Not another study of great leaders

Entrepreneurial leadership in a mid-sized family firm for its further growth and development

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Abstract

Purpose – The purpose of this paper is to explore the nature and process of leadership in a mid-sized, family-controlled bank in Singapore in order to understand how it grew and developed under family control.

Design/methodology/approach – The paper draws on distributed leadership as a theoretical framework in exploring how a major corporate acquisition was conceived and undertaken to advance the bank's growth and development. Data were obtained through structured interviews with managers based on a three-part discussion protocol following a pre-interview questionnaire.

Findings – An "extended" system of leadership involving different levels of managers is developed that successfully completed the acquisition and produced significant growth from the combined businesses.

Research limitations/implications – Based on a single case, the paper does not claim that the observed phenomena are typical of mid-sized family-controlled businesses (FCBs). However, for scholars, the paper suggests how studying leadership practice in such FCBs may produce insights that challenge the popular view of an all-powerful family leader by substituting a more nuanced perspective of a collaborative leadership system that facilitates entrepreneurial activity down the firm.

Practical implications – For managers, the study suggests how deeply developed collaboration among different levels of managers may produce competitive advantage for FCBs that seek further growth and development.

Social implications – It is suggested how further research of the growth processes of mid-sized FCBs may maximize the value of entrepreneurial opportunities for their "extended" family of stakeholders, specifically for their customers with whom FCBs typically enjoy close relations.

Originality/value – The paper fills an empirical gap in the literature on competitive, mid-sized FCBs by articulating a process in which a unique competency is developed for their ongoing survival as a family-controlled enterprise.

Keywords Family firms, Leadership, Entrepreneurialism, Entrepreneurs, Competitive advantage, Business development

Paper type Research paper

1. Introduction

Despite popular interest in family-controlled businesses (FCBs)[1], little is known about why and how leadership[2] matters in this form of organization. Notably, little is known about how leadership practice[3] in FCBs may help them survive, despite scholarly calls for case-based research of how entrepreneurial leadership may help FCBs grow and survive under family control[4] (Habbershon, 2006; Karra *et al.*, 2006;

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Le Breton-Miller and Miller, 2006). This paper seeks to fill the empirical gap on leadership and entrepreneurial activity in FCBs by suggesting how leadership practice has helped a mid-sized[5] FCB to grow into a large, publicly quoted firm (PLC) while remaining family-controlled.

Two research questions were developed to address this gap. First, what is the nature of leadership in competitive, mid-sized FCBs, and second, how might leadership in these FCBs contribute to their growth and development under family control? We suggest that addressing both questions requires a deep understanding of how leadership practice in such firms may produce outcomes intended by their key actors (Spillane, 2006; Spillane *et al.*, 2007).

The paper makes two contributions to scholarly understanding of successful, mid-sized FCBs. First, it describes and analyzes an "extended" system of leadership in Sinobank[6], a commercial bank in Singapore that has recently grown from a mid-sized enterprise into a world-ranked PLC under family control. By an "extended" system of leadership, we mean a developed method of directing and controlling Sinobank that was exercised by family directors and various non-family managers of the bank who collaborated for this purpose. Leadership of Sinobank's process of growth and development was therefore "extended" down the management hierarchy. This research on Sinobank's "extended" leadership is important because most studies of FCBs have portrayed their leadership in terms of the entrepreneurial behavior of a single family leader, while non-family managers are usually regarded as mere supporters of a family-led agenda (Redding, 1990/1993; Gomez-Mejia *et al.*, 2003). By contrast, this study of how non-family managers were able to take a leading role in the development of a competitive, mid-sized FCB suggests that an entrepreneurial system of leadership was already established in the FCB.

The paper's focus on mid-sized FCBs is motivated by the paucity of research on this important form of organization. FCB studies have dwelt on small and very large FCBs while largely ignoring mid-sized but still FCBs (Zahra *et al.*, 2000; Sharma, 2004). This implies that FCBs face significant problems in growing beyond small size, specifically in industries requiring specialist expertise (Carney and Gedajlovic, 2003). Yet, the available literature on mid-sized FCBs suggests that they constitute a distinct form of organization with a propensity for further growth and development based on their record of initial growth (Zahra *et al.*, 2000). It is not in fact unusual to see FCBs in competitive businesses that have grown and developed into large organizations under family control (Miller and Le Breton-Miller, 2005b; Le Breton-Miller and Miller, 2006). Commercial banking seems a topical example of such a business, while Singapore's open, well-regulated economy offers a credible basis for extending the paper's findings to other constituencies.

The paper's second contribution follows from its description of Sinobank's system of leadership in suggesting how leadership practice in mid-sized FCBs may also become an important entrepreneurial tool in sustaining this form of organization under family control (Sorenson, 2000; Steier, 2001). Here, the paper adopts a perspective of distributed leadership as a guiding framework for exploring leadership practice as it draws the focus of research in FCBs away from individual leaders towards a more nuanced interest in how leadership is practised in those organizations for their survival (Spillane, 2006, p. 89). By distributed leadership, we mean a process of directing and controlling the firm that involves co-performance of important actions by a number of parties who participate in the process (Spillane, 2006; Spillane *et al.*, 2007). In Sinobank, participating parties were managers at several management levels who were groomed to play a leading role in the bank. In this paper, we describe the nature of this system in the way that senior, non-family managers in Sinobank distributed leadership of a major corporate acquisition to low-ranked branch managers ("line managers") as a means of integrating the acquired firm with the existing business and producing growth from the combined businesses.

