SGX-listed firms\(^6\). Whatever definitions we use, we can safely conclude that family firms are of great importance to Singapore. The ubiquity of family firms among the publicly-listed companies at the SGX is a strong indicator of the rise and success of Asian family firms and our findings clearly dispel the myth that family firms must be small ones.

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Family firms are of great importance to Singapore: they constitute the majority of the SGX-listed firms

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\(^5\) Due to limited availability of ownership data, our sample size decreased slightly from 692 to 685.

\(^6\) As we think our broadest definition is the most appropriate, other sections of this report will adopt this definition, unless otherwise indicated.
Family Firm Significance

Despite many listed firms being family firms, we still found that family firms tend to be smaller than listed non-family firms on average. We argued above that 60.8% of the firms listed on the SGX can be classified as family firms. But, they collectively represent only 33.1% of market capitalisation (Figure 3)\(^7\).

Figure 3: Market capitalisation of family and non-family firms
Source: CGIO database

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The Data Challenge

Defining family firms immediately leads to a problem – the availability of data. How does one know who is the founder and who is a family member? What if the family owns the firm through a complex holding structure or trust? In this study, we focused on observable facts of ownership and management of listed firms on the Singapore Exchange. We record board members and the top 20 owners of the firms from all listed firms’ annual reports. We also investigated all the firms’ websites to determine whether the firms’ founders are mentioned. Then, we used public sources to create a family tree of the (co-)founders so as to determine whether any of the board members are part of the (co-)founding family. While this is a defendable method used in several academic studies, the accuracy of the results depend on the firms’ transparency and on the data available to us on founders and their families. Given the challenges of obtaining founder and family information, it is plausible that this report has underestimated the prevalence of family firms.

\(^7\) Based on 537 companies on which information on market capitalisation was available.
Family Firm Dominance by Industry

Are family firms more common in certain industries? Do family firms dominate all industries? When we looked at the distribution of family firms, we found significant differences amongst the different industries. There are fewer family firms in industries such as financial services; transport, storage, and communications (TSC); and multi-industry. Family firms, however, dominate industries such as construction; hotels and restaurants; properties; and manufacturing (more than 60%)\(^8\). Figure 4 gives an overview of the proportion of family firms among SGX-listed companies in all categories.

Figure 4: SGX-listed family firms by industry
Source: CGIO database

<table>
<thead>
<tr>
<th>Industry</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>81.3%</td>
</tr>
<tr>
<td>Hotels/Restaurants</td>
<td>72.2%</td>
</tr>
<tr>
<td>Property</td>
<td>70.7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>64.3%</td>
</tr>
<tr>
<td>Services</td>
<td>59.8%</td>
</tr>
<tr>
<td>Commerce</td>
<td>58.2%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>42.3%</td>
</tr>
<tr>
<td>Transport, Storage, Communication</td>
<td>37.1%</td>
</tr>
<tr>
<td>Multi-industry</td>
<td>31.6%</td>
</tr>
<tr>
<td>Others</td>
<td>61.9%</td>
</tr>
</tbody>
</table>

\(^8\) We grouped the following industries together in a category called “others” as there were fewer than 10 companies in each category: food & beverage; agriculture; utilities; and mining.
Family Firm Performance and Sustainability

A second and even more powerful indicator of the success of the family firm is performance. There has been substantial academic research that shows that, on average, family firms outperform non-family firms around the world, especially if measured over longer periods of time.

One advantage of family firms is that they tend to have longer planning horizons as families generally wish that the business remains in the family for multiple generations. We observed that family businesses listed on the SGX, on average, are older than non-family firms by about two years (19.5 years for non-family firms and 21.2 years for family firms).

Our study compared family firms’ performance with that of non-family firms using ROA as an indicator of performance. We found that family firms perform significantly better than non-family firms if measured on this indicator. Family firms recorded an average ROA of 3.7% while that of non-family firms was 0.9%. The better performance of family firms is consistent with our expectations, in line with earlier results of a study released by CGIO in November 2011, and the results of other studies on Asian family businesses which also looked at different performance aspects and concluded that family firms perform better than non-family firms.

