Family affairs pose risks as Asia’s tycoons seek handover

News analysis
Succession is crucially important in a region where the divide between manager and owner can be blurred, says Jeremy Grant.

When Frederick Charulit Ta ae shared the chief executive role with his father it was a trying experience.

“There were two dispensities in the same rice bowl,” he says, recalling the five years in the 1990s when father and son shared the executive suite at the family’s Singapore-based IMC Group shipping company.

After his father finally stepped aside in 1996 — when Mr Taoe bought him out — the younger man managed to get full control of the business, an industrial conglomerate that traces its roots back to the founding of a shipping concern amid the turmoil of the Chinese civil war in 1939.

In the end Mr Taoe’s family made a relatively smooth transition from one generation to the next. Yet his case is a rare success story. Dozens of large family-controlled businesses across Asia face the prospect of potentially awkward or disruptive successions as their founders, many of them a generation above Mr Taoe, hit old age.

Many companies, especially those controlled by Chinese families, have put off thoughts about succession, experts say, because of deep-rooted taboos associated with patriarchal, as well as the difficulty of combining sharing the family spoils among multiple children who are vying for remaining business control.

“The patriarch normally wants to stay behind the steering-wheel until his last day. He can’t let go,” says Richard Wee, chief executive of the Singapore office of Lombard Odier, a private bank based in Switzerland.

The very public announcement in May by Li Ka-shing, Asia’s richest man, that at 80 he had announced his eldest son Victor as head of Cheung Kong Holdings and Hutchison Whampoa was a rare example of smooth generational transfer.

More typical was the way tensions boiled over last year at the family of Stanley Ho, the then-86-year-old Hong Kong-based casino billionaire, which fought publicly over his assets before reaching a settlement.

A bitter public power struggle between Belinda seiau Mak and Anil Ambani over their father’s empire also ended up in India’s courts before their mother broke a peace deal. And in South Korea the billionaire chairman of Samsung, Lee Kun-hee, 70, is facing lawsuits from his older brother and sister who claim ownership of stock in the company.

“Family-controlled businesses are predominant in Asia, making succession a systemically important issue,” they argue for about half of all listed companies and 92 per cent of total market capitalisation across 10 Asian countries, according to Credit Suisse.

“Succession can be a systemic risk to a country or region if big businesses are under transition around the same time,” says Joseph Fan, deputy chairman of the Chinese University of Hong Kong. “This is the case in Hong Kong and other emerging markets where tycoons are fading away.”

Mr Taoe’s father was instrumental in setting up the national shipping lines of Malaysia and Thailand. The head of Samsung involves a company with sales last year of US$275bn — equivalent to the gross domestic product of Singapore.

Shareholders can also be hurt where tycoons have succession in the last man – or surprise disclosure of the will.

According to a study of 20 most-controlled, publicly listed companies by the Chinese University of Hong Kong, the cumulative average market value of such companies fell 60 per cent in the five years before the patriarch handed over power.

Remarkably, says Mr Fan, share prices did not recover after the company founder disappeared from the scene. That indicates, he says, that it is hardest to replace “specialized intangible assets” such as the patriarch’s values and personal contacts.

Experts say that makes it all the more important to bring in outsiders who have management expertise early on. Not doing so often prevents the succession and business continuity issue from surfacing in the first place.

Mr Taoe, who is also Acta regional chairman of the Family Business Network, a non-profit group that promotes the sustainability of family businesses, says families need management applied to them as much as to the business, including the drawing up of a family charter to handle issues including conflict resolution, and the role of electing to the business.

“You really have to work on the family issue first and then you need third-party facilitators. It’s not easy to do it on your own,” says Mr Taoe.

You need family system reprogramming to let go of the past and move on.

Yet progress is being made at some companies, where the second and third generation – Mr Taoe’s peer group – is already starting to think about succession.

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The children of that generation, often in their 30s and increasingly educated at US or European business schools, are being handpicked for senior jobs in the family business, based on qualifications, not purely on blood ties.

Francis Yeoh, 58-year-old managing director of YTL Group, a Malaysian-based holding company for six listed subsidiaries in utilities, telecoms and hotels with a market capitalisation of US$1bn, has five children in the business.

Mr Yeoh has said publicly that each must “compete to be the best of the breed”.

“All of this starts to create this blur between management and ownership,” says Juliette Johnson, executive director of family business at Coutts, a private bank.

“Families that think about this early see that succession is that much smoother.”