This paper has six further sections. Section 2 reviews theories of leadership and entrepreneurship relevant to the research. Section 3 explains how data on Sinobank were obtained and analyzed. Section 4 presents a critical incident[7] of FCB leadership within an "extended" leadership perspective. Section 5 discusses the practice of Sinobank's leadership system. The paper concludes by suggesting how our "extended" leadership perspective contributes to scholarly and management understanding of mid-sized FCBs, specifically in the way that leadership practice may become a unique source of their competitive advantage.

2. Literature review

2.1 Leadership in family firms

Substantial literature on leadership exists in relation to small- and mid-sized enterprises (SMEs) (Cope, 2003; Zhang *et al.*, 2006), with the most popular form of SME being the family business. Here, agency theory has greatly influenced scholarly views of leadership in FCBs where it is suggested that they are capable of achieving impressive growth under a well-connected family leader-entrepreneur (Fama and Jensen, 2003). The perceived strengths of "family entrepreneurship" (Heck *et al.*, 2008) may be encapsulated in the notion of the family leader's "personalism" (Carney, 2005). "Personalism" is an unbounded authority to influence the FCB that family shareholders believe they hold because of their ownership of the business (Carney, 2005). Many small FCBs are highly efficient organizations where the family leader has used his personal influence to engage a "kinship network" (Karra *et al.*, 2006, p. 870) of family and friends to jumpstart the business. While kinfolk share a natural interest in the FCB, the family leader can also "extend" the FCB's influence to potentially useful, non-family contacts. Such contacts will normally belong to the same social network as the leader (Redding, 1990/1993), who will have accumulated considerable favor from network members (Wong, 1998).

However, it is suggested that as FCBs develop, problems normally arise that hinder their further development, typically following a conflict of interest among family shareholders (Yeung, 2000). Such shareholders may be distantly related (Handler, 1994) and non blood-related (Ng and De Cock, 2002) parties with different interests from those of a dominant family group[8]. Conflicts among shareholders produce inertia in the FCB's development (Kellermanns and Eddleston, 2004), while the controlling family's failure to recruit talented managers may presage the firm's decline (Carney and Gedajlovic, 2003).

This perspective of FCB leadership has been applied in explaining the rise and decline of FCBs in Southeast Asia. Although their entrepreneurial founders exploited the disorganized conditions of Southeast Asia following the Second World War, it is suggested that FCBs did not adapt to subsequent business conditions because of their rigid, founder-centered system of management (Redding, 1990/1993; Chan, 1996;

Carney and Gedajlovic, 2003). Typically in Southeast Asian FCBs, subsequent generations of "altruistic" (Schulze *et al.*, 2003) family members prioritized the welfare of family members over those of the firm, and the market values of most FCBs have declined over time as they have become less competitive (Claessens *et al.*, 2000).

2.2 Leadership in entrepreneur-led businesses

Similarly, the entrepreneurship literature dwells on the leader's role played by a venture's founder-owner in launching a successful venture (Ghosh *et al.*, 2001; Riquelme and Watson, 2002). A key assumption is that successful entrepreneurs possess certain unique attributes of personality (Baron, 1998; Kets de Vries, 1996) and capabilities (Gartner, 1990) that can attract the support of resource providers (Baron and Markman, 2003). With a track record of successful ventures, an entrepreneur-leader may then become indispensible in establishing a new venture (Lounsbury and Glynn, 2001; Martens *et al.*, 2007).

It is further assumed that other stakeholders including the firm's professional managers play a passive, followers' role (Vecchio, 2003). Both entrepreneurship and FCB scholars have played down the role of recruited managers in a venture's success (Sorenson, 2000; Gomez-Mejia *et al.*, 2003), often portraying them as agents of the controlling family (Claessens *et al.*, 2000). Yet when ventures fail, it is often explained by shortcomings of the management team around the entrepreneur (Ghosh *et al.*, 2001; Riquelme and Watson, 2002), without questioning the entrepreneur's own leadership skills (Sandberg and Hofer, 1987).

From such studies we learn little of how FCB managers may contribute to the FCB's growth and development, although we know from entrepreneurship studies that leadership and entrepreneurship matter in developing a successful venture. There would therefore seem to be a void in understanding the nature of leadership in FCBs and how the practice of leadership impacts on their growth and development. As mid-sized FCBs already have a record of growth under family control, we suggest that such organizations may help to illuminate these questions.

2.3 Leadership practice

In addition to researching top family and non-family managers, we suggest that non-family, line managers can also play a leadership role. Here, line managers may influence, for example, the way that the firm manages its customers (Spillane, 2006, p. 55), given that line managers are the first point of regular contact for most customers. With their deep knowledge of customers, line managers may then lead the development of customer policy by interacting routinely with other managers up and down the management hierarchy; and their routine behavior and actions in collegial interaction would constitute leadership practice in the firm (Spillane, 2006; Spillane *et al.*, 2007). We suggest that leadership practice is important in understanding the nature of leadership in more developed, mid-sized FCBs because the presumption of a dominant family leader has occluded understanding of how decisions are made, particularly in FCBs that are engaged in complex businesses (Zahra *et al.*, 2000; Miller and Le Breton-Miller, 2005a).

