MASS SUCCESSION

With many companies nearing the first-to-second generation transfer phase, Asian family businesses have been forced to learn the art of succession planning quickly. *Rashmi Kumar* looks at what the region is doing to meet the challenge

When Chu Meng Yee, owner of billion-dollar Chinese real estate developer Hopson Development, named his daughter as its deputy chairman in July, it created ripples across the world of family businesses in Asia. Family business experts were overwhelmed with excitement – not only had Chu appointed a woman to take over the company, but he had taken a big step forward in moving the company from the first to the second-generation.

The problem of succession planning is certainly not new but it is one of rising importance among Asian family-owned businesses, particularly for those in North and Northeast Asia. The All-China Federation of Industry and Commerce reckons that more than 80% of private firms across China are family controlled. And experts say that at least 20% of these are nearing the second-generation transfer phase. >>

From top left clockwise: Casino entrepreneur Stanley Ho with some of his family – having 17 children to choose from doesn't make succession any easier; Ren Zhengfei of Huawei Technologies decided his kids just weren't up to the job of taking on the fambiz; Li Ka-shing and his son Victor of Hutchison Whampoa have nailed an effective transfer strategy; The Ambani brothers – a cautionary succession tale; Dr Prathap Reddy of Apollo Hospital tackled the "S" issue democratically with a family council

Photography: Press Association, Getty Images

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"The challenge in China is that children may not want to inherit the family business," says Annie Koh, a professor and the vice-president of business development and external relations at Singapore Management University. "And a business that is still in the first-generation may have to go to professional management if the next-gens don't have the same passion as their parents to run the company."

A big reason behind succession problems in China is the country's one-child policy. Experts say that families opt to send their children to international universities to broaden their outlook, but once their education is completed, the children are no longer interested in continuing the family tradition and running the business.

"The reality is that the children may not be the best candidates for the top job," says Koh, who is also the academic director of the Business Families Institute at SMU. "Chinese families are at a critical stage now, particularly as so many outside entities like private equity firms are trying to buy into them."

This in turn raises a host of other challenges. With no other option, family patriarchs are forced to allow private equity investment, in the hope that it will give them some leeway of, at least 10 years or more, to build on the business. Most often, the move is made in the hope that next-gens will change their minds and will want to take management responsibilities.

But even if next-gens are keen and eager to step into the hot seat, the equation can change depending on how willing the wealth creators are to actually let go, say experts.

"Most patriarchs that have the power want to hold on to it," says Kevin Au, associate director, center for entrepreneurship, at the Chinese University of Hong Kong. "But often letting go is not just a question for one person. It's a challenge for the whole family. It depends on if you find a successor or you are going to sell the business, and if the family and business are ready to accept this change. No human being can fight with time. And as time changes, patriarchs have to realise that it is time for them to change as well."

This difference in outlook can come in various forms. In May this year, Ren Zhengfei, founder of China's biggest technology company Huawei Technologies, said he was shunning second-

generation management in favour of passing on the business to non-family executives. His reasoning? His two kids, both working at the company, were just not good enough.

"Huawei's successor should not only have vision, character and ambition, like what we've said before, but also a good global perspective and the acumen to drive the business," Zhengfei said in a letter to his employees. "My family members do not posses these qualities. Thus, we will never be in the running of the successor race."

While this form of planning may be considered a tad harsh by those who are champions of family longevity, it is not always the case. As every family is unique in its problems, family business professors point to the example of Hong Kong polyurethane producer Luen Tai Group, run by the Tan family. One branch of the business is listed but the family owns the majority of the company.

Tan Siu Lin, 82, is the founder and chairman of the group, and his three sons hold top positions. Tan Henry is chief executive of Luen Thai Holdings, Tan Cho Lung Raymond is president

of Luen Thai International Group, while Tan Willie is chief executive of Luen Thai Enterprises and Tan Holdings Corporation — the privately-held operations of the family.

The Tans don't have an elaborate family governance structure, says Au, but where they excel is in their clarity in communication, and the way they have dealt with issues that are most important to sustain the company and the family long-term. He adds that they have "used the idea of family governance from the west and changed it in a way suitable for them".

Both Au and Koh reckon that family businesses in Hong Kong and Taiwan are more open to new ideas – unlike some of the more traditional Chinese families – largely due to the bigger influence of western culture. But as Asia is very fragmented, and each country has its own set of advantages and problems, it becomes more difficult to pool them all into one group, they say.

Often in the case of Japanese family-owned groups, many of which trace their roots back centuries, a family member sits on the group board to simply play the role of motivator, says Koh.

"Japanese groups have someone who'll power up people and motivate them, without really having a managerial position," she says. "It's a symbol of the family's values and legacy, so that when the going gets tough, you need to rise up to the challenge and align it with the fact that your great-great-great-great-grandfather or so have built the business."

On the one hand, North Asia boasts cases of casino mogul Stanley Ho, and his much-publicised battles with his wives and some 17 children. But then there is also the case of 83-year-old Li Ka-shing, who decided to offer financial support to help his younger son Richard build his own business empire, and put eldest son Victor in charge of Cheung Kong Holdings and Hutchison Whampoa – a move lauded by all family business experts.

South Asia too has not been without its share of headlines. The battle raged between India's billionaire brothers Anil and Mukesh Ambani after the death of their father is a classic case of failure to plan for the future of the family business. Often-told is also the tragic story of the second-generation Chadha brothers of conglomerate Wave, who ended up dead after a shootout, allegedly over discord about the ownership of their assets and the absence of a clear succession plan.

"Letting go – even if in the second generation – is harder than identifying any successor, because people still want a meaningful transition," says Koh. "So part of the journey for family businesses is about finding a successor and sorting out issues, and part of the journey is on how to let go."

Some are clearly on track. Indian family-run Apollo Hospitals has set up a family council to plan succession, with three generations working simultaneously in the company. Founder Prathap Reddy, 80, is still chairman; his four daughters all hold senior positions, while two of his grandchildren also work in management positions.

"Succession planning is still a challenge in India," says Kavil Ramachandran, Thomas Schmidheiny chair professor of family business and wealth management at the Indian School of Business. "But the planning is becoming more streamlined now. There is a greater level of awareness about possibilities, especially possibilities without splitting the business. There is a more conducive environment so families are using proactive thinking and approach rather than reactive."

While many have absorbed ideas from the more developed family business world in Europe and the US, the West can also learn from some of what is happening in Asia, reckon experts.

"Some of the more successful Asian family businesses, especially Chinese, are able to combine traditional knowledge, the core values of family and culture with various outside factors," says Au. "Western families have been doing it well for years, but Asian family businesses are newer, and they are quickly catching up." FB

Above left: Preetha Reddy – joint managing director of Apollo Hospitals and one of India's most influential business women

Above right: Sangeeta Reddy – the youngest Reddy sister and operations director at the family hospital chain

Photography: Getty Images