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## The Source of Competitive Advantage in a Family Business is the Family

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*When family businesses expand overseas, they do well to capitalise on their unique core values and cultures. But these inherent strengths should be tempered to fit into the new environments, advised Sanjay Goel, strategic management and entrepreneurship professor, Labovitz School of Business and Economics, University of Minnesota Duluth. Goel spoke on the topic, "Sources of competitive advantage in family business – bringing the family back in," at the inaugural Ngee Ann Kongsi annual lecture, Singapore Management University (SMU).*

*According to Goel, while no two family-owned businesses are alike, they have a common reference point in that they can quickly identify themselves with other family-owned businesses and communicate instantly across cultures. Despite strict rules of entry into a family business, instant access is feasible by virtue of family ties. Since it is expected that the company will be handed down to the next generation, a family business enjoys a competitive edge in terms of continuity and strategic resources such as knowledge, core values and family culture. However before expanding overseas, he said, family businesses should carefully review their strategies and, if they do, follow up with periodic post-event audits.*

*Goel was joined for a panel discussion afterwards by Richard Eu, CEO, Eu Yang San Group; Robert Yap, chairman, YCH Group; and Andreas Sohmen-Pao, managing director, BW Shipping Managers. The panel was chaired by SMU deputy president and provost Tan Chin Tiong.*

*Below are edited excerpts from the discussion.*

**Tan:** I would like each of the panelists to speak to us for five minutes, and then we'll have a question and answer session.

**Eu:** I think the culture we have at Eu Yan Sang is probably the thing that sustains us. One of the strongest factors that contributes to the success of our business in traditional Chinese medicine (TCM) is the issue of trust -- trust in Eu Yang San and trust in our products. My great-great-grandfather wrote a poem from which is derived the names of successive generations. The poem reminds us that, to be successful in business, we have to live an honest life and be straightforward in [our] dealings. It is a code the family has adopted. That's what I'd like to share with you today.

**Sohmen-Pao:** As a company with an Asian heritage, we recently made three international acquisitions -- one in Sweden and two in Norway. Time will tell whether they are judged to be successful for BW Shipping. In the first case, we actually went in with a strong hand, closed down their office and took on a few of their people, effectively imposing our family culture on them. In the second case, we left the management team intact and no family member was involved. The process was left to an independent [and] we sort of left the culture in place. In the third case, our family was not involved in the acquisition from beginning to end. It was run by a professional team from Norway,

It's probably an obvious thing to say that every acquisition is a balancing act. If you don't take sufficient charge, impose some culture, you may find the acquisition going out of control. But if you go in too strongly, sometimes it results in desertions and it can get out of control. We need to judge each case on its own merits.

**Yap:** Well, I was thrust reluctantly into the family's logistics business. It's a tough business. My dad slogged from morning till late at night. Because of certain events, I was supposed to be involved initially for two years in the business. My aim then was to improve professionalism as a family business does have negative connotations -- how we scale, how we compete.

After so many years building it up, I realise the foundation of the company rests strongly on the family structure. I realise that the family bond, the culture, make the whole thing come alive. How far the company has come can be seen by the type of clients YCH services. We manage the logistics of Dell Computer in this part of the world.

The fact is that our family is an extended family. Senior positions are not confined to family members. We have senior managers with other surnames who join our inner circle, so to speak. We can be described as a professionally organised family organisation. Our business philosophy embodies four values -- reliability, integrity, sincerity and enterprise -- which make us different.

**Tan:** The presentation by the speaker and points of discussion by the panelists touched on qualities like core values, culture and trustworthiness. These are generic and relevant to any business, not just the family business. How do you reconcile the linkage with family businesses because these are common corporate values?

**Sohmen-Pao:** I would answer by saying that [the linkage applies] to the extent that trust is the cornerstone of successful business dealings. When we talk about trust, it is about long-term dependability and reciprocity, that you care about your reputation and track record. This is where I feel the family has an edge. Empirically, family members have longer staying power in a company than a modern-day CEO. When you are doing business, it's useful to deal with an individual because a company can be faceless.

**Tan:** Let me take up on this point. You worked for some time with Goldman Sachs. What is the difference between the trust that clients have in that partnership as distinct from that of a family business?

**Sohmen-Pao:** I think that's true. I can name some financial institutions where trust has broken down. It may be due to bad management but, generally, you can have more trust in an individual track record than you can with a corporate track record. As you know, in a corporation a leader may change and [a new leader may] take it down a different path. I can expect the individual to behave in a consistent manner in the long term. I do agree that family businesses have no monopoly on those values just as there is no monopoly by corporations on access to talent or capital.

**Goel:** It's true that many of the values are universal, but I also covered the point that the devil is in the execution. In a corporation I can write a perfect mission statement but can I live up to it? When things are well, I can treat every employee as family. But when things are bad -- and Wall Street is saying "show me the results" or "cut costs" -- then I may have to lay off employees. On the other hand, a promise that is made by a founder who is here for life carries much more weight.

**Tan:** The Port of Singapore Authority and Singapore Airlines are two companies known for their operational efficiency. They are not typical family-owned businesses.

**Goel:** Again, you have to bear in mind that family-owned businesses have a longer view of the future. So I have to look at the negative repercussions of my decisions not just on my business but also on my family. That creates a bit more pressure when making investment decisions and operational decisions which may not be the most efficient [unless] you look at them from a long term perspective.


**Tan:** Assuming there is a problem finding talent within the family, isn't it logical to look beyond the family as, ultimately, the objective is to grow your wealth?


**Eu:** The answer is yes. You have to find the best manager for the job. Sometimes talent within the family may skip a generation. In a family business, our horizons are not the same as a CEO parachuted into a job. You think of what you do today [and how it] will affect your children and grandchildren. A non-family member who buys shares in a listed company that is family-controlled may have to look at issues from that point of view -- that a family-owned business has got certain characteristics.

**Sohmen-Pao:** A few words about family members in management. We are testing ideas in our company now. Currently, we have four subsidiaries; two are run by family, two are run by external professional CEOs. It is not necessary for family members to be in management. To be successful, a family business should be looking for managers with merit. There are plenty of ways a family member can play a role either as non-executive director on the board or as a shareholder. In two of the companies we have executive directors and in two others non-executive directors on the boards. The other thing that we have is a majority of independent directors on all the boards.

**Yap:** About this continuity of family, we really work very hard to grow it. We'd like the next generation to take over and do something greater but you cannot force it. It has to come from passion -- that's what drives us. What I do with my children is that I try to interest them. We talk about it when we go out to allow them to understand the business. Hopefully, if they see the value from being involved in the family business, that's good. That's one track.

But if we separate ownership and management, then the company can go on for long. If family members have no ambition to run the company, they can let the professional managers run it. The company can still be family owned but managed by professionals. These are issues that are of concern to people like us in the family business. It's not so much the money but trying to leave a legacy.

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