Instead of dwelling on the roles of family leaders, investigating interactions between different levels of managers produces a picture, hitherto missing in leadership studies, of how managers at different levels of an organization may play a significant leadership role. It is suggested that when managers with different responsibilities co-perform in routine settings, they often produce new knowledge of the activities being co-performed (Weick and Roberts, 1993) in order to achieve shared goals, such as in the FCB's further development. Building on this knowledge, further interaction between the same individuals may result in an informed decision to take a particular course of action. The extent to which that action then achieves the co-performers' goals may alter leadership practice (Gronn, 2000; Bolden, 2007). This process of leadership practice may be illustrated as follows.

There is an emerging stream of literature on leadership practice that suggests how leaders may co-perform or distribute their influence. In helping to unravel the process of leadership co-performance, we have drawn on the work of Spillane (2006) and Spillane *et al.* (2007) who have identified three dimensions of distributed leadership: collaborated, collective, and co-ordinated leadership. Collaborated leadership is a form of practice where at least two individuals work simultaneously in conducting a corporate routine, such as a board meeting. By contrast, the practice of collective leadership involves at least two individuals who execute a routine through separate but inter-dependent actions, such as where board directors each perform individual roles in a board meeting, but where their activities in interaction with one other collectively produce the practice of the meeting. Spillane (2006, p. 60) introduces a third type of leadership practice, co-ordinated leadership, involving activities that have to be performed in a pre-set sequence, as in a relay race, where the relay's success – namely, the particular practice of the relay – depends on the co-performance of participants in an ordered, pre-agreed sequence. These dimensions of leadership practice acted as a sensitizing guide for our research, as we now suggest.

3. Methodology

3.1 Research context

Our research setting is Singapore, a highly successful economy with international standards of corporate regulation that has nonetheless retained its large, historical base of FCBs and state-controlled firms. This setting has allowed us to study how FCBs such as Sinobank that operate in a competitive, regulated environment have grown and survived while remaining family controlled. In banking, Singapore has issued more licences than its competitor, Hong Kong, with over 700 licences issued to foreign and local financial institutions by the Monetary Authority of Singapore (MAS, 2010). Local banks have to compete in a largely open market against global competition. Banking regulations have made survival harder: for example, capital adequacy ratios for full banks are in excess of those stipulated in New York and London (MAS web site). Unsurprisingly in this environment, many local banks have been unable to compete, typically selling out to competitors. Three large local banks have survived. Two of these banks remain controlled by their founding families although they have been professionally managed for many years.

Several old and large FCBs in Singapore (e.g. Venture Corporation) and beyond (e.g. BMW Germany) are also professionally managed, with family shareholders typically retaining corporate control through an investment holding vehicle. In Singapore, the nature of such FCBs seems to reflect its conjoined business and social environment which promotes a competitive "level-playing field" while retaining a strong social attachment to family and state control. In this environment, Sinobank has grown within two generations, first from a small FCB with a single branch into a mid-sized commercial bank, and then following its acquisition of a large retail bank ("Retail Bank") into a world-ranked financial services group with over 7,000 employees and 112 branch offices in 15 countries. The bank's founding family owns an aggregate interest of some 30 per cent.

Until recently, Sinobank's main business was in corporate banking. While generating high income, many bankers believed that the growth prospects of corporate banking in Southeast Asia were lower than those of retail banking (Loh *et al.*, 2000). Sinobank's family understood that the bank's survival under family control depended on its ability to retain a significant presence and influence in the banking industry, both locally and internationally. To achieve this, Sinobank embarked on an ambitious growth strategy by acquiring a new core business in retail banking. At this point in their development, family shareholders in SMEs have typically sold out when governance problems mentioned in the previous section bubble over (Linnemann, 2007, on the "implosion" of German family-controlled SMEs). By contrast, Sinobank stands out as an example of a mid-sized FCB in a competitive industry that has grown into a large PLC under the leadership mainly of non-family managers while remaining family controlled.

In our study, we have sought to understand the extent to which Sinobank's leadership has shaped its new retail business and contributed to the bank's growth and development. The case study method of research seemed suitable because Sinobank's long-lived nature offered an opportunity to relate the specific event of our interest with the bank's overall growth and development in order to address our research questions in depth (Karra *et al.*, 2006). Our approach in data analysis has been as social constructionists in which we have related research data to our literature and research questions (Denzin and Lincoln, 2003), moving back and forth from data to our perspective of distributed leadership in explaining how Sinobank developed a system of leadership that has driven its development from its narrow focus into a large PLC that competes in both corporate and retail banking (Pratt and Rafaeli, 1997).

3.2 Data collection

There were two steps in our data collection. We began by piecing together a timeline of Sinobank's recent development from two sources of public data (Pettigrew, 1990). First, we obtained financial data and news on the bank from annual reports since its public listing in 1968 and media news clips from its in-house archive. This archival data were supplemented by private data from one-to-one interviews with five former directors that enabled the first author to cross-check details of important corporate events (Wengraf, 2001). We used this detail to develop our timeline into an event history (van de Ven and Poole, 1990) tracing Sinobank's development.

