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Learning to play the corporate generation game

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Stanley Ho's casino group has seen tussles

Family owned companies can be unpredictable at the best of times, but never more so than when power passes from one generation to the next.

The squabble for control of Stanley Ho's casino empire casts a spotlight on one of the biggest risks facing investors in companies across Asia.

Families control two-thirds of Asia's 1,000 biggest companies. More than 70 per cent of Hong Kong's listed companies are controlled by either their founders or members of the founding families.

"If [a corporate dispute] involves siblings or other family members it can get quite ugly," says Nicholas Yeo, a fund manager at Aberdeen International. "If there's an internal war between the owners, it will unsettle the management team."

Shares in **SJM Holdings**, Mr Ho's casino flagship, fell as much as 9 per cent on Wednesday, before closing down 4.9 per cent, after the 89-year-old appeared to dispute the validity of a controversial share transfer to his relatives.

Yet the shares have performed well compared to those of many other Asian companies that have faced similar situations.

Joseph Fan, a professor at the Chinese University of Hong Kong, has studied 217 family successions in Hong Kong, Singapore and Taiwan between 1987 to 2005.

He found that companies' market-adjusted share prices dropped an average of 56 per cent in the five years preceding – and the one year following – a generational change in ownership and control.

In Hong Kong, many tycoons founded their businesses in the 1950s and 1960s and are still in charge.

The next generation is preparing to take the helm.

Yet successions are not always bad for investors. In some cases the handover of control from a company's founder to other family members triggers a big jump in the share price.

This is often because the fragmentation of ownership turns the company into an acquisition target. Other times, there is simply an improvement in the quality of management.

Dane Chamorro, head of the China practice at Control Risks, the consultancy, says investors frequently underestimate the risks of taking a stake in a family company, especially large ones listed on international stock exchanges.

"Often the companies are treated as a political football in inter-family politics or as a piggybank to fund the desires of family member X, whether that be lifestyle or business ventures they have no experience in," he says.

The other problem in many family companies, Mr Chamorro says, is the tendency of owners to give in to nepotism and hire relatives instead of professional managers.

Both Mr Chamorro and Mr Yeo cite **Li & Fung**, the world's largest trade sourcing company, as an example of a family-owned company that has reaped the benefits of delegating authority and responsibility to outsiders.

The key with family- controlled groups is to sort the good from the bad, says Charles Firmin-Didot, manager of AXA WF Framlington's Talents fund, which invests exclusively in family-owned companies across the world.

Mr Firmin-Didot cites a study by McKinsey in 2010 that showed the stock prices of family businesses significantly outperformed their peers between 1997 and 2009.

"It comes down to their capacity to think long term," he says. "That gives a big competitive advantage."

"You have many good entrepreneurs and families that are generous to minority