Keeping the family fortune relatively intact

Family-controlled companies look large in Asia, many tracing their origins to the 19th-century migration of mercantilist entrepreneurs from China.

They account for about half of all publicly listed companies and 32 per cent of total market capitalisation across 10 Asian countries, according to Credit Suisse.

Some have come under the spotlight in recent years as they have grappled with awkward and sometimes bruising succession transitions.

The very public family squabble in 2011 over the assets of Stanley Ho, the 89-year-old Hong Kong-based casino billionaire, was a vivid example. But for each tale of family dysfunction, there are other stories of the transition under way to a professionalised younger generation, which is helping to run businesses that are among the most profitable in the region.

In many cases, those younger family members – the third and fourth generation from the founding patriarch – have been educated abroad at top business schools in the US and Europe. Many have also gained work experience elsewhere before joining the family business.

“You have a number of very well-educated sons and daughters coming up through the ranks who are trying to run these businesses in a more professional fashion,” says Stuart Mackay, head of equity capital markets for southeast Asia at UBS.

Units of YTL Corporation, a sprawling Malaysia-based conglomerate with interests in luxury hotels, utilities, telecoms and water, are run by the children of Francis Yeoh, son of the founder and the group’s managing director.

Joshua Yeoh, 23, a graduate of Cambridge University, is a director of YTL’s cement business while his brother Jacob, 21, who has a degree in electrical engineering from Imperial College, is deputy chief executive of YTL Communications, the group’s 4G telecommunication business.

Some family businesses in the US and Europe have seen a similar trend. The Italian coffee company Illy is run by Andrea Illy, third generation in the family. He has a chemistry degree as well as an MBA.

But other family-owned companies end up having to sell out. The Loro Piana family behind the luxury cashmere clothing group over the summer sold 80 per cent of their business to French conglomerate LVMH, citing the need to overcome succession issues and ensure that the Italian company was in the hands of strong future managers.

By contrast, many younger generation Asian family members have seen the need to diversify their family’s businesses or risk oblivion.

One such family is Eu Yan Sang, a Singapore business founded in 1910 that has been transformed from a sleepy seller of traditional Chinese medicine into one with a global presence in the fast-growing “health and wellness” sector.

That turnaround was engineered by one of the city-state’s best known entrepreneurs, Richard Eu, great-grandson of the founding patriarch. When he took over in the 1990s Eu Yan Sang was barely profitable from a few shops in Singapore and Malaysia.

Last year net profit was $821m ($168m), from sales of modern, high-margin products. The family businesses that have survived did not just stick to their core business, says Annie Koh, associate professor of finance at Singapore Management University, and head of its Business Families Institute, which helps Asia-based family businesses manage generational transition.

Some family businesses are also moving further afield as they diversify, buying assets in the US and Europe. This year Eu Yan Sang bought a 23.5 per cent stake in Oriental & Western, a maker of food supplements and anti-aging creams based in Oxfordshire, England.

“We see a trend towards globalisation of Asian family firms,” says Marijke Dieleman, associate professor at the National University of Singapore Business School.

He points to Indonesia’s Lippo group, which was built by octogenarian Moehanz Baiduri and controlled by two sons, James and Stephen.

That may have played a part in the value of foreign direct investment outflows from southeast Asia rising by 36 per cent year on year to $60bn in 2012, according to the UN Conference on Trade and Development.

However, not all family businesses that manage a smooth succession rely solely on better-qualified family members. Many are taking on outsiders to fill the role of chief executive, chairman or other top jobs, and are hiring professional outsiders to help run the business.

A recent study by NUS found that more than half of 662 Singapore-listed companies – 61 per cent of them family-controlled – had appointed outsiders as either chief executive or chairman, alongside a family member taking on the other role.

In addition, there are still family businesses where succession has passed to a younger generation whose experience may still be questioned by outside investors.

The presumed heir to the leadership of South Korea’s Samsung Electronics, the jewel in the crown of the Samsung conglomerate, is Lee Jae-yong, the 45-year-old son of patriarch Lee Kun-Hee.

He was educated overseas and is a member of the prestigious Business Council in the US, but his only experience in running a division of the conglomerate was at a shortlived e-commerce business more than a decade ago.

Matters can also become complicated if the older generation shares decision-making with the younger generation, says Mr Eu.

“I think it’s very difficult to try and have multiple generations directly involved in the management of the business.”

Experts also warn that, without proper governance structures, such businesses can be derailed as family feuds erupt, often because of fragmen-
tation of ownership among younger generations, says Ms Dieleman of NUS.

“If the ownership gets more fragmented, ultimately nobody has real control, so that means it is difficult to make decisions,” she says. “They often only start managing it when they have a problem.”