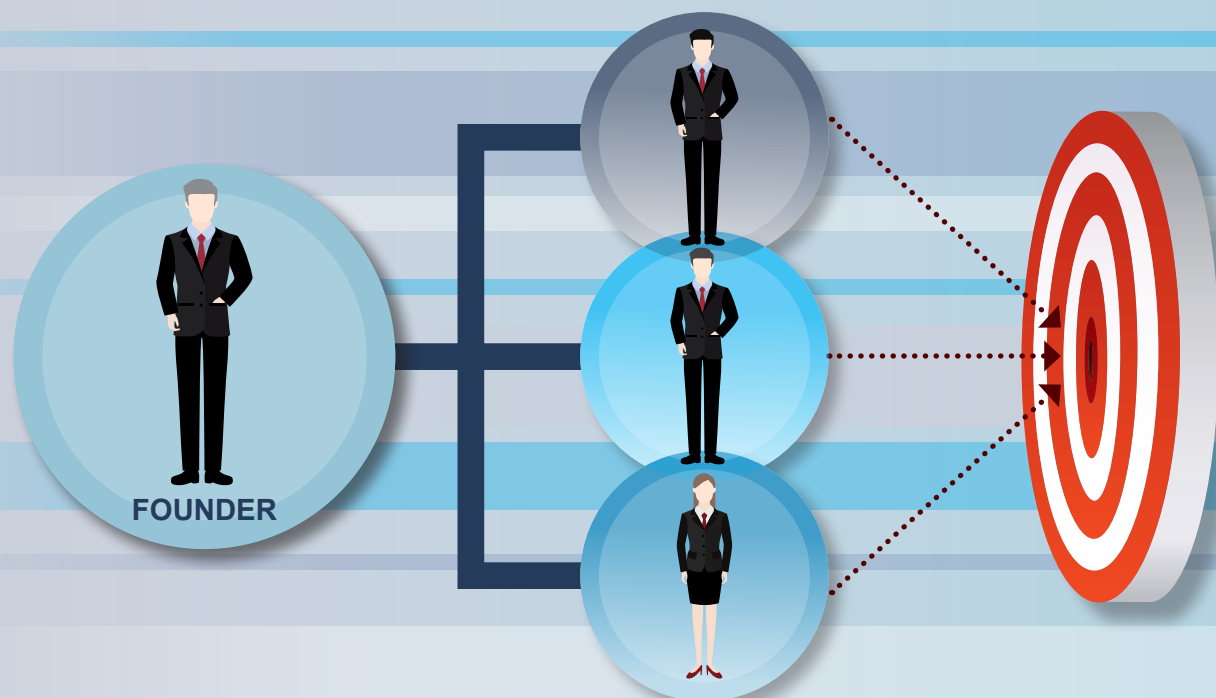


# Professionalisation of Family Firms

By MORTEN BENNEDSEN and BRIAN HENRY



**One reason generational transition is so difficult in Singapore and elsewhere is because it often involves the process of professionalisation. Many founders manage their firms without any visible leadership structure and with a very flat organisation. The next generation cannot copy this and thus professionalisation becomes a key challenge in generational transition.**

**G**enerational transition is challenging for family firms. In a 2015 INSEAD study published in the *Journal of Corporate Finance* in 2015, succession trends were surveyed in 217 publicly traded family firms in Southeast Asia. On average, the family businesses saw their shareholder value halve during a 10-year period of generational transition. The average value of the 47 Singapore companies in the survey rose by 22 per cent before a succession but dropped by 18 per cent afterwards.

## What is professionalisation?

Professionalisation is the process that aims to transform the firm from being dependent on a single key figure (the founder) to having an organisational structure. In this new structure, management resources at all levels are driven by a common vision that is transparent and accountable. And owner-managers delegate real decision-making authority to a group of highly capable managers.

Key aspects of what is involved is summarised in the diagram, "The Fundamentals of Professionalisation".

## The Fundamentals of Professionalisation



Professionalisation can be triggered by threats and opportunities:

- **External threats.** These include lacklustre financial performance, loss of market share and a lowering of customer satisfaction, all of which can force family businesses to rethink their organisational model. The pressure to turn the company around often becomes the trigger to hire external CEOs and get experts onto the board.
- **Internal threats.** These include situations where the business family do not have talented and interested successors or cannot agree on succession, ownership, strategy, day-to-day management or the roles of family members in the organisation. In such a conflictual environment, a professional organisation often emerges as a pacification tool.
- **Opportunities.** These include events when the firm experiences new business opportunities, strong growth, need for outsourcing production or investment from outside investors. The expansion of the company may require more professional leaders that have experience in industry and are able to take the firm to the next level. It can also be a requirement by new investors to invest in the firm.