The second stage of data collection was to develop a narrative of Sinobank's leadership within our database of the bank's development and to study how far its leadership impacted on the bank's development. We traced this relationship through the medium of a critical incident, the acquisition of Retail Bank, that sought to illuminate how Sinobank's leadership system was developed and practised. We developed our story of the acquisition through multiple one-on-one office interviews with family directors on the main board and senior non-family, professional managers (CEOs, executive vice-presidents (EVPs) and senior vice-presidents). A total of 40 taped interviews of one to three hours each were conducted with 24 board directors and managers between 2000 and 2007. Interviews were conducted by two co-researchers, and most of the original interviewees were re-interviewed in 2006 and 2007 for their reflections on the acquisition (Table I).

Our interviews took the form of interactive conversations based on a three-part discussion protocol (Chell, 1998). Part 1 of the protocol explored the bank's development up to the acquisition. Part 2 was a questionnaire on the roles of key managers in the bank, including the interviewees' own roles, and their respective contributions in the acquisition of Retail Bank. This sought to compare the publicly perceived roles of managers with what interviewees perceived to be the contribution of individual actors in the acquisition. The questionnaire was presented to interviewees at the start of meetings, and answers formed the basis of the subsequent discussion (McNulty and Pettigrew, 1999). The ensuing discussion with interviewees (Part 3) sought to reconcile the public roles of key managers with their actual roles in the acquisition by exploring how major decisions in the acquisition were made, for example, in the choice of Retail Bank as the acquisition target (critical incident).

3.3 Data analysis

Our data were organized and analyzed in three stages. First, data management software was programmed to scan interview transcripts and extract and organize the most frequently occuring words and phrases (first-order coding). Second, first-order codes were manually grouped under the three themes at the core of our research, namely, leadership routines, leadership practice, and distributed leadership (Maguire and Phillips, 2008). For example, statements with words on customers (corporate, individual, public societies), managers, employees, competitors, and other stakeholders in the bank were organized under leadership routines (Figure 1), because as a service-based business it followed that statements about the bank's customers would be about how the bank could improve its customer service. The same software then re-scanned all interview texts to produce referenced sets of quotes under each core theme. This produced a reference index (second-order coding) under informant, date, question, and answer.

The third stage of data analysis related second-order codes with Spillane's three-fold typology of distributed leadership in constructing a step-by-step narrative of the leadership process connecting firm routine ⇒ individual/group action ⇒ organizational

n interviews = 40 *n* interviewees = 24	Currently employed	Formerly employed
Chairmen	1 (non-family, 2[a])	1 (family)
Executive directors	3 (third CEO, fourth CEO, 2[a], fifth CEO, 3[a])	3 (two ex-CEOs, 6[a], 2[a]; ex-ED, 3[a])
Family non-executive directors	1 (2[a])	1
NEDs	4 (audit chair, 2[a]; remuneration chair)	1
Senior managers	4	2
Line managers	2 (branch manager 1, 2[a], branch manager 2, 2[a])	1

Notes: [a]Denotes the respective number of multiple interviews; "NEDs" are non-family, independent board directors

Table I.
Interviews

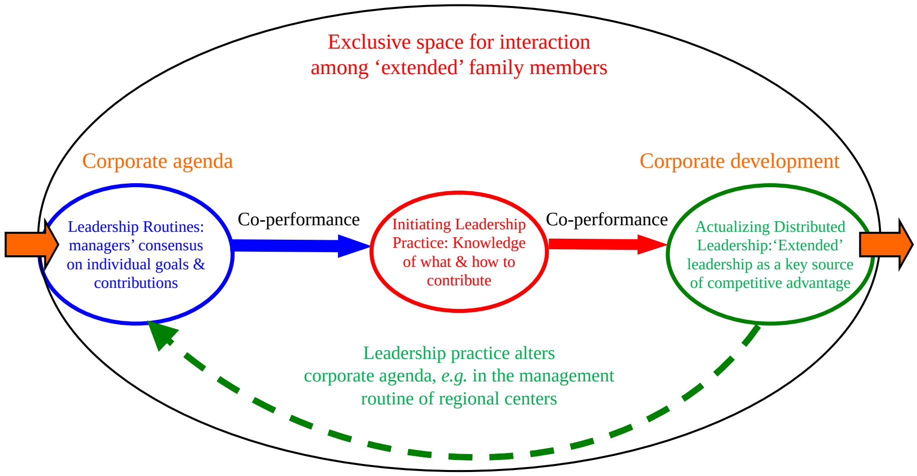

Figure 1.
Sinobank's leadership process

outcome (Figure 1). In developing this narrative, we repeatedly referred to our second-order codes until we were able to establish patterns between specific themes and activities (Karra *et al.*, 2006; Maguire and Phillips, 2008). For instance, by comparing the activities of different managers, it turned out that a number of Sinobank's line managers played a leading role in its corporate development as those managers established management routines that formed a major part of how leadership was practised in the firm. Themes and data that were matched in this way then became the basis for our description of the possible connection between Sinobank's leadership, its competitive advantage, and subsequent business growth.

4. "Extended" leadership in a mid-sized family bank

4.1 Key actors

Family director: a second-generation board representative of the founding family.

First CEO: a non-family bank clerk who rose to become Sinobank's first Chairman and CEO.

Second CEO: a banker who was recruited in the 1960s and succeeded first CEO.

Interim CEO: a senior, long-serving manager.

EVP: a recruited head of Sinobank's new retail banking division.

Branch Manager 1: a long-serving branch manager of Sinobank.

