Succession Planning in Family Firm Boards

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Breakfast Briefing, SGX Auditorium, Singapore, March 20, 2012
Agenda

- Drawing a portrait of SGX-listed family firms
- Family Firm Board Succession: Patterns, cases & tips
- Closing
Collaboration between Centre for Governance, Institutions and Organisations (CGIO) and Family Business Network Asia (FBN Asia). Full report: www.bschool.nus.edu.sg and www.fbnasia.org

Surveyed all SGX-listed companies (743) in 2010, data from:
- Orbis Database (company data)
- 2010 Annual Reports (director information; family relationships; ownership)
- 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 studies (e.g. Claessens, Djankov & Lang, 2000).
Economic Importance

- Family firms in Singapore constitute the majority
- 34% of listed firm assets
- 30% of market capitalization in SGX

Source: CGIO database
Family Firm Performance

- 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

- But: academic studies suggest only founder-led firms outperform non-family firms. Descendants as CEO hurt firm valuation (Villalonga & Amit, 2006)

![Return on Assets Chart]

- Family firms: 5%
- Non-family firms: 3%

Source: CGIO database
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%.
### 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>

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

Source: Qian Hu Corporation Annual Report 2010  
http://qianhu.listedcompany.com
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

- Formal education levels lower in family firms
- Within family firms, family directors' education levels lower
- Note: if no degrees are disclosed we assume that people do not have a formal degree

Non-family firms V.S. Family firms

<table>
<thead>
<tr>
<th>PH.D &amp; Master</th>
<th>Bachelor</th>
<th>Under Bachelor</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.9%</td>
<td>35.1%</td>
<td>34.1%</td>
</tr>
<tr>
<td>36.2%</td>
<td>37.0%</td>
<td>26.7%</td>
</tr>
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</table>

Among family firms

<table>
<thead>
<tr>
<th>Non-family members</th>
<th>Family members</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.3%</td>
<td>53.5%</td>
</tr>
<tr>
<td>40.7%</td>
<td>29.9%</td>
</tr>
<tr>
<td>32.1%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>
Family firms boards differ from non-family firm boards:
- CEO and Chairman roles usually held by family, often founder
- Principle of separation of CEO & Chairman not followed widely
- Executive directors mostly family members
- Family director tenure very long
- Family director education levels lower

“Control-argument”: families influence 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
Implications for board succession

- Succession of **family CEO** is crucial
  - Often, they hold CEO and Chairman roles combined and have an important impact on the firm.
  - While infrequent, impact is high
  - CEO succession can be a long term process

- Succession of **non-family directors** also important
  - To maintain a strong independent element on the board
  - To complement family skills & expertise
  - To bring new views into the firm and prevent rigidity
In-the-family succession: how to beat the statistics

- Most Asian firms: family successor
  - But: in Singapore only 36%; another 36% to outsider (Fan, Jian & Yeh, 2009)
  - Advantage in passing on intangible assets (networks, values etc)

- Tips from a few Asian family cases:
  - Prince Charles syndrome
  - Fragmentation & complexity
Overstaying? Run Run Shaw
Family drama at Popular bookstore after chairman's son quits

Managing director Wayne Chou quit after spat with father, who is chairman

By Magdalen Ng

It was a scene that could have come straight out of a Hong Kong drama serial.

Mr Wayne Chou, the young managing director of Popular Holdings, was having a particularly heated argument with his 74-year-old father Chou Cheng Ngok, who is the chairman of the company.

Suddenly, in front of members of management and staff, the younger Mr Chou shouted 'I quit!' and stormed out of the room.

Mr Wayne Chou (above), 41, was appointed managing director of Popular Holdings in March last year, but a Popular source said it quickly became apparent that he did not get along with the older staff hired by his father Chou Cheng Ngok, 74. -- PHOTOS: WWW.POPULARWORLD.COM, DESMOND FOO

Source: Straits Times, Sept 18, 2011
Succession: Ownership and management interconnected

Ciputra (25%)
Dian Sumeler (15%)

Rina (15%)
Budiarsa
Junita (15%)
Harun
Candra (15%)
Cakra (15%)
Complex families
Finding and preparing an outsider for a CEO role is important, but it is only the first step.

More important:
- Changing family director behavioral routines
- Building the systems to support separation between ownership and management (decision-making, control, etc)

Roadblocks & tips:
- Employee loyalty to owners – not hired CEO needs to be built
- Transfer of intangible assets may take time
- Family firm may not have the mature processes the outside CEO is used to > limited professional support structure
- Family members intervening and undermining CEO
  - Or: losing interest and selling out
Succession to outside CEO: Ramcides

Indian agrochemicals firms run by 3 brothers

2008: Business at a turning point: issues of growth, strategic direction, professionalization, outside capital required

Venture capitalist ePlanet takes 40% stake

Outside successor hired in 2009, to take over in 2014

Next generation not very interested
Non-family director succession

- Play an important role as trusted, yet critical directors who act in the interest of the firm.
- Ideally chosen for their potential contribution to the company, not just based on loyalty to the family.
- Play an important role in the process of CEO succession.
Succession for tomorrow
In closing: Board Succession

• Different stages require different types of leaders
  • Start-up; Development; Mature
  • Effectiveness of family firm directors depends on talent + what phase the business is in

• Different models: in-the-family; outsiders

• Both ownership and management have to be considered when discussing succession in family firms

• Key consideration: transfer of intangible family assets

• Professionalization of the business should be a priority for all family firm boards, especially ahead of succession
Thank you!

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