### Benefits of professionalisation

Professionalisation is about creating and implementing a flexible organisation that is more relevant and transparent to all stakeholders, including employees, customers and shareholders. A well-executed professionalisation process has several benefits:

- Next generation leaders will find it more attractive to join professionally run family companies, where career plans and incentives are crystal clear.
- Outsiders will find the company more interesting as well. By breaking the glass ceiling, the family firm can attract highly qualified professionals who feel confident in expanding their responsibilities within the hierarchy.
- Family firms will be less exposed to the key personal risk factors of their owner-managers such as sudden health problems or departures or even loss of life.
- Investors will be prepared to pay a higher price.
- It is easier to attract good board members who feel comfortable contributing their expertise and sound management skills to family members who want to listen.

### Professionalising the business

Professionalisation often occurs when a family leader changes the organisational structure inherited from the founder. In so doing, the family makes the organisation relevant to managers and employees. Transparency is a must to ensure the mandate and power of an external CEO *vis-a-vis* the individual family members.

Professionalisation uplifts the business strategy from one based on emotions and feelings. In conjunction with the existing board, family leaders will select a new chair and choose suitable board members, external and internal. In addition, they will nominate a management team that is accountable to the board. They must also re-evaluate the role of each family member for their talent and contribution to the firm. Those not suitable should be asked to leave.

In general, whether the CEO comes from the family or from outside, this makes almost no difference. For most family firms, however, hiring the first non-family CEO is a very big step in the

professionalisation process. Too often, the family regrets taking the risk and ends up replacing the CEO.

So it is important to select an external manager with strong business skills and with a keen understanding of how to operate within the family firm. Beyond that, the external CEO must build honest and transparent relationships within the family. This includes accepting the rules and procedures, and values and traditions, that have been passed down by the founders. As important, the CEO has to avoid taking on the role of family adviser as this will create a dissonance preventing the family from speaking with one voice.

### The role of the board

The board can play a pivotal role for a professionalisation process to be successful. Many founders make the mistake of assuming that a CEO will be both a family adviser and a business leader, when the dual roles should be split. The chairman of the board should be viewed as the adviser to the family, and the CEO should focus on running the business.

## Professionalising Eu Yan Sang

Eu Yan Sang International is a good example of a Singapore family firm who appointed a non-family professional as its CEO. In October 2017, Aaron Boey was promoted from COO to CEO, following the retirement of 70-year-old Richard Eu who had run the shop for the previous 30 years. Boey is the first external CEO in the 140-year history of the traditional Chinese medicine business.

Having planned the succession for 10 years, the Eu family, which controls the company through its 23.8 per cent stake, wanted to avoid putting the firm and its employees at risk from a sudden health shock of its ageing CEO. To help with the transition, Richard Eu has stayed on as non-executive chairman, while two younger members of the Eu family have taken on leadership roles.



## Ensuring the survival of Evergreen Group

In an INSEAD case study on the Evergreen Group, it was shown that the board played a crucial role in professionalising the family firm and ensuring its survival. The Taiwan-based corporation with a 50-year history has diversified business interests in land and air transportation operations and an international chain of hotels. It owns EVA Air, Taiwan's first and only privately-owned international airline, and is one of the world's largest container ship operators.

Following the death of Evergreen's founder Chang Yung-fa in January 2016, his youngest son by his second wife was expected to take over the reins of the company. However, Chang Yung-fa's three sons by his first deceased wife, who together owned a majority stake in the company, put a stop to this. Believing that the appointed heir was not experienced or qualified enough to lead the group, they organised a board meeting that stripped their younger half-brother of his decision-making rights in the organisation. The leadership role was handed over to management professionals.



Meanwhile, the chairman of the board and the board members should be deeply involved in the entire professionalisation process since families may have little experience in this area. They might feel insecure about their ability to contribute to a process whose value may still be not apparent to them. Apart from guiding the family through the process, the board can protect professional CEOs from getting too involved in ongoing family issues.

Family firms have long dominated the economy in Singapore and have contributed a significant share of the nation's gross domestic product. Pillars of society, enterprising families deserve better when confronting the transition to professional leadership model.

Singapore's family firms should wisely engage the help and support of a committed board, with experience in both family business and management, one that will challenge the family and ensure that the firm's performance will not be impacted during the process of professionalisation. In Singapore, the time is right to strike the right balance between board and family. ■

*Morten Bennedsen is the André and Rosalie Hoffmann Chaired Professor of Family Enterprise and Academic Director of the Wendel International Centre for Family Enterprise at INSEAD. Brian Henry is an INSEAD Research Fellow.*