Has he done enough to groom his chosen successor?

KENJI KAWASE, Nikkei deputy editor

HONG KONG -- Li Ka-shing is a very special man, says Joseph P.H. Fan, a professor at Chinese University of Hong Kong who studies family-run businesses.

Li has used his long-term vision to prepare the ground for his successor, Fan believes, although he is not sure the tycoon can buck the trend that family-run companies like Li's typically lose 60% of their corporate value when leadership passes from the founder to the next generation.

The Nikkei Asian Review sat down with Fan to discuss the outlook for Li’s empire after he steps back from day-to-day operations. Excerpts from the interview follow.

Q: Looking at Li Ka-shing's businesses, two things are apparent. One is his acquisition spree, especially in Europe, along with his gradual divestment from Hong Kong and China. The other is the grooming of Li's eldest son Victor Li Tzar-kuoi to take over. What is behind these developments?

A: The acquisitions and the succession are actually one thing. Li Ka-shing and his business empire's (move) west started to pick up around 20 years ago. Everything
started when Victor joined his father's business. Li intentionally asked him to cultivate overseas investments. He understands that he cannot make a copy of himself, and that his son's strengths are going to be different. Victor has received an English-based education and is more familiar with the Western system.

The recent sell-off of assets in Hong Kong and China is only part of this, as everything began a long time ago. Most deals in the past five years show much better performance compared with earlier deals, indicating that Victor is improving. Investments in the developed markets of Europe, Canada, and Australia, where law enforcement is better, tend to outperform those in emerging markets. There is a clear difference in performance between emerging- and developed-market investments.

This shows the strengths of the next generation. So the recent shift from China and Hong Kong to Europe, in particular the U.K., is just part of the succession plan. When Li passes away, he cannot pass on intangible assets like his reputation and relationships. (His two sons) may not even want to deal with politicians and bureaucrats in China. If Li insists they do things the same way, he knows the business won't be sustainable.

The name Cheung Kong (literally "long river" or Yangtze River in Cantonese) points to Li Ka-shing's farsightedness. If he sees something that will happen 20 years later, he acts on it now.

You can't tell your children what to do. Even if they listen, they won't know what to do. But if you coach them for 20 years, things will go smoothly. That's the difference between Li Ka-shing and other business families.

**Q: Was it always Victor, and not Li's younger son Richard, who was to be the successor?**

**A:** Richard was never considered as successor. You can only have one leader. Some companies think three people can lead, but it is more difficult to coordinate between three brothers.

**Q: Victor, like his father, seems quite patriotic, doesn't he?**

**A:** Victor and Richard both grew up with silver spoons in their mouths, but Li Ka-shing came to Hong Kong as a poor kid. Upbringing will certainly affect the values of the two generations.

**Q: Do you think Li's company will withdraw from China entirely?**
A: It really depends on the business and political dynamics. The general trend is not just pulling out of China, but out of emerging markets and Asia. This is because Li is getting old. It has very little to do with politics.

Q: Is Li Ka-shing's succession a model for others to follow?

A: I wouldn't go that far. We definitely have to learn from his long-term vision. Li Ka-shing has probably done a good job cultivating his two sons. Also, he is a man of integrity -- no glamour, he does not have many girlfriends, does not say arrogant things.

Whether his business empire will continue after he formally retires is still a big question because in Asia, most of the business value (in family-run companies) -- the intangible assets -- is attached to the founder. Based on our research on over 200 family-firm successions, we have determined that 60% the value disappears after the founder walks away. Whether Li can avoid this trend remains to be seen.

Victor is very low profile. We have very little information on him, other than that he has been doing a lot overseas. But his true character and personality are still very unclear.

Q: Won't a gradual divestment antagonize the Chinese authorities?

A: Li Ka-shing has not shaken hands with (Chinese President) Xi Jinping, as he has with all other leaders since Deng Xiaoping. But Li is getting old and it is hard for him to manage all this.