Figure 5: Return on Assets (ROA) of SGX-listed firms
Source: CGIO database

![Figure 5: Return on Assets (ROA) of SGX-listed firms](Source: CGIO database)

9 We used income (or loss) before tax divided by total assets. Our results are based on a sample of 533 firms whose performance details were available, after removing outliers.


2. Family Firm Leadership

Board Structure of Family and Non-family Firms

In this section, we look into the issue of who holds positions in family firm boards, in particular the leadership positions of the CEO and Chairman.

Generally speaking, the family firm boards are smaller than those of non-family firms. The mean value of family firms is 6.8 directors and that of non-family firms is 7.2 directors. The difference between the two groups is statistically significant at the 5% level. This is not surprising as we found that family firms, on average, are smaller than non-family firms.

How many family members have a seat in the board among family firms? Out of the 2,852 board seats in SGX-listed family firms, we found that 833 (29.2%) are occupied by family members (Figure 6).

Figure 6: Family members on family firm boards
Source: CGIO database

<table>
<thead>
<tr>
<th>Family Members</th>
<th>29.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-family Members</td>
<td>70.8%</td>
</tr>
</tbody>
</table>
We believe in hiring not just the best person, but also the most suitable person for the job. After all, as majority shareholders, we will be the main benefactor when our business grows and flourishes.

Each of us has our own strengths and weaknesses. A top accountant may not be the most ideal salesperson. The key then is to identify the talents, track their progress and gradually empower them to make decisions and assume more responsibilities to take over key leadership roles at the appropriate time.

In Asia, opportunities abound for growth and venturing into new areas. Most importantly, we feel that employing talented stakeholders and empowering them frees up management time for us to pursue other business ventures. In this manner, we ensure sustainable growth and that the family office does not stagnate or become complacent.

We believe in the corporatisation of businesses where we are better able to attract, reward and retain talent. Having professional managers also injects professionalism into the entire organisation. In addition, in utilising a holding company structure, there can be changes at the ultimate individual shareholder level without disrupting business operations.
Comparing the board composition of family firms with non-family firms, we found that family firms typically have more executive directors and fewer non-executive directors (see Figure 7 and 8). Except alternate directors\(^\text{12}\), the remaining three categories show that the differences between family and non-family firms are statistically significant at the 1% level.

Who occupies the executive director positions within family firms? We found that 90.1% of the founders and co-founders occupy an executive position on the board, with the remaining 9.9% occupying a non-executive directorship. Furthermore, when we looked at family members of the (co-)founders, we found that 78.0% occupy an executive directorship. Non-family directors in family firms are predominantly independent directors (63.0%), with only 23.8% occupying an executive position (Figure 9).

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\(^{12}\) Alternate directors are appointed to stand in for a director. However, there are few directors in this category and the new corporate governance code in Singapore discourages the appointment of alternate directors.
Thus, we can conclude that the majority of family members who hold directorships in family firms are executive directors. This indicates families typically take a hands-on approach to the management of the family firm.

Although family members do not constitute a majority of the board members, founders and their family members occupy the most important leadership roles in the board.

The Singapore Code of Corporate Governance specifies that at least a third of the directors must be independent and that no single individual or group of individuals should be allowed to dominate the board’s decision-making. Although family members do not constitute a majority of the board members (29.2% on average as described above, in line with the code), our analysis showed that the founders and their family members tend to occupy the most important leadership roles in the board, in particular the executive roles.

To illustrate this point further, we will focus on who occupies the roles of CEO and chairman in family firms. A CEO is an executive director and a chairman can be either an executive or non-executive member. In line with our expectations, we found that these roles are typically held by founders and their family members, with 78.6% of the family firm CEOs and 72.9% of the Chairmen being family members (see Figure 10).

