

## COMMENTARY

# Loyalty and limitation for professionals in family firms

By Marleen Dieleman

**I**N the management of Asian family firms, owners often rely on trusted professionals to handle the execution of day-to-day business. These so-called loyal lieutenants spend years working with the firm's owners, becoming intimately familiar with both the business and the values of the family owners.

This has many advantages: a clear family leader with an army of experienced non-family executors is a very efficient way to run a business. Long tenures also build consistency and deep experience, as well as closely knit teams that can move fast. In this context, most loyal lieutenants become excellent managers.

There is however also an argument that this model can be a bar to attracting the most capable outside talent. Since decision-making is often in the hands of family members, even the best managers can face career limits. Another risk is that less talented loyal lieutenants may use the family's trust to block the ascent of capable middle managers whom they see as a threat.

Of course much can depend on the context of the firm in question. Stable businesses that are not especially complex or technologically advanced can find that management by experienced, loyal lieutenants works well for their needs.

One drawback of relying too much on a few loyal lieutenants comes from the limitations it poses on growth, especially growth that brings new levels of complexity.

For example, family firms that expand over-

seas or that enter industries requiring more advanced technology or coordination, can often find themselves losing their way. This is because trusted insiders possess only the same experience as the firm's owners – having served them for so many decades.

Despite a general lack of familiarity with the new initiatives, the inclination is usually to leave decision-making and execution in the hands of insiders. Inevitably this means top management spending considerable time and effort catching up, irrespective of whether they have the capacity to adapt themselves to the new ways of doing things.

In situations where family owners embark on an ambitious strategic transformation, taking the firm into new territory, top management is therefore immediately stretched, posing a serious challenge to achieving stable growth.

### TALENT SHORTAGE

The talent shortage is often most pressing at headquarters. In my research I always find it remarkable how lean Asian family firms are at the top, with little expertise or spare talent to work on new things. When an unusual opportunity or crisis arises, or a major strategic change, everyone is pulled in to help, including an array of ad-hoc external advisers.

Bringing experienced outsiders into the business would avoid this costly learning curve, yet family firms can often find it hard to integrate new talent.

This is not because owners do not appreciate it, but because the family firm is rarely the right

environment for outsiders to succeed. A business that works well with a closely-knit, lean and agile owner-led team rarely features clear key performance indicators, detailed strategic plans, board charters or other procedures common in multinationals.

Without clear expectations or resources to support top management, this means it is hard for outsiders to perform. Ultimately most external hires last no more than a year or two. There is no labour market for "loyal lieutenants" – one can only groom them over many years.

So what is the solution?

Sometimes family firms opt to create semi-separate units under loose guidance that are run by outsiders who may also hold some equity to tie them to the family. However this model can run into complex monitoring problems.

Other firms may even resort to hijacking other people's loyal insiders, but they can find they do not share the same values.

Based on observations of some highly successful Asian family firms, here are some internal practices that can help expand a firm's expertise:

**Broaden the top:** Great family firm patriarchs will regularly send their top layer of management for outside training and exposure to other ways of working, despite them being stretched running a range of firms.

**Move the middle:** Thanks to the ample opportunities provided by owners, motivated mid-career professionals in family firms often find their career path is faster than in global firms.

Middle management is a flexible and trusted resource that can be promoted to new challenges on their own, instead of under the tutelage of more senior loyal staffers.

**Strengthen the base:** Building more slack at lower layers allows family firms to scale up faster at a lower cost. For this reason great family business leaders are constantly scouting for entry-level talent irrespective of job openings. New, young talent provides ad-hoc top management support and a testing ground for talented future loyal lieutenants.

**Change yourself:** Any great ambition must come with a willingness to improve oneself. Similarly, to access a greater pool of good non-family management, owners must create better organisations. Leading change by example is an essential attitude for family owners who seek to move from successful to extraordinary.

Family firms have important advantages such as strong values, high levels of trust, consistency and a long-term perspective.

Relying on trusted insiders need not pose a limitation on growth as long as owners continually broaden their organisation beyond what they themselves can do. Ultimately, for any ambitious family business, successful transformation begins with a change in the owners themselves.

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