Taking the sting out of disputes in family firms

Better communication, rules of engagement can help preserve harmony

By Yenita Ong

FAMILY relationships can be volatile in the best of times, so when you throw in the added tensions of running a business and dividing the spoils, they can turn iniquitous, as the headlines over family investment firm Hap Hoe Holdings attest.

Familism infuriating has prompted founder Teo Guan Seng to seek a court order to dissolve the holding company that has major stakes in two listed firms.

While Hap Hoe Holdings is an extreme case of how poor personal relations can seriously affect a firm in which family members play influential roles, it is by no means an isolated case – just the latest of a string of firms here that have become mired in family conflict.

In the 1990s, drink company Yeo Hap Seng fell prey to family feuding when former chairman Alan Yeo's nephew Charles Yeo led a group of family members to oppose his uncle in a property company Wing Tai as an investor. This led Mr Alan Yeo to dissolve the family holding company with a court order.

In 1997, a dispute in the Jumah family, which owned Scotts Holdings, went public when patriarch Phoebah Jumahah took his eldest son Amerilah to court for racking up losses of US$50 million.

These disputes and others like them raise the question of just how such firms can keep the usual tensions and rows out of the boardroom – a vital issue given how many family firms there are here.

Such companies make up 52 per cent of firms listed on the stock exchange, according to a report published by the National University of Singapore (NUS) Business School’s Centre for Governance, Institutions and Organizations (CGIO) and Family Business Network Asia last month.

Family conflicts can spill into the business and vice versa, noted Dr Marleen Dilemara, associate director of CGIO at the NUS Business School.

“The potential for conflict is always there, no matter how harmonious family relations are, but firms can take steps to protect against it, experts told The Straits Times.

“Family firms typically tend to be less transparent about who can play which role in the future. This is especially so in Asian families where the older generations may assume full decision-making power over issues like succession, and think that the younger generation will understand their place,” Mr Eric Lankott, head of family service north Asia at UBS said.

This could create misunderstandings and misconstrued expectations among family members, he noted.

Family firms may be less appealing for investors if they adopt practices that favour those in the family over those of others in the company and other stakeholders.

Mr Ng Kian Teck, lead analyst at Securities Investors Association Singapore (Nila) Research, said: “Some negative attributes of family firms include being biased towards the hiring of family-related members.”

“I would prefer to invest in a family firm that hires talent outside the family or has non-family succession plans,” he added.

But family firms also possess certain strengths, and have a good record of performance. The CGIO report showed that listed family firms performed better than non-family firms in terms of return on assets.

And Mr Ng noted that family firms have attributes that are worth investing in: “Family firms usually have a history of track record and a decent brand name. This may attract some risk-averse investors who are familiar with the company.”

Mr Fu Sheng jin, director of traditional medicine company Weiken, noted that being a family firm gives Weiken an advantage: “As a heritage brand, we are seen as upholding good quality that has been passed down from generation to generation, especially as Weiken is a traditional health-care brand.”

Mr Fu noted that family businesses are more flexible than non-family firms: “In family firms, we can very often make policy changes quite quickly, as compared to multinationals where one has to go through a lot of processes.”

“Maintaining harmony really comes down to what practices family firms adopt.”

Mr Lankott recommends creating rules of engagement that clearly set out the roles family members can play in the business, and even legal frameworks like trusts and holding companies.

But he feels it all boils down to communication: “Constant communication is key to reaching a deep level of understanding among family members, and discussion is still necessary to make roles clear and create clear ownership structures to prevent conflicting interests among family members from forming.”

The four families in the Wenken business try to agree to disagree on contentious personal issues and communicate openly.

The firm also subjects potential hires from the family to stringent criteria such as work experience in other firms and qualifications.

This is so as not to alienate other professionals from joining the business and also allows Mr Fu to have a more balanced view of the company by consulting professionals outside the family.

Ornamental fish seller Qian Hu Corporation makes a point of putting the interests of other family members before their own under a set of house rules developed over the years.

Before Qian Hu was listed in 2000, it adopted a pay structure in which family members who needed more money to support their own families would receive that amount.

This meant that chief executive and chairman Kenny Yap, a bachelor, received the lowest salary among his brothers although he is most involved in the running of the firm.

His other brothers play secondary roles or are semi-retired.

He said: “Always put other people’s interests before yours. It’s not always about ‘me, me, me’ but also about addressing other people’s needs.”

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