Figure 9: Types of directorships held by family members in family firms
Source: CGIO database

Figure 10: Board leadership in family firms
Source: CGIO database
The Singapore Code of Corporate Governance states that the chairman and the CEO should be, in principle, separate people. It is primarily the family firms amongst SGX-listed companies that opt for non-compliance with this guideline (see Figure 11). The difference between family and non-family firms is statistically significant at the 1% level. Where family firms combine the CEO and Chairman roles in one person, in 70.6% of the cases, it is a (co-) founder. Only in 10.6% of the companies are the combined CEO and Chairman positions held by a non-family member.

To summarise, family members do not dominate the board from a numerical perspective. They comprise 29.2% of the board in family firms. Yet, family members typically hold key positions and occupy most of the executive directorships. Non-family members on family boards are primarily independent directors (63.0%), while 23.8% are professional executive directors, and 11.7% are non-executive directors. 42.8% of family firms combine the roles of CEO and Chairman in one person, usually a founder.

Family firm boards also have slightly different features from those of non-family boards if we look at the number of women on the board. Family firms display more gender diversity than non-family firms. While only 35.8% of non-family firms have one or more female board members, 43.2% of family firms have one or more women serving as a director (see Figure 12). Further analysis shows that these female directors are frequently family members.

Family firms display more gender diversity than non-family firms.
As we expected in family firms, the average tenures of directors are generally longer in family firms than those in non-family firms (11 years compared with seven years, see Figure 13). Within family firms, family members’ tenures in Singapore-listed firms are very long, averaging 18 years. (Co-)founders stay on the board the longest – an average of 20 years.

As Figure 14 shows, there is a pointed difference when this is compared with the tenures of non-family members serving on boards of family firms (7.5 years). The longest serving director (a family member) we surveyed had been with the company for 53 years.

These long tenures of family members are consistent with the view that family firms enjoy a long-term orientation and substantial continuity in their leadership, which may translate into advantages such as the ability to maintain stable and long-term relationships with stakeholders; and directors possessing intimate, specific knowledge of the firm and its industry.
In terms of the age of directors, we did not find substantial differences between directors of family firms and non-family firms. In both types of firms, the average age is over 55, with female directors tending to be younger on average, particularly in family firms (see Figure 15).

In terms of the formal level of education of board members, there is a marked difference between family and non-family firms. Family boards are less educated than those of non-family firms (see Figure 16). This is because family members have significantly lower levels of formal education. Within the board, it is the (co-)founders who have the lowest levels of formal education. Most of the (co-)founders do not have a university degree.

Figure 15: Age of directors (Years)
Source: CGIO database

Figure 16: Formal education of directors
Source: CGIO database
Other family members possess higher levels of formal education, with non-family members having the highest levels of education within the family firm board (Figure 17).

Figure 17: Formal education within family boards
Source: CGIO database

While there is not always a link between formal education and success in business, and less formal education may be compensated by more experience in the job (longer tenures), we conclude that the level of formal education among family directors is substantially lower than that of non-family directors in Singapore\textsuperscript{13}.

Combining our findings on the leadership of the family firm, we conclude that family members play a very important role in the boards of family firms. CEOs and Chairmen are typically founders or family members of the founders and, together, the family members tend to dominate the executive director positions. Family member directors’ tenures tend also to be very long compared to those of non-family members and compared to directors in non-family firms. From a formal education point of view, we found that family firm directors are less educated than non-family members or than directors in non-family firms.

\textsuperscript{13} Directors for whom no formal education is disclosed are placed in the category below bachelor’s degree.
3. Family Firm Ownership

Who Owns the Family Firm

We now turn to another dimension of the family firm - the ownership structure – to see who owns family firms. Figure 18 reveals that ownership structure in Singapore is very much concentrated in the hands of a few people or firms, both for family firms and non-family firms. The average top 20 ownership concentration is 80.5% for family firms and 76.1% for non-family firms. This level is quite high compared to, for instance, Japan, and other developed economies.

In addition, if we look at the top five owners of a firm, they control an average stake of 62.7% in non-family firms and 65.9% in family firms. This indicates that the five largest shareholders control the majority of votes (more than 50%) and, thus, the firm (within legal limits; for certain decisions, minority shareholder approval are required).

