

THE BUSINESS TIMES

SINGAPORE

Supplements

Ensuring a smooth transition

1,912 words
8 April 2011
Business Times Singapore
STBT
English
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Four family business chieftains share their views on the various issues connected with succession in their enterprises

PASSING the baton in a family business can be a tricky affair. Besides operational and administrative issues, other factors can come into play, from different management styles between the older and younger generation to power struggles and family politics. Fumbles in the process may well become a serious setback or worse, signal the beginning of the end for the enterprise.

Four family business chieftains shared their views at a recent seminar organised by the UOB-SMU Entrepreneurship Alliance Centre, as part of the centre's fifth anniversary celebrations. Roland Ng of Tat Hong Holdings, Jocelyn Chng of Sin Hwa Dee Foodstuff Industries, Mark Lee of Sing Lun Holdings and Clinton Ang of Hock Tong Bee may have come from different backgrounds and industries, and taken over the reins under different circumstances, but they do share one trait. They are living proof that family-based succession can be viable for the business - provided certain conditions are met.

Cranes, clothes, sauces and spirits

For Mr Ng, Tat Hong Holdings' managing director, many of his colleagues are also his siblings - seven brothers and five sisters. The company was founded by his father in the 1970s as a supplier of cranes and heavy equipment. Though the business is largely run by family members, a line is drawn at the hiring of in-laws.

For a business that had grown sizeable but aimed for further expansion, going public was a predictable next step - and Mr Ng, who joined the family business in 1979, harboured such ambitions. In 1991, he became Tat Hong's managing director. The company first listed on the Australian Securities Exchange in 1997 before getting a secondary listing on the Singapore Exchange in 2000.

Today, Tat Hong is among the largest crawler crane lessors in the world, supplying cranes and heavy equipment to different industries, not just in Singapore and South-east Asia but also in China and Australia. For the full year ended March 2010, the company's revenue was nearly half a billion dollars.

For Ms Chng, managing director of Sin Hwa Dee Foodstuff Industries, the job became hers more abruptly and under more trying circumstances. Ms Chng found herself taking over the business at 21 when her father passed away. She was then in her second year at the National University of Singapore. She completed her degree nonetheless, with the support of her mother, who often prepared family lunches at the factory.

Of course, these family business owners know the potential pitfalls of succession based on biology. There are obvious risks to placing the fate of the company in the hands of a greenhorn who may be ill-equipped for the role. One solution is for the heir apparent to earn his/her stripes working in another company. Sing Lun's Mr Lee had been drawing a lucrative salary, working for a public-listed company when he chose to jump (into the family) ship. 'There was an agreement that nobody could come back to the family business unless you have been a manager outside and have a track record in managing people,' he said. Knowing that his father had plans to take the company public, he wanted to experience working at a public-listed company.

It was not an easy transition. In 1999, the technology bubble was at its peak and companies were dishing out not just high salaries but also dangling stock options with their promise of instant riches. 'You can get seduced by your immediate needs, or go back to the family business and take a pay cut,' said Mr Lee. Today, Sing Lun Holdings is one of the world's largest suppliers to clothing brands like Puma, North Face, Burberry, Gap and OshKosh B'Gosh, as well as department stores like Macy's and Marks & Spencer. Last year, it won Macy's Five-Star Supplier Award - for the 12th year running.

While the presence of family members can suggest greater support, this may not always be the case, pointed out Mr Ang, managing director of Hock Tong Bee, a seller of wines and spirits. Earmarked early as the successor, Mr Ang, who was working in a Wall Street bank, took over the gunny sack company

founded by his grandfather in 1938 - with strings attached. The company had 35 employees at the time, with nearly half of them being relatives. Mr Ang cut down the proportion of family members so that he could push through the reforms he felt were needed to take the company to the next level. Twelve of them, who were in the generation before his father's, opted to retire when they saw the 'massive' re-engineering of processes that the company was going through. The rest were his aunts. 'They all contributed a lot to the business but they all had their way and my father was one of the nicest guys around. He always wanted everyone to be happy. But sometimes in life and in business, you cannot make everyone happy,' said Mr Ang.

'Towards the end of my father's life, they eventually settled for a decent package because they knew if they didn't and my dad suddenly passed on, they'd have to deal with me. And I've been known, with my American education and banking background, to have no grey area. You have to do what is best for the business to go forward,' added Mr Ang.