Branch Manager 2: a branch manager of the acquired firm, Retail Bank.

4.2 Roots of an extended family

Second CEO's first role in Sinobank was to co-invest with the bank in a new venture, which he then headed. While he was first interviewed by first CEO to succeed him as the bank's CEO, it was only after more than a decade in the subsidiary venture that second CEO was appointed, first as the bank's vice-chair and then as chair and CEO. Although therefore being marked for the top role, second CEO endured a long period of assessment in which he was both an employee and a business partner who contributed his own capital to run a new enterprise. This unusual form of preparation for a bank CEO reflected the way that other senior and junior managers in Sinobank were also assessed and developed, or "groomed", for a top management role. It seemed important in the grooming process for managers to prove that they could run a successful venture. But why had it taken so long for second CEO to rise to the top?

> I think it's normal for a [family owned] company that we want stable people from good families who can develop our business. For us a CEO is about his ability to run a business with our shareholders the right person with initiative to succeed for our company. The fact we're an international bank makes it tougher to get the right fit because we have little margin for error. It takes time for both sides to gel but when we get that match then he can run the company as freely as his own and with just as much responsibility for its future (Interim CEO, January 18, 2002).

Close vetting a potential top manager seemed "normal" in the regulated banking industry in which Sinobank was located where appointments of senior managers continue to be vetted by Singapore's central bank (MAS web site). However, Sinobank's method of vetting its top managers had an additional purpose in that it effectively extended leadership in the bank beyond family members to a type of manager – "stable people from good families" – who could be groomed to develop the bank while keeping it under family control. Those managers were not powerless agents of the controlling family. On the contrary, Sinobank's best managers were judged by their peers on their ability to show initiative and manage the firm "as freely as [their] own" in order for the FCB to grow and survive. Here, in contrast to the more common profile of a "nuclear" family firm led by parents and their offspring, Interim CEO suggested that Sinobank developed an alternative, "extended" perspective of leadership featuring talented, non-family managers where the question of who leads and who follows in managing the FCB ranked below the process of how existing managers co-developed a correct "match" between their goals and those of the new member(s) of the "extended" leadership. A typical "nuclear" versus Sinobank's "extended" perspective of leadership may be thus illustrated.

This system of leadership soon played an important part in shaping the bank's future.

4.3 Making sense of an unexpected acquisition

Second CEO soon embarked on a new strategy of diversification into retail banking. His strategy centered on the acquisition of a Hong Kong-based retail bank, and he secured board approval and instructed Sinobank's most senior managers, its divisional chiefs (EVPs), to implement the acquisition. To his surprise, however, the EVPs did not implement the acquisition. Instead, they argued in favor of a different acquisition target in Retail Bank, a local bank that the EVPs believed was better suited to achieve growth for Sinobank. Why did the EVPs oppose a board mandate?

> EVP: [Retail Bank]'s customer base will anchor us against the ups and downs of corporate banking. In hindsight we went against the board decision but at the time we didn't think about that as we were totally focused on securing the deal. What sealed the deal was the fact that many of our branch managers had experience of integrating [Retail Bank's] operations because they shared the same customers and had worked on the same deals. Those managers made the decision for us because when they told us who they were working with we told the board and it was clear they had to go for [Retail Bank].

> Researcher: Who were those branch managers?
>
> EVP: As they were close to our customers we knew them well. In [the acquisition of Retail Bank], branch managers attended meetings on a lot of sensitive stuff (January 31, 2002).

Second CEO made a new public statement as if he still led the bid. Privately however, he participated in discussions that were already ongoing between directors and EVPs and between EVPs and line managers far down the organization hierarchy who already "knew how to integrate [Retail Bank's] operations". The EVPs identified 16 line managers whom they knew well based on their historically close customer relations. Those line managers seemed effectively to have led the decision to acquire Retail Bank:

> For me the most important part of the [acquisition] was how our managers down the line had met our stakeholders' expectations of their behavior. For all the world that was clear as our share price kept rising right through the [acquisition]. So the board was able to focus on refining the terms of the [acquisition] rather than worry about shareholder approval (Family Director, October 24, 2002).

4.4 Absorbing the acquisition

The concentration of activity at the level of Sinobank's line managers and their direct reporting to EVPs also seemed to drive the process of integrating Retail Bank's operations once the "sensitive stuff" behind the acquisition had been settled. The daily work of the 16 line managers formed the core of that activity:

> We combined customer accounts among all branches. That was step one in building a database for both staff and customers to access accurate and secure data. This was important because we wanted to reach new customers and to do so we had to make decisions in partnership with customers and not just report news to them (Branch Manager 1, May 26, 2002).

Because of their pride in "mak[ing] decisions in partnership with customers", line managers took a deep interest in completing the acquisition by bringing Retail Bank's customers over to Sinobank and opening new accounts for them. This strong sense of responsibility had a practical dimension in that many of the 16 line managers were promoted afterwards. In the "extended" leadership, line managers such as Branch Manager 1 were publicly identifiable by their ability to "show initiative" and "make decisions" beyond the authority of their given positions. Such "groomed" managers could then play both leaders' and followers' roles in pursuing the overarching goal of developing the FCB. Consequently, regardless of their formal roles in the bank, a few line managers also began to manage the bank "as freely as [their] own and with just as much responsibility for [their] future":

> I decide what to sell and how to sell through my regional center. That center is funded by group but how much funding I get depends on beating profit targets agreed before. In retail that's tough because it's so volatile but as I have control how I run my business is up to me and I report to just one boss. Before I had several bosses and ended up taking the route of least resistance. Of course, I can't just run on my own because we need each other to make this work (Branch Manager 2, April 4, 2005).