Concentrated ownership can be interpreted positively and negatively. On one hand, concentrated ownership by family members who also dominate the main executive roles may worry regulators as they fear that certain decisions the firms take may not necessarily be good for minority shareholders who are also owners but have less power. It is in this spirit that the Singapore Code of Corporate Governance moved towards stricter guidelines.

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14 Due to missing data on ownership, our total sample size decreased to 673 from 692.
However, from a corporate performance point of view, concentrated ownership is not necessarily bad. While small and atomistic shareholders have neither the incentive nor power to monitor the decision-making of CEOs, large shareholders have enough voting power to put pressure on management decisions. The agency costs in such firms may be lower, and, hence, their performance better.

Let us focus on who the largest shareholders are. To capture who controls SGX-listed firms, we classified shareholders into three broad categories: individual shareholders; corporations; and financial institutions such as funds, trusts, security companies and nominees (Figure 19).

Individual ownership is 15.2% on average; but the median is 4.7%. This indicates that the individual ownership distribution is skewed and may be attributed to the family firm. The second largest group is financial institutions with an average of 20.8%. The third and the largest type of owner is a corporation, the average being 28.7%. This indicates that many SGX-listed companies are subsidiaries of or partly owned by other companies.

To see this point more clearly, let us focus on who the largest shareholders are. Among 673 SGX-listed companies, 328 (48.7%) companies’ largest shareholder (Top 1) is corporations, with an average shareholding of 43.5%. Thus, we can say that almost half of the SGX-listed companies are controlled by other listed or unlisted corporations. The remaining portion is controlled by individual or financial institutional investors with almost equal weight (Figure 20).
Family and Non-family Ownership Structures

We now study whether there are any ownership structure differences between family and non-family firms (Figures 21 and 22). The ownership structure among the top five shareholders is quite different when you compare family and non-family firms. In accordance with our expectations, individual ownership among the top five shareholders of family firms is much higher than that in non-family firms. The average individual shareholding of non-family firm is 7.3% and that of a family firm is 20.1%. Corporation and financial institutional investors’ ownerships among the top five shareholders of non-family firms is slightly higher than that of family firms.

Figure 21: Average ownership levels of the top 5 shareholders (non-family firms)
Source: CGIO database

Figure 22: Average ownership levels of the top 5 shareholders (family firms)
Source: CGIO database
Ownership Stakes Held by the Family

In the last stage of our analysis, we endeavour to capture the levels of family ownership, although this is a very challenging task. As seen from Figure 22, the dominant shareholder of an average family firm is a corporation. Moreover, the financial institutional investor ownership level is also substantial. If the corporation that owns the shares is publicly listed on a stock exchange, we can trace their ownership structure and identify the ultimate owners. However, if the corporation is a privately owned firm, we cannot trace the ownership chain and identify the ultimate owners, unless this is disclosed in the annual report. Thus, if the controlling corporation is not listed on any stock exchange, it is quite difficult to find the relationship between the controlling corporation and the founding families.

The same problem surfaces when we look at institutional investors like funds/trusts/securities/nominees. We cannot trace the original depositor of the money. We have tried our best to find information on the relationship between controlling shareholders and founding families. But, we have to assume that our findings regarding the family ownership level underestimate actual family ownership. Figure 23 summarises the statistics.

On average, families own a 39.9% stake in their firms among the top 20 and, a 38.3% stake in their firms among the top five. This family stake is partly held by individuals and partly by other firms that are also owned by the same family. Non-individual family shareholdings are slightly higher than individual family shareholdings. Some families own a substantial number of shares. The highest observation in our data set is an 88.9% family-owned stake.

Figure 23: Types of family ownership stake among family firms
Source: CGIO database

The top 20 shareholders families control 39.9% of the firm, 18.1% of which is owned through individual stakes.
Ownership and Family Life-cycle

Ownership tends to get fragmented over time as family businesses move to the next generations where there are typically multiple heirs. If an owner has three children, all of whom have three children who inherit the firm’s shares in equal proportion, the grandchildren will each have only 11% of the firm. This complicates the firm’s leadership as at least five of the nine cousins in the third generation have to agree in order to have a majority vote.

