The Economist

Chinese family businesses

Dusk for the patriarchs

As ageing tycoons die, their heirs are feuding and their empires are at risk

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COMPANIES can survive for hundreds of years. Their founders cannot. Hence the problem that eventually faces all family-owned firms: how to hand over from one generation to the next. In Stanley Ho's case, the transition is proving stormy.

Mr Ho is the gambling king of Macau: the founder of an empire that includes casinos, ferries, an airline, hotels and commercial property. He is also 89 years old, in poor health and less lucid than he once was. His four families are fighting like harpies over his assets, which are held within an array of complex structures.

It is messy: Mr Ho (pictured, with his third wife and their daughter) had four concurrent "wives" in a territory that does not recognise polygamy. Three are still alive, plus at least 16 children. Mr Ho apparently had a stroke in 2009, prompting his relatives to start struggling for control.

Their feud has become a YouTube sensation. Every few days, a wheelchair-bound Mr Ho issues a statement that contradicts his previous one: either accusing his relatives of robbery or exonerating them. Throngs of Hong Kongers have joined the journalists outside the family's many opulent residences, straining for the latest whispers. Two photographers have had their feet run over by limousines.

The Ho saga has prompted fresh scrutiny of other firms that will soon face succession tussles. A major investor in two of Mr Ho's Macau companies (one controlling casinos, the other ferries) is Cheng Yu-tung, 85, who runs his own swelling conglomerate, New World Development, with unresolved succession issues.

At Sun Hung Kai, Hong Kong's largest property owner, the succession seemed settled in 1990 with the death of the founder and management passing to his three sons. But turmoil erupted in 2008 when the founder's then 79-year-old widow, Kwong Siu-hing, emerged as the true power, pushing out her eldest son, Walter, who had been chief executive. On Sun Hung Kai's board sits Lee Shau-kee, 82, who runs another property company, Henderson Land, with its own succession issues.

Any talk in Hong Kong about succession soon touches upon Li Ka-shing, 82, the territory's richest resident, whose empire encompasses utilities and property. Much of his wealth has been pledged to charity, but no one knows who will run his firms when Mr Li dies. When he was abruptly hospitalised in 2006, shares in his listed companies immediately sank.

King Lear had it easy

Hong Kong's ageing tycoons with uncertain succession plans

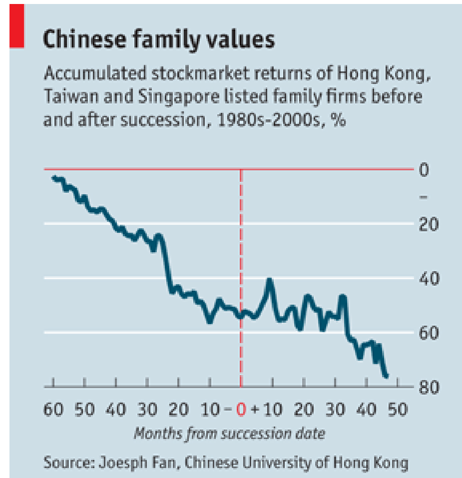
Name	Age	Business	2011 net worth*, $bn	Comments
Li Ka-shing	82	Property	24.0	Ambitious sons lack daddy's skill and connections
Kwong Siu-hing	82	Property	20.0	Eldest son purged after family spat
Robert Kuok	87	Hotels	9.0†	Son aims to succeed. Daughter runs paper
Cheng Yu-tung	85	Jewellery & property	9.0	Son is managing director, grandson waiting
Stanley Ho	**89**	**Casinos & hotels**	**3.1**	**Fading patriarch, family suitable for Jerry Springer show**
Lui Che-woo	81	Casinos & hotels	3.0	One son deputy chairman, another runs US business
David Li	71	Banking	1.9	After four generations, family control slipping
Gordon Wu	75	Property	0.9†	Eldest son is deputy CEO, but very deputy

Sources: Forbes; *The Economist*

*May include assets of other family members †2010

Many Hong Kong tycoons are getting old (see table). Typically, their fortunes date back to the early post-war years, when Hong Kong was a desolate rock, Macau was in decline and Singapore was a swamp. They built empires while keeping tight personal control, often using bewildering interlinked corporate structures.

Within a few years, dozens of publicly listed (but family-controlled) Asian companies will change hands. If history is any guide, the process will hurt, says Joseph Fan, a professor at the Chinese University of Hong Kong. A study he jointly conducted of 250 companies in Hong Kong, Taiwan and Singapore controlled by Chinese families found that successions tended to coincide with tremendous destruction of value (see chart).



There are exceptions. Sir Run Run Shaw, a 103-year-old media mogul, appears to be retiring in peace. On January 26th he announced that he would sell his controlling stake in TVB, Hong Kong's largest television network, for more than $1 billion. It was the last public link to an empire that once included the largest private film studio in the world. Mr Shaw retired from active management on his 100th birthday, in favour of a much younger manager, his then 77-year-old second wife, Mona Fong.

Many patriarchs built their fortunes with risky bets: movies, the first casino, manufacturing. But many have shifted into merely collecting rents from property and related businesses (ports, hotels, retail) or from government concessions (electricity, telecommunications, gas, casino licences).

The simplicity of the underlying businesses may account for the ferocity of the family battles—it is not hard to make money if you own a casino near mainland China these days. However, in areas that are genuinely competitive, such as banking, Hong Kong's family firms have been largely elbowed aside by multinationals.

Patriarchs add value in two ways that do not appear on balance-sheets, says Mr Fan. Their reputation ensures that banks will lend money to their companies. And their relationships with government are often lucrative. Alas, these strengths are hard to bequeath to one's children. Which is why some Asian empires will struggle to outlive their founders.

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