More outsiders at top positions in family firms: study

By GRACE NG

FAMILY firms are appointing more professionals to top positions, according to a study on Singapore Exchange-listed family firms.

Carried out by the National University of Singapore Business School’s Centre for Governance, Institutions and Organisations (CGIO) in 2012, the DBS Bank-sponsored study found that 56 per cent of companies which experienced succession appointed outsiders to the positions of either chairman or chief executive officer.

This has been termed ‘partial professionalisation’ by the researchers, as a family member takes the other leadership role.

Dr Marleen Dileman, lead researcher and associate director of CGIO, said the arrangement “may be the best of both worlds”, combining talent from outside and inside the family.

“The traditional view of succession in family firms is one where a younger family member takes over from an older family member,” she said. “However, if the trend of joint leadership by family members and outsiders continues, family firms are advised to prepare for the entry of non-family professionals, as well as new family members.”

The study found that only 5.7 per cent of Singapore’s family firms had experienced leadership handovers.

Of those that had undergone succession, 16.7 per cent of firms had both chairman and CEO positions held by outsiders, while a third had family members in both positions.

Family members featured prominently on company boards, with 78.6 per cent of CEO positions and 72.9 per cent of chairman roles occupied by founders or their kin.

Directorships held by family members had average tenures of 18 years, compared to seven years at non-family firms.

The study also found a higher degree of individual ownership among the main shareholders of family firms: the top five shareholders of family firms held an average individual shareholding of 20.1 per cent, compared to 7.3 per cent for non-family firms.

However, the report titled “Asian Family Firms: Success and Succession” warned that transfer of ownership to subsequent, larger generations could lead to fragmentation. This is seen in countries with older family firms.

The report gave several suggestions in transitioning to “partial professionalisation”, such as reforming incentive and performance indicators, and changing owners’ behaviour.

“Some business owners may find it hard to let go, but they have to realise the value and future of their businesses are still dependent on a continuation of competent and effective management,” said Tan Su Shan, group head of consumer banking and wealth management at DBS Bank.

The study also showed that family firms, which comprised 60.8 per cent of the 692 SGX-listed firms studied, performed better than non-family firms.

Though generally smaller, they displayed an average of 3.7 per cent return on assets compared with 0.9 per cent at non-family firms.

This is the second family business study by CGIO.