In listed firms, part of the shares is held by the public. But, we expect to see a trend in which ownership goes from the founder to the next generation and tends to get more fragmented over time. Our sample of companies is rather young. Only 41 listed firms are 40-years or older. Thus, we can see ownership succession patterns only in a limited number of firms. However, we found that older firms have slightly less concentrated ownerships than their younger counterparts (Figure 24).

Figure 24: Family firms’ ownership by the top 5 shareholders and family firm age
Source: CGIO database

Our database, which covers only two years, does not allow us to directly observe ownership transition at the firm level. So, we have tried to capture the ownership transition patterns indirectly. For this, we classify the family firms into two groups. One is the group with (co-)founders on the board and another is the one without (co-)founders on the board. We assume that the former group is in an early stage of the family firm life-cycle as the founders are still present. We assume firms where founders are not present are likely to be in a more advanced stage of the life-cycle where transitions have already taken place. We then compare the ownership structures of both groups15.

15 Among the 414 family firms, 42 family firms’ family ownership level is zero. We excluded these firms for this calculation. Our sample size then decreased to 372.
As expected, when we looked at the family ownership, we found that the groups display a different pattern (Figure 25). Those firms with founders on the board show higher individual family ownership compared to the other group. The average individual family ownership stake held by the family firms with founders is 19.7% while those without founders on the board is 15.0%.

If we look at the non-individual family ownership, where firms are held by other corporations or through funds/nominees or financial institutions, the result is the opposite. Family firms where founders are no longer present hold less of the firm through individual stakes. Moreover, the median value for the founder-group is zero, which indicates that more than half of the companies in the founder-group have only individual family stakes.

With some caution, because we have not directly observed the ownership trends over time, we interpret this finding to be the result of ownership transition. As we expect, the founder-group more often holds individual stakes in the firm. When generation transitions occur in terms of ownership, individual family ownership will decrease due to ownership fragmentation and ownership succession. Family firms that are older more often use other ownership structures such as trusts or foundations, or the firm may be part of a larger group and held by a holding company. Inheritance tax and corporate tax planning often play a role in the structuring of the ownership of more mature family firms.

Family firms where founders hold board positions tend to have more individual ownership stakes.

Figure 25: Average family ownership among top 5 shareholders
Source: CGIO database
4. Succession in Family Firms

Leadership Transitions: Enter the Professionals

Consistent with the very long tenures of family members, we found that transitions of leadership in family firms in Singapore are rare and much more infrequent compared to those in non-family firms. From 2010-2011, we saw a turnover of 3.0% for the chairmen of family firms versus 7.7% for non-family firms. For CEOs, we recorded a new CEO in 3.8% of the family firms and 8.1% in non-family firms16.

The rationale for a leadership change can vary. Some of the changes in CEO or Chairman are straightforward leadership transitions where one person retires and another takes over. Others occur due to governance problems, conflicts, or because of ownership changes within the firm. In this section, we attempt to understand the general succession patterns in family firms by first looking at the separate cases of CEO and Chairman successions (See Figures 26 and 27).

Figure 26: CEO succession types
Source: CGIO database

Family CEO replaced with family CEO 25.0%
Family CEO replaced with non-family CEO 37.5%
Non-family CEO replaced with family CEO 37.5%

16 We only considered succession cases where a person succeeded another person in either the roles of CEO or Chairman. We did not include cases in which a new position of Chairman or CEO was created or where such a position was abolished or left vacant.
In general, our experience shows that only about 40% of families look at wealth succession and make appropriate plans. Where succession questions impact a family business, it is even more important to address them.
The issue of succession in family firms is traditionally perceived as a transition between a parent and a child, in the Asian context often a father and a son. An example of such a case occurred in LC Development Limited, where the father handed over the CEO role to his son, and then became the Chairman, a newly created role. Yet, such cases are not the most frequent types of CEO successions. A very frequent transition is the entry of a professional CEO in the family firm who replaces a family member. Interestingly, we also have six cases where family members take over from non-family members. Some of these cases show a phenomenon of a professional CEO taking the reins temporarily before a suitably qualified family member is ready to take over.