5. Discussion

5.1 The nature of an "extended" leadership system

In the critical incident, we presented a leadership system that was practised at two different levels of the organization in initiating and completing a major corporate acquisition. Here, a detailed picture was drawn of how senior and junior managers of a mid-sized FCB combined to develop expertise in a new business of retail banking in order to create competitive advantage. We call Sinobank's leadership an "extended" FCB system, namely a distinct method for developing and assessing managers in the FCB who are regarded as high-potential managers by their mainly non-family peers. This system stands in contrast to the more typical "nuclear" perspective of FCB studies that focuses on the capabilities and interests of founders and their offspring (Karra *et al.*, 2006; Ng and Roberts, 2007).

Our "extended" leadership perspective is adopted from scholarly work on non-European FCBs that refer to a founder's social network of distant relatives (Redding, 1990/1993; Carney, 2005; Karra *et al.*, 2006) and personal acquaintances (Wong, 1998; Ng and Roberts, 2007). However, Sinobank's "extended" system of leadership run by professional managers seemed significantly more developed as a system of leadership than the notion of an extended social network (Karra *et al.*, 2006) that is tied to and is accessible only by the founder. We believe that Sinobank's "extended" leadership system minimizes well-known problems of growth in mid-sized FCBs based on prioritizing family interests by instead focusing the minds of all managers on how to achieve growth. In so doing, typical conflicts of interest between "inside" stakeholders of the FCB – namely, family shareholders and non-family managers – and "outside" stakeholders also do not arise (Demsetz and Lehn, 1985; Bennedsen and Wolfenzohn, 2000). In this discussion, we suggest how and why. Specifically, we suggest how Sinobank's managers were able to create competitive advantage following their acquisition of Retail Bank despite their inexperience with the retail banking business. Here, the actions of two different levels of managers are explored in tracing Sinobank's practice of "extended" leadership through a process of "actualizing" its leadership system, when managers combined technical skills with their knowledge of Sinobank's leadership system to complete the acquisition.

First, how Sinobank's managers developed a new core business to sustain its competitive advantage was by "extending" notional membership, or "insider" status, in the bank's leadership to professional managers with a personal profile that suited existing members of the "extended" leadership ("stable people from good families"). A major incentive to outside managers was that they could then rise to the top of the FCB. This was important for managers such as Branch Manager 2 who had been reporting along typically hierarchical lines in Retail Bank before the acquisition. To his surprise, he found that the acquiror was a family-controlled firm apparently without a glass ceiling.

The "extended" nature of Sinobank's leadership system was well established, as second CEO's own rise to the top had shown; and that system proved more in the sum of its parts than merely affording privileged individuals "insider" status in closely held firms that typically struggle to remain competitive (Bennedsen and Wolfenzohn, 2000). Importantly, in defining the leadership system, there was:

- a clear, overarching objective, namely the growth and survival of the bank under family control; and
- distinct "rules" governing membership, including a distinct process of membership (Gronn, 2002).

In terms of the process of membership, selected managers were recruited and co-opted over a period of time by one or more senior, non-family managers into the "extended" leadership through a process of grooming. In terms of rules, members of the "extended" family were identifiable both in a leadership role by their entrepreneurial behavior ("he can run the company as freely as his own and with just as much responsibility for its future") and in a following role by their cheerleading support of other members. Accordingly, board directors supported EVPs ("went with us"), despite having apparently altered a board mandate, and senior managers backed line managers who unilaterally "decide to sell and how to sell" (Branch Manager 1) because they were all focused on developing the FCB.

In terms of appreciating the apparent absence of conflict between "insiders" and "outsiders" of the FCB, the career of first CEO proved a powerful example of what a non-family member could achieve and how that could be achieved. Having joined as a bank clerk, first CEO suggested how far a professional manager could be rewarded in an "extended" leadership system when he become Sinobank's first Chairman and CEO. Publicly launched by first CEO when he recruited second CEO and backed by the example of both men's careers, a system of leadership became established that was based on encouraging and expediting Sinobank's growth and development. Features of this "extended" leadership system compared with those of a "nuclear" family model may be listed as follows (Table II).

Second CEO then developed the leadership system by encouraging senior managers to also act as followers in supporting line managers who were better placed to direct specific tasks, such as in augmenting Sinobank's customer base. This may be seen in the significant authority held by line managers over their customers. It seemed that so long as a manager continued to produce results, then it did not matter if that manager actually performed a leader's or a follower's role in a corporate situation, as all members of the "extended" leadership would benefit from the bank's growth and development. As Figure 2 shows, a unique strength of Sinobank's "extended" leadership system seemed to be its reliance on pragmatic relationships between managers, regardless of their formal positions. As those managers had been handpicked by their non-family peers to join the leadership system:

	"Nuclear" FFs in/beyond Singapore	"Extended" FF-Sinobank
Story	All-powerful entrepreneur/family leader faces succession problems	Low-level managers lead successful acquisition despite Board's prior decision to acquire another firm
Context of study	Regulatory, minority shareholder rights	New venture to grow and develop the FF
Business	Stable, unregulated bricks and mortar	Highly regulated, fast-changing, competitive
Governance	Family-dominant board; family only executives	Majority non-family directors; no family executives
Roles	Family members own and manage, hire specialist agents	Develop relationships to perform specific tasks: who leads and follows subordinate to goal of FF's growth and survival
Family's expectations	Prior interests of individual family members	Prior interest in FF' s survival over individual family

Table II.
Key features of a "nuclear" versus "extended" family firm ("FF") perspective

Sinobank's "extended" family system

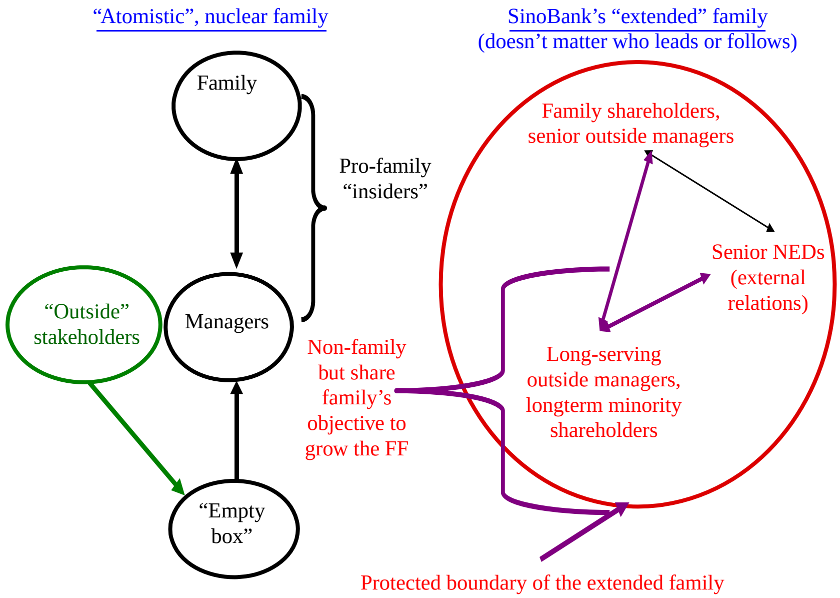

Figure 2. Sinobank's "extended" family system

- any barriers between members seemed subordinate to the goal of completing a specific task; and
- the co-performance between members, for example, when EVPs and line managers combined to seal an irresistible deal ("no brainer") for Retail Bank, could prove highly effective in completing a corporate task.

Accordingly, while it seemed ironic that subordinate managers appeared to use the leadership system second CEO had overseen to countermand a board mandate, nonetheless it suggested that the leadership system had worked for its principal purpose of directing the FF's growth and development.

5.2 Actualizing distributed leadership

Having acquired Retail Bank, Sinobank's managers began integrating its operations with their own by actualizing their "extended" leadership system in the newly acquired firm. By actualizing leadership, we mean putting into practice managers' accumulated knowledge of Sinobank's "extended" leadership system (Miles and Snow, 1978). That practice engaged managers principally at two management "ends" of the "extended" leadership, namely, EVPs at the top end, and line managers at the bottom end, in leading two key groups of stakeholders. So, while EVPs turned to employees in their own divisions to develop an operating structure for the new business, Sinobank's line managers took the critical role of winning over and retaining Retail Bank's customers. In retrospect, "distributing" leadership in this way made practical sense. If growth in the new retail business was to be generated by large numbers of Retail Bank's customers, it seemed sensible for line managers to continue serving their own customers by deciding how best to serve those customers.

Within Sinobank's established policies, line managers developed their own customer strategy by co-performing a single routine with their peers, namely the management of Sinobank's regional centers, which now began to be developed for retail customers through the co-performance of managing the centers. In the critical incident, Branch Manager 2 gained influence with senior and junior colleagues by inviting them to attend routine meetings of his regional center; and he then used those meetings as a forum to create better customer products. Such meetings could then become a source of reference for other managers to each review and improve on the performance of their own regional centers. At a different level, EVPs with overall responsibility for the retail business provided vital support for regional centers by structuring the business in a sequenced, coordinated way, for instance, by ensuring that centers were adequately funded for branch managers to complete the integration process. Grounded in existing routines, this practice of "extended" leadership involving junior and senior managers signalled the importance of an active, internally shared system of managing growth for competitive advantage. Specifically, in establishing its new retail business, Sinobank's leadership system had become a source of competitive advantage when it was used to win over Retail Bank's customers to Sinobank through its regional centers.

6. Conclusions

We posed research questions, first, on the nature of leadership in competitive, mid-sized FCBs, and second, on how leadership practice in such firms may contribute to their growth and survival. On the nature of leadership, we have argued in favor of a distinct, "extended" system of leadership developed by a mid-sized FCB in managing its growth to a larger, more competitive business that would better secure its long-run survival. The firm's subsequent growth involved processes of internationalization and the development of management competencies. However, this paper is not about internationalization or management development which we believe were strategic choices in an "extended" leadership system focused on the FCB's survival. Drawing on its leadership system, Sinobank was able to integrate the operations of a new business and produce value from the combined businesses.