Today, Hock Tong Bee, under Mr Ang, is better known by its Cornerstone Wines brand, which can be found in 20 countries across the Asia-Pacific.

The company is not only an importer, exporter, wholesaler and retailer of wines and spirits, but also provides services in areas such as wine investment, logistics, corporate gifts and event planning.

Values and tradition

Despite their achievements, this group of family leaders have not forgotten their roots. They maintain a strong sense of respect for their parents and the values they passed down. Worried that his father might not know what to do with his time after handing the company to him, Mr Ng started an investment company to keep him busy.

At Sing Lun, Mr Lee's father Patrick remains the company's executive chairman, 'and will always be, as I value his experience and advice', said the son.

Ms Chng's love for her family extends to Sin Hwa Dee's staff. 'We treat everyone as an extended family,' she said. 'If they have problems or issues, they can go to their managers or department heads.'

A junior employee passed away five years ago, leaving behind his widow and four children. Sin Hwa Dee under Ms Chng helped take care of the family. 'Until today, our company still supports the family,' she added.

However, beyond family-like bonds, what matters most to Ms Chng when it comes to her employees is talent and attitude. She empowers them to pioneer new projects while guiding them; even mapping career paths to reassure her staff that key positions are not reserved for family members alone. 'We have to treat everyone fairly and impartially. And we always need new leaders and fresh blood to keep the company relevant. I'm happy to say that we have a young and dynamic team and we work well together. Sometimes I can be very conservative ... but sometimes they will also push me forward and say: 'Let's try and take the risk',' said Ms Chng.

Tat Hong's Mr Ng agreed. 'You can't depend only on family members if you want to grow a business as some of them are just operations people. You have to include outside professionals,' he said.

However, to minimise complications, Mr Ng would not put an 'outsider' in a department where one of his brothers was already in charge as it would 'create relationship problems'. Explained Mr Ng: 'My brother would wonder why I hired someone to replace him when he was already doing his job well.' So as the company expanded overseas and new branches were opened, 'outside professionals' were brought in to helm these operations. They would have the space to grow the company without having to manage sensitive relationships; family members would be able to carry on with their jobs and responsibilities. And everyone is happy.

Mr Ang, with an eye on taking the Cornerstone brand international, says that Hock Tong Bee's Singapore operations are positioned as the 'knowledge base and epicentre' of the business. As such, the strategy is to 'break' the company into strategic units and companies and make the managers shareholders and stakeholders. Mr Ang works closely with his managers on projects as he believes this helps employees feel they are part of the 'family' without actually needing to give out stocks and shares.

At the end of the day, Mr Ang added, somewhat tongue-in-cheek: 'We always promise good food, good wine and great company!'

Planning for the future

Would any of these family business owners insist on having a relative head their enterprise when it comes to the time to pass the baton? To that, the unanimous answer seemed to hinge on the successor's capability rather than DNA. Mr Lee is already training his CFO, for instance, to take on the operations role. He said: 'At least I know if my plane drops from the sky, there is someone to carry on the business.'

Of the four panellists, only Mr Ng and Ms Chng have children already working or showing interest in the family business. However, both preferred not to confirm if they were grooming third-generation successors, saying only that it was a possibility. Mr Ng said that his business is already 70 per cent run by non-family professionals. 'When you grow to a certain size, you cannot treat your company as a family business. You must have good systems and professional people in place.' Even if his son succeeds him, he added, there will still be many overseas business units run by non-family members.

All four panellists agreed that communication, open-mindedness and strong leadership are, by far, the most important considerations. Mr Lee noted that the older generation must be open to suggestions from others. 'Sometimes as the business changes, we need to absorb new ideas. The younger generation also needs to articulate their ideas coherently in terms of dollars and cents and how it would impact the business.'

Ultimately when it comes to making a decision, there can be only one leader and the rest must follow. The leader must have a clear vision of where the company will go and what it will achieve in the next five to 10 years.

'I tell my family that we can put our brains together to brainstorm over a new project, but when I say 'go', you cannot turn back, as there must be only one leader,' said Ms Chng.

This article was contributed by Knowledge@SMU, an online research portal of the Singapore Management University

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