The cases of succession of the Chairman role in family firms show an even stronger trend towards hiring outsiders in key positions in family firms. More than half the companies that changed their Chairman appointed an outsider who took over from a family member, often a founder. In some of the cases, the founder left or was ousted in a conflict whereas in most family firms, the changes appear to be regular cases of retirement.

We see a trend towards appointing outsiders as Chairman and CEO in family firm boards.

Figure 27: Chairman succession types
Source: CGiO database
Effect of Succession: Partial Professionalisation

We now investigate companies where successions occurred in greater depth. Some companies witness changes in both CEO and Chairman. The total number of family firms experiencing leadership succession is 24 (5.7% of the family firms).

When family firms appoint a non-family member in a key position such as CEO or Chairman, the other roles are usually held by a family member so that they can still be in control of the firm. We refer to this as partial professionalisation. We found this to be the outcome in half of the companies that went through a leadership change.

In eight of the companies where successions occurred, the result was that the two leadership positions of CEO and Chairman were both held by the family. This could be either because the transition was between family members, or because family members replaced professionals.

In four cases, we found that after the transition, no founder or family members held the role of CEO or Chairman any more. However, only in one case, Thakral Corporation, did it appear to be a regular transition. The rest of the three cases of leadership succession were related to ownership changes and/or involved governance problems and conflicts.

Our research shows a partial professionalisation trend: outsiders are appointed in key positions alongside family members.
Ownership Succession

Family firm ownership levels tend to change less frequently than family firm leaders. In the 24 family companies that experienced succession, we did not find many ownership changes. Among the cases we investigated, we identified only one case of full exit where the founder and/or the family members of the founder sold their entire stake of the firm and also resigned from board positions. We found two cases where a professional was appointed as CEO/Chairman and where the family’s ownership stake dropped during the same period. For the other succession cases, the ownership stakes by the family remained the same or similar.

In conclusion, we see a trend towards partial professionalisation of the family firm where one of the two leadership roles of CEO or Chairman remains in the hands of a family member while an outsider is appointed in the other position. This outcome may be the best of both worlds as it combines outside talent with family control over the firm.

“The business should consider the best candidate for the job, not based purely on bloodline. However, I think it’s important for the family to be represented on the board, so typically it may be through the Chairman if the CEO is an outsider. The family shareholders should decide whether a non-family CEO or Chairman is needed and act accordingly. However, this is not always easy to do, so one suggestion is to use someone to facilitate this conversation amongst the family members.”

Richard Eu
Group CEO
Eu Yan Sang International Ltd
It's inevitable that ownership will get fragmented with each succeeding generation unless there's only one child per generation! Perhaps the only cases of businesses successfully surviving many generations happen when the companies are held in charitable or some form of perpetual trusts. The family can separate assets not involved in the business and divide that amongst the beneficiaries. But, to keep the business, it's probably advisable to find a way of locking in voting control.
5. Conclusion

Perhaps the most crucial aspect of any family firm is succession. The family firm can only survive if the family can engineer succession well. Popular sayings in many cultures predict that family wealth cannot last beyond the third generation. Indeed, for any firm, including non-family firms, survival and success are not givens. They require continuous effort and a high quality of leadership. Why is it that family firms find succession so challenging? This, again, has to do with two intertwined elements that define the family firm: ownership and leadership.

Many families see succession primarily as a leadership issue. They worry about picking the right leader and preparing the leader to take over. However, this is only part of the problem. Succession in family firms often involves both the transfer of leadership and the transfer of ownership. We have seen, in the previous analyses, that family members make up 29% of the board, but they tend to hold key leadership positions such as CEO and Chairman. We also found that ownership is typically highly concentrated, with the top five shareholders in family firms collectively controlling an average stake of 66% of the firm. Furthermore, we found that of these top five shareholders, family shareholders hold 38% of the shares in an average family firm, indicating a high level of control over the firm by relatively few family members.

