People matters in family businesses

Manpower management is a key issue for those facing inter-generation leadership change and talent crunch, reports CHEN HUIFEN

Asian family businesses are less open to involving outside professionals in running their companies. — Anson Prof Tan Wee Liang, SMU, Lee Kong Chian School of Business

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Changing with the times

The new family of business combined with the global manpower competition is making talent attraction and retention a challenge.

According to an Insead white paper supported by ABN Amro Private Bank, a number of family businesses are increasingly tapping on wives, daughters and daughters-in-law to manage their businesses, breaking the tradition of leaving the business operations to sons and male relatives only.

"Increasing numbers of daughters have risen through the ranks of many lesser-known family businesses that play vital roles in the Asian region’s local economies," Leslie Glass, ABN Amro Private Bank human resource head for Asia, notes.

By family governance, it means stating the rules and procedures for decision-making, for example, spelling out the requirements for a family member before he/she may start involving outside professional managers in running their companies.

A number of Western academic studies have suggested a shift towards professionalisation for family businesses to grow and succeed across generations.

This entails the listing of professional managers outside the family to strategies and execute growth plans, while founding family members retain ownership or reserves their places on the board.

That may not apply in Asian family businesses, according to Dr Fock and Anson Prof Tan.

In a paper titled Coping with growth transitions: The rise of Chinese family business in Singapore, the two found that if the Western model of professional management is introduced at the point when the business is in transition — such as when the leadership has yet to establish authority or when the appointed successor does not show entrepreneurial flair — it may not succeed either.

"Defining family governance is equally important," says JP Morgan Private Bank wealth advisory group executive director Cynthia Lee. "Management and the family owners should have shared views for the family company including its ownership, succession, business, investment, estate planning."

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"Thanks to cultural changes, increased chances of higher education and a younger generation of fathers accepting women in the workforce, daughters have been gaining influence in more family businesses.”

For family-run SMEs that may not have the resources of bigger families, Anson Prof Tan says they need to implement a system of wealth sharing with their workers.

"It will require a mindset change," he adds. "The fear is the outsiders will be more parochial. Not so, they are also stewards who can account for actions. If you set them goals and they measure up, reward the professional. In this way, the conflict between family and outsiders can be reduced, and mutual benefits served.

"Taking the cue from bigger family businesses in the West, Dr Fock says compensating non-family executives can take the following forms:

1) stock compensation — to confer greater emotional meaning or status to the non-family executive
2) unusually high pay, perks or incentives — to make up for their inability to acquire stock or rise to the CEO position
3) multi-year profit bonus — to tie them longer and encourage a longer view
4) deferred compensation plans (non-compa-"