

Keeping it in the family pays off in business

By [Susan Long](#)

FAMILY matters. Once just another throwaway truism, now no longer.

A trawl through this year's Singapore Promising Brand award winners, which features family-run concerns like barbecued pork retailer Bee Cheng Hiang, steak house chain Jack's Place and jeweller Lee Hwa, will quickly convince you that bloodline businesses today enjoy undisputed star power here.

But that should come as little surprise, as Mom and Pop Inc's are really the oldest, most natural, most stable and most efficient - as shown of late - form of business.

The tentacles of family ties spread far and wide. According to the World Bank, two-thirds of publicly-traded companies in Asia are controlled by a single shareholder, very often the founder.

An influential American study last year on founding family ownership and company performance revealed that families control one third of companies on the Standard & Poor (S&P) 500 Index and account for 35 per cent of the S&P's US\$10.5 trillion (S\$18 trillion) value. The average equity stake by families was 18 per cent, their share of board seats, three times that, and the average duration of their stakes, 75 years.

The research, done over 10 years, starting in 1992, by American University's Dr Ronald Anderson and Associate Professor David Reeb, of Temple University in Philadelphia, showed that contrary to popular conjecture, nepotism is not always bad.

In fact, companies passed down the generations do pretty well and perform consistently better than non-family firms.

When family members serve as chief executive officer (CEO), it was found, their performance outshines outsiders or 'hired hands'. Family-controlled public companies, for example, outperformed the market and boasted significantly better accounting. They managed 6.65 per cent better returns on assets and 10 per cent higher stock market valuations.

Overall, their findings debunked widely-held theories that family ownership is a less effective organisational structure which adversely affects minority shareholders.

They also correlate with what Dr Randel Carlock, Fontainebleau-based director of Insead business school's international family enterprises unit, has long-maintained his views about the competitive advantages of keeping it in the family.

Families, he told The Straits Times, bring with them a powerhouse of social, economic and emotional capital. For example, when Mr William Clay Ford, the scion and chief executive of the Ford Motor Company since October 2001, appears in Ford car commercials as spokesman, he exudes a high-octane 'star power', also known as 'positive advertising appeal'.

The fabric of a family-owned outfit is also more resilient in tough times. Family investors are more patient and tend to have a longer-term investment horizon, with trust creating a lower cost of capital.

They tend to view themselves as 'stewards' and their firms as assets to pass on to their descendents, rather than wealth to consume during their lifetimes. As such, they suffer less

'managerial myopia' and are less likely than 'hired hands' to puff up short-term earnings so as to collect an options windfall.

Most of all, the family way presents an invaluable, often irresistible, opportunity to share success via succession.

'There is nothing more rewarding than watching your child succeed and create a legacy based on your life's work,' Dr Carlock says. Even the most unsentimental of founders like to complete the proverbial circle of life by passing the baton onto their progeny.

In Singapore, in fact, most of the first-generation business titans, now aged 60 or over, practically 'pressed' the baton onto their children.

Many of the university-educated, second-generation heirs, like Aspial Corporation's CEO Koh Wee Seng, told The Straits Times they picked it up out of Confucian filial piety - but not without chafing at the bit first.

Ten years ago, the then-26-year-old, National University of Singapore business graduate was pursuing his interest in property development - and making profitable headway building and selling houses - when his ageing mother implored him to take over the family's jewellery chain.

Ten years of glittering success, 24 stores and a public listing later, he still cannot help but wonder if he would have made faster headway had he stuck with the unbridled individualism of driving his own dream, instead of grappling with the conservatism and collectivism of running a family show.

Another scion of a family business, Mr Keith Ng, 27, who has helped run his father's Lorenzo sofa manufacturing plant in China for the past three years, puts it this way: 'People of my generation are more self-centred and more inclined to put our own needs above anything else. At the back of my mind, I'm always thinking about moving on, trying out other careers and being free to explore other opportunities. So I sometimes feel tied down.'

Their dilemma is clear: They have plenty of other career options and they see inheriting a business as a burden, rather than a benefit. A sense of duty - to take on a custodial role for the larger good of the family - clashes with the desire to pursue personal life goals and aspirations.

Will the findings of the American study change the minds of these grudging heirs? We'll see.