The transfer of ownership to a subsequent generation tends to lead to fragmentation as there are typically more family members in the next generation than in the previous one. If the shares are divided equally among different children of a founder, and subsequently among his or her grandchildren, it will soon lead to a situation where no single individual owns enough of the shares to gain control. Older family firms, for instance in Europe, may have hundreds of family shareholders, each holding a tiny fraction of the firm. This is not a typical situation in Singapore-listed firms since many of the family firms here were only founded after World War II and have undergone only limited generational transitions. We have shown that, on average, family firms have very concentrated ownership and family firms where the founders are present often control the firm through individual stakes.

When a current generation picks a leader from the subsequent generation, this successor almost never has the same level of power as the founder had simply because the ownership has become more fragmented. Another risk of dispersed family ownership is that individual family members may be motivated to sell their shares, making the firm susceptible to takeovers. Eu Yan Sang, one of the oldest family firms in Singapore, faced this problem in the past where a family conflict ensued before some members of the Eu family regained control of the firm.
To prevent losing control over the family firm, most forward-looking business families try to maintain family ownership, for instance by limiting the number of heirs, placing restrictions on ownership transfers, or placing the ownership in a trust or foundation.

Recent academic research at the NUS Business School has started to investigate the performance of firms after successions and to compare them with different types of leaders ranging from founders to heirs to professional CEOs.

Some of these studies show that the type of leader in family firms matters when it comes to the firms’ performance. For instance, a study by a group of authors including Associate Professor Yupana Wiwattanakantang and Dr Shim Jungwook from NUS Business School\(^\text{17}\) on Japan showed the positive impact of non-blood heirs (adopted sons) on performance. Another working paper by Professor Chang Sea-Jin, also from NUS Business School and Dr Shim\(^\text{18}\) showed that a transition to professionals may improve the performance of the family firm.

A study of US-listed family firms by Professor David Reeb from NUS Business School\(^\text{19}\) showed that founder-led and heir-led firms may be more opaque and, if they are, this is generally associated with a lower performance. In family firms with more transparency, professional CEOs perform best, followed by founders and heirs, each performing better than non-family firms. However, for non-transparent firms, none of the types of leaders outperformed non-family firms. These results underscore the importance of good governance and succession planning, as the type of successor is crucial to the success of family firms.

Although succession is crucial, it is by no means straightforward. Siblings might feel that the distribution of leadership and ownership should follow the logic of equal distribution while traditional cultural values may favor the oldest male child and business logic may favor allocating more decision-making powers to the most capable (not necessarily a family member). The presence of these different logics makes leadership and ownership choices a process that is difficult and often fraught with emotions that can run extremely high.

We found only limited cases of leadership transitions among Singapore-listed family firms. But those cases show a trend towards hiring non-family members in leading positions. The traditional view of succession as one family member replacing another was less frequent as we found many more cases of family Chairmen and CEOs being replaced by non-family members.

This suggests that business families should pay attention to the specific challenges of a transition from family to non-family leadership. Grooming a family member for a top position is very different from transitioning to a professional CEO or Chairman (especially if it is an executive Chairman). In fact, there are many examples of unsuccessful transitions from family leadership to outsiders.

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This is because family leaders tend to make two basic mistakes. First, they typically focus their energy on selecting and preparing a suitable successor. However, an outsider-CEO – no matter how competent - can never be successful unless the owner-manager actually steps back from a decision-making role. This may sound obvious but, in practice, is not as owners (especially founders) are used to daily decision-making and stepping back into a non-executive role requires a fundamental behavioral change. Employees tend to display loyalty to the owner rather than to a hired outside CEO who does not enjoy the same level of legitimacy compared to the founder-owner. Thus, employees may bypass the outside CEO or Chairman and bring their issues to the owner who may have the tendency to step in. One of the most common causes of failures is the meddling of the owner in decision-making which undermines the authority of the outside professional.