On leadership practice, we have suggested how senior managers of an FCB seeking to compete and survive augmented its governing group to include line managers by allowing them to act entrepreneurially in directing and controlling a new business "as if it were [their] own". In so doing, senior managers also put into practice an "extended" leadership system as they sought to "actualize" the co-performance capability of the system in order to integrate the new business. During regular co-performance of ordinary management routines, a distributed system of decision making then developed in which junior, non-family managers played a leading role in making and implementing strategic decisions.

Based on this analysis, our first contribution has been to fill the empirical gap in the literature on mid-sized FCBs. Where scholars have viewed SMEs largely through the lens of founder-entrepreneurs, by contrast we have suggested how an "extended" system of leadership may be developed in mid-sized FCBs between different managerial levels. Second, we have also articulated the process in which an "extended" leadership system may sustain such FCBs through a management routine that subsequently produced competitive advantage. This contributes to the literature specifically on the survival of mid-sized FCBs through a unique competency to compete and grow.

Our findings may be summarized and presented in the following propositions for studying and reflecting on leadership in mid-sized FCBs beyond any specific context. Principally, based on our study of co-management relationships in this form of organization, we suggest that similar, deeply developed collaboration between different levels of family and non-family managers may produce competitive advantage. The collaborative nature of this "extended" leadership system augments the view of FCB scholars that deeper collaborative decision making among a wider body of managers produces stronger development of the FCB while retaining its competitive advantages (Miller and Le Breton-Miller, 2005b; Habbershon, 2006; Karra *et al.*, 2006), for example, from close customer relations (Carrigan and Buckley, 2008). This view may be expressed in the following propositions:

P1a. The survival of competitive, mid-sized FCBs will depend on their ability to develop a leadership system that distributes management control down the management hierarchy, specifically to non-family line managers.

P1b. An effective process of distributing leadership will require a prior decision by controlling shareholders to invest management control with non-family managers who are capable of growing and developing the FCB.

P1c. Under *P1a* and *P1b*, non-family managers may be entrepreneurs in their own right whose willingness to take personal risk will become an important factor in the FCB's growth and survival.

P1d. Given *P1c*, ambitious non-family managers in mid-sized FCBs will have greater opportunities for career advancement than in other types of organizations.

P2. Where family shareholders in FCBs no longer play a unique leadership role, they will continue to enact an important follower's role in supporting and guiding top management.

6.1 Further research and limitations

Our propositions give rise to different, researchable topics. First, the entrepreneurial approach of managers working within a board initiative for strategic expansion suggests a case of corporate entrepreneurship ("CE") in which our "extended" leadership perspective may be interpreted as an attempt to innovate by developing the FCB's managerial capability (Sharma and Chrisman's, 1999, p. 18, definition of CE). Investigating CE in mid-sized FCBs may produce more instances and forms of innovative activity that may help us to better understand how these firms can exploit market opportunities for their own strategic development (Hitt *et al.*, 1999).

Additionally, we may draw on the nascent strategic entrepreneurship ("SE") literature to better understand how FCBs can maximize the value of entrepreneurial opportunities by developing their strategic capability. One example may be through organizational learning (Zahra *et al.*, 1999) that extends beyond a selected group of managers in channelling entrepreneurial behavior into wealth-creating strategies (cf. See Hitt *et al.*'s, 2001, p. 480, definition of SE). Drawing on the CE and SE literatures may therefore enrich the theoretical and practical implications of Sinobank's "extended" leadership system. It is hoped that this paper has laid some foundations for such further research by suggesting, specifically to scholars and managers of mid-sized FCBs, how leadership practice may be used as a powerful tool for creating competitive advantage.

A principal limitation of our propositions is that based on a single case we cannot claim that the observed phenomena are typical of mid-sized FCBs. Instead, our propositions are intended to encourage further, qualitative research that explores the roles of and interaction among family shareholders and non-family managers and among different groups of non-family constituents as the mid-sized FCB strives to survive through continuing growth and development (Sharma, 2004; Ng and Roberts, 2007). Such research will involve comparative studies of mid-sized FCBs across different business environments in addressing this larger question from our study: How far has the leadership of other FCBs also helped them to grow and survive under close control?

Notes

1. In family-controlled firms, family-related shareholders hold voting rights which, when aggregated, invest those shareholders with decision-making rights in the firm (Claessens *et al.*, 2000).
2. Leadership is defined as the actions of one or more powerful individuals in an organization that influence its members' behavior and thereby induce organizational change (Moss Kanter, 1983).
3. Leadership practice concerns a process in which a series of actions is intentionally developed and enacted by an organization's members to influence its strategic direction (Spillane, 2006, p. 16).
4. Family control is defined as board and management decision-making rights in a firm held by family-related shareholders who act in concert to exercise these rights (Spillane, 2006, p. 16).
5. Depending on the industry, mid-sized FCBs have between 500 and 1,000 employees and an annual turnover of up to US$50 million, as defined by the American Small Businesses Association, web site: www.sba.gov/services/contractingopportunities/sizestandardstopics/summarywhatis/index.html
6. Sinobank is a pseudonym. Pseudonyms have also been used for all interviewees in this paper.
7. Critical incidents are instances of "extreme situations and social dramas" that make the phenomenon of study "transparently observable" (Pettigrew, 1990, p. 275).
8. Such conflicts of interest are regarded as a typical problem of closely controlled firms where "insiders" with decision-making rights clash with "outside" stakeholders (Hillier and McColgan, 2008).

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