More family firms hiring outsiders

By RACHEL SCULLY

MORE family firms in Singapore are starting to hire outsiders for top positions to work alongside family members.

These firms refer to businesses which are either owned or managed by the founder’s next-of-kin or family members of subsequent generations.

A recent study of 692 locally listed firms by the National University of Singapore’s Business School showed that 60.8 per cent of them were family businesses.

Based on data from 2010 and 2011, these family firms dominated most sectors, including construction, hotel and restaurants, property and manufacturing.

Dr Marleen Dieleman, associate director at the Centre for Governance, Institutions and Organisations under the NUS Business School, yesterday said that among family firms here, 37.5 per cent of chief executives and 53.8 per cent of chairmen appointed over the two years were from outside the families.

Hong Leong Asia’s appointment of Mr Yuen Kin Pheng as its chief executive in 2011 was one such example.

Similarly, SingXpress Land and Yoma Strategic Holdings had appointed outsiders to helm the companies.

But for non-family executives to function well in these firms, they have to receive support from founders and family members, Dr Dieleman said.

In addition, these companies must have the right compensation systems in place and segregate ownership and management interests, she added.

Family firms here often struggle with getting the founder to retire and take a step back from the business after years of service, she said.

“The new generation of business owners and managers should think of ways for the founder to retire by distraction,” said Dr Dieleman.

The founder can, for instance, focus on charity works or other interests, as these may loosen his grip on the family firm.

Managing director and head of international clients and wealth structuring at DBS Bank, Mr Peter Triggs, said that non-family professionals in key executive roles can give an additional perspective on key corporate decisions such as dividend payouts.

Another concern for family firms is finding suitable successors, said Ms Tan Su Shan, managing director and group head of consumer banking and wealth management at DBS Bank.

“Many Asian family businesses are still owned by their first or second generation of the founding family,” she said.

Fewer than 50 locally listed firms have a history of more than 40 years, the study revealed.

Family firms often have to grapple with fragmentation of management control after a business is passed down to subsequent generations and more family members are involved, according to the study.

Dr Dieleman cited the example of Eu Yan Sang and how the family business was almost lost under the third generation’s leadership.

Fortunately, its fourth-generation leader and chief executive Richard Eu managed to consolidate the company, which deals in traditional Chinese medicine products.

However, Mr Triggs said that local family firms may not be as badly affected by fragmentation because of low fertility rates here.

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