A second issue is the owners’ tendency to look for a successor who has qualities similar to those they possess and their expectation of a same style of leadership and commitment. There are a number of possible issues associated with this. First, one has to look at what sort of leadership is required for the business at the stage it is in, particularly when the current CEO is a founder (frequently the case in our sample). These successful leaders tend to have strong entrepreneurial skills, a centralised and authoritarian leadership style and a hands-on mentality.

We call these types “supermen”. They are successful, visionary leaders, often self-made patriarchs (this is most apparent in founders with substantially lower levels of education). The superman has learnt to follow his instincts and swim against the current. He cannot be easily convinced to change his mind. Of course, our notion of the Asian superman is a generalisation. But, many Asian family firms we interacted with strongly identify with this stereotype. Having built a highly successful business in this manner, the superman naturally looks for these same skills in successors.

But, when the business approaches a certain level of maturity, the limitations of such a leadership style becomes apparent. As the business grows, there is a need for more coordination among an increasing number of employees. It becomes challenging for one person to make all the decisions single-handedly. A transition to a more complex organisation structure is needed. In most cases, this leads to increased overheads and staffing costs. When owners hire successors who are outsiders for an expanding or mature business, they often underestimate the difficulty and the cost of this transition. If the firm is undergoing a transition from a simple, centralised style to a more complex, coordinated management model, it may actually take several senior people to fill all the roles that the owner used to cover on his own.
"The common phenomenon of the vanishing family fortune has inspired a Chinese proverb: ‘Wealth does not last beyond three generations’. There are various risks that could deplete one’s wealth over generations e.g. the risk of probate litigation (and exorbitant legal fees) arising from disputes involving family members fighting over a deceased’s will and estate assets, high estate or inheritance taxes, or dissipation of family wealth by extravagant family members. A Private Trust can help protect and preserve the family wealth by mitigating these risks."

Adeline Poon Siu Ki
Senior Vice President
Head of Fiduciary Services
DBS Private Bank
Furthermore, outside CEOs usually do not have the same level of passion and commitment compared to family owners who might work around the clock for low salaries. The transition to professionals in leadership roles often also requires the family to rethink incentive and compensation structures within the firm, both for outside professionals and for family members. A reform of incentive and performance indicators, especially if these have been implicit or unsystematic under family-only leaderships, can lead to unrest among employees and the formation of different warring “camps” in the firm: those who are comfortable with the old loyalty-based family style, and those who are keen to “corporatis[e]” the family firm and base incentive on merit. Finding a balance and managing these transitions require careful attention.

In summary, our study has provided many reasons to be proud of Asian family firms. SGX-listed family firms dominate most industries and display better performance. The family brings continuity and commitment to the business, which translates into success. SGX-listed family firms display concentrated ownership and a high level of control over the business by family members in the form of holding many of the leading executive positions on the board. Most of these family firms are in an early stage where founders are still present.

However, we know that succession is an important phase for all firms. This is even more so for family firms. After reviewing the cases of succession of CEOs and Chairmen in our sample, we identified a trend towards hiring non-family leaders in leading positions although the family often holds the other role. Accordingly, it is important for families to familiarise themselves with the challenges of a transition from a fully family-run firm to one where family members and outsiders work together.

When owners hire successors who are outsiders for an expanding or mature business, they often underestimate the difficulty and the cost of this transition.
Many businesses in Asia start out as family owned. As these family businesses grow, we see many of them grapple with succession and longevity issues. Many of the third generation are starting to enter their family businesses, started by founders who were part of the Chinese/Indian diaspora or when many of the Asian countries started developing.

Can family firms survive beyond three generations and remain family owned and run? In my mind, yes, but not without its challenges. The more successful ones have very clear vision of their mission, values and what type of family members qualify as leaders to run the firm, especially when these families grow to include cousins and second cousins.

Succession planning is always a challenge especially when it involves the family. It can be fraught with emotion and misunderstanding, so it is important that family owned businesses focus on what it takes to sustain longevity and growth.
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