Companies, People, Ideas

Rethinking Family Ties

Donald Frazier, 04.12.10

One of the most widespread and intractable practices in Singaporean business--the once-universal preference for family members of management for plum positions and advancement--may be on the wane, according to an academic who has watched the local business culture evolve all of her life.

Very few companies--in Singapore or elsewhere in Asia--have emulated Pteris Global in passing an outright ban on hiring family members, according to Annie Koh, dean of executive education at Singapore Management University and a consultant to several companies. But scores of them have begun to step back from nepotism, limiting the number of family members in management and providing a clear career path for senior managers from the outside.

The three founders of Pteris Global, wanting to protect the fledgling outfit from a succession fight, made a highly unusual pact to forswear nepotism at the company's birth in 1979. "There is now a tremendous pressure on businesses of all sizes to adapt to a new set of circumstances," she says. As one of the several Asian societies with a low birth rate and thus smaller families, Singapore needs new talent: "Families don't have to support as many people as they once did." Given the migration of the Singaporean economy over the last generation from manufacturing and shipping to finance and technology, recruiting for the right mix of skills is often impossible within a family.

She also points to the rules imposed on companies listing on the Singapore Exchange, calling for no more than two family members to be in the minority on the board of any publicly traded firm. Many companies submit to these rules, she says, to gain access to financing from the capital markets. Even so, old practices die hard: "Many companies dive into a public listing and pull right out again when they find they don't like the higher level of scrutiny. The fishbowl is not for them."

Unlike their Western counterparts, she says, Singaporean companies can gain access to capital without resorting to the exchange because the tradition of investment from extended family networks remains strong.

And cultural expectations also remain intact. Christian Stewart, a Hong Kong consultant to family-owned businesses throughout Eastern Asia, sees a good deal of resistance to change. "Continuity is still a quite important goal where equal ownership among heirs prevails," he says. "There's only so far management can go outside the family without diluting that principle." And family management can be inevitable in any case, for companies in remote locations or jobs that require special skills that must be groomed. Other Asian markets are adopting similar practices, he says. Hong Kong requires family-run companies to include nonexecutive directors from outside the family and the disclosure of all ownership interests; in Japan it is the norm for the founding family to retain only a 10% interest in ownership.

The final verdict on nepotism in company management may belong to Singaporean managers themselves as they vote with their feet. Pteris' chief financial officer, Steven Lwi, puts it this way: "Without the no-relatives rule, there's no way I would have ever gotten to my current role in the company."

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