Drawing a Portrait of Family Firm Governance in Singapore: A Study of SGX-listed Family Firms

Caroline Seow (FBN Asia) & Marleen Dieleman (CGIO)

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Family Business Roundtable
Agenda

- Background
- Methodology
- Prevalence, importance and performance of family firms
- Ownership, board structure and leadership positions
- Governance and Transparency Index (GTI)
- Director profiles
- Conclusions
Background – FBN Asia

- Presence of family firms
- Ownership Structure
- Operational Context

- No comparable study on Asian Family Firms

- Research Initiatives
  - IFERA- FBN Asia Research Grant
  - Partnerships with leading institutions
Partnership

- Collaboration between Centre for Governance, Institutions and Organizations (CGIO) and Family Business Network Asia (FBN Asia)

- First study to document significance of and governance patterns of Singapore’s family firms

- Full report available at [www.bschool.edu.sg](http://www.bschool.edu.sg) and [www.fbnasia.org](http://www.fbnasia.org)
Methodology

- Surveyed all SGX-listed companies (743) in 2010

- Data from:
  - Orbis Database (company data)
  - 2010 Annual Reports (director information and family relationships; ownership data)
  - Company websites (founder, family histories)

- Definition of family firms - firms owned or influenced by an individual or multiple individuals linked by family ties

- Focus on governance patterns of family firms
Family firms are the dominant type of firm among Singapore listed companies (52%).

This finding is generally in line with findings of earlier study (Claessens, Djankov & Lang, 2000).
Family firms are engines of growth in Asia: DPM

By Cheryl Lim

KEEPING business as a family affair can lead to prosperity, but such firms need to be mindful of longer-term challenges, Deputy Prime Minister Teo Chee Hean said yesterday.

Speaking at yesterday’s opening ceremony of the Family Business Network International (FBNI) Summit at the Ritz-Carlton Millenia, he said family businesses are engines of growth in many countries.

Citing a Credit Suisse research report published in September, he outlined how family businesses make up half of the listed companies and a third of total market capitalisation among 10 Asian economies surveyed.

In Singapore, the figures show a similar trend, with family businesses accounting for 63 per cent of Singapore-listed companies and more than half of the total market capitalisation as of 2010.

Mr Teo added that the same report found that family businesses outperformed their local benchmarks in seven of the 10 Asian markets surveyed, delivering a compound annual growth rate of 13.7 per cent over a 10-year period.

Successful family businesses often adopt a long-term approach towards the company, said Mr Thierry Lombard, FBNI president and managing partner of the family-owned Swiss private bank Lombard Odier.

In doing so, many will have to juggle three roles - being an owner, manager and operator.

“If something goes wrong, you are totally responsible, responsible towards your employees, your clients and the community,” said Mr Lombard.

But like all businesses, family-owned ones are not immune to challenges like sustaining growth and retaining talent.

Mr Teo said: “All successful businesses must have a long-term vision, strong values and a capacity to keep on innovating and responding to the environment.

“At the same time, as they grow, family businesses have to induct and integrate new talent, and form new partnerships, to take full advantage of the new and challenging environment in an increasingly globalised world.”

But there is potential for family businesses to make a positive impact beyond the boardroom.

Raising the example of the India-headquartered Murugappa group, Mr Teo described how it has invested 1 per cent of its after-tax profits for the welfare of society since it started business.

He added that many family businesses can contribute to the greater good of society through corporate philanthropy and social responsibility initiatives.

(Credit Suisse, 2011)
Economic Importance

- Family firms in Singapore constitute the majority
- 34% of listed firm assets
- 30% of market capitalization in SGX
- Smaller on average than non-family firms
- State-owned firms

Source: CGIO database
Family firms perform better than non-family firms (measured by ROA)

This finding is also in line with most studies on family firms in other countries

Indicates that family firms possess advantages that translate into better performance

- Family firms: Return on Assets = 5%
- Non-family firms: Return on Assets = 3%

Source: CGIO database
Performance attributed to...

- Family ownership provides stability & continuity
- Widely-held firms have to align interests of owners & managers which come at cost
- Desire to protect the Family Name
- Nature of family – ownership – management interaction, family unity & ownership commitment
Family Firms Across Industries

- We find variety across industries: some industries are more (or less) dominated by family firms.
- Hotels/restaurants and construction have the most family firms.
- Proportion of family firms is lowest among financial services firms and multi-industry.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Proportion of Family Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>33%</td>
</tr>
<tr>
<td>Multi-industry</td>
<td>22%</td>
</tr>
<tr>
<td>TSC</td>
<td>29%</td>
</tr>
<tr>
<td>Finance</td>
<td>29%</td>
</tr>
<tr>
<td>Property</td>
<td>38%</td>
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<tr>
<td>Services</td>
<td>49%</td>
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<tr>
<td>Manufacturing</td>
<td>58%</td>
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<tr>
<td>Commerce</td>
<td>63%</td>
</tr>
<tr>
<td>Construction</td>
<td>67%</td>
</tr>
<tr>
<td>Hotels/Restaurants</td>
<td>72%</td>
</tr>
</tbody>
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Source: CGIO database

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**Note:**
- TSC: Telecommunications, Software, and Information Technology.
- Multi-industry refers to companies involved in multiple industries.
- Financial services include banking, insurance, and investment services.
Ownership of Family Firms

- Owned through individual and corporate stakes; family owners average stake of 33%
- In general, for all SGX-listed firms, ownership is highly concentrated: top-10 shareholders on average own 74% (73% for non-family)
Family Involvement in the Board

- On average, 35% of the board of a family firm consists of family members.
- Board size of family firms is smaller (expected given that family firm size is smaller).
Family members are typically executive directors.

Relatively few non-family “professionals” sit on family firm boards in executive roles.

* Excluding independent directors
Family firms have fewer non-executive directors.
Leadership in Family Firms

- The chairman is a family member in 82% of the family firms;
- CEO is a family member in 90% of the family firms;
- In SGX-listed firms: key positions in family firms are typically held by family members.
Singapore’s code of governance outlines the principle of separation of Chairman and CEO.

- There are incidences of non-compliance:
  - 44% of the family firms do not have such a separation
  - For non-family firms the comparable figure is 16%

- In most family firms, the CEO and Chairman are family members.
Example: Wilmar

Board of Directors

- Executive & Non Executive Directors
- Independent directors
- Family Members
- Non Family Members

From left to right:
- Kuok Khoon Chen
- Kwah Thiam Hock
- Yeo Tong Yang
- Teo Kim Yong
- John Daniel Rice
- Leong Horn Kee
- Lee Hock Kuan
- Martua Sitorus
- Kuok Khoon Ean
- Tay Kah Chye
- Chua Phuay Hee

Key Executive positions and ownership - Wilmar

<table>
<thead>
<tr>
<th>Executive</th>
<th>Position</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuok Khoon Hong (Founder)</td>
<td>Chairman &amp; CEO</td>
<td>0.01%</td>
<td>11.93%</td>
<td>11.94%</td>
</tr>
<tr>
<td>Martua Sitorus (Co-Founder)</td>
<td>Executive Director &amp; COO</td>
<td>0.07%</td>
<td>10.06%</td>
<td>10.13%</td>
</tr>
</tbody>
</table>

Board Committees

- Family members have limited involvement in board committees (as they are dominated by independent directors)
- Families are most active in the nomination committee (as compared to other board committees)
Family firms score lower on the CGIO Governance and Transparency Index.

Family firms are underrepresented in the top-20 of GTI ranking.

But: several family firms take the lead in demonstrating excellent governance practices.
Example: Qian Hu Corporation

Kenny Yap Kim Lee
Executive Chairman &
Managing Director

Alvin Yap Ah Seng
Deputy Managing
Director

Andy Yap Ah Siong
Deputy Managing
Director

Board of Directors
- Independent Directors
- Executive Directors

Family Members
Non Family Members

Source: Qian Hu Corporation Annual Report 2010
http://qianhu.listedcompany.com
“Before we listed Qian Hu, I put everything on the table and was VERY transparent to my six brothers. When we listed the company, I just assume that now I have more than 1000 brothers and do exactly the same”

Mr. Kenny Yap, Qian Hu Corporation Ltd (company was ranked 8 on the GTI in 2011)
Board Composition By Gender

- 42% of family firms have at least one woman on the board: family firms outperform non-family firms in gender diversity
- Females mostly in executive roles

Source: CGIO database
Example: Marco Polo Marine Ltd

BOARD OF DIRECTORS MARCO POLO MARINE LTD.

- Lee Wan Tang (Executive Chairman)
- Sean Lee Yun Feng (Chief Executive Officer)
- Liely Lee (Executive Director)
- Lai Qin Zhi (Non-executive Director)
- Lim Han Boon (Lead Independent Director)
- Sim Swee Yam Peter (Independent Director)
- Lee Kiam Hwee Kelvin (Independent Director)
As we would expect, in family firms the tenure of directors is longer.

This is driven by long tenures of family members (19 years).

Longest tenure in our database: 52 years (yes, a family member!)
Board Composition – by Education

- Director’s formal education levels lower in family firms than in non-family firms
- Within family firms, family members show lower levels of formal education
- Note: if no degrees are disclosed we assume that people do not have a formal degree
Main findings

- Family firms are highly important for Singapore and constitute the majority of the listed firms.
- Family firms possess advantages and outperform non-family firms.
- Family firms are significantly different from non-family firms in several important aspects of governance:
  - CEO and Chairman roles usually held by family members, often founder.
  - Principle of separation of CEO & chairman roles is not followed widely.
  - Executive directors mostly family members.
  - Different profile of family directors (tenure, gender, education).
- The differences are consistent with the “control-argument”: family firms seek to influence the direction of the firm.
  - Leads to stability, clear decision-making structures and long-term perspective.
  - But: thereby they may forego possible gains from more outside expertise and influence on the firm.
Conclusions

- The study underscores the importance of family firms and their advantages, in particular through hands-on management and long-term orientation.

- The challenge for family firms going forward is to achieve excellent governance standards and incorporating diverse points of view while preserving the advantages.

- There are plenty of local champions to learn from.
Discussion

- What can we take away from these results?
- What possible lessons can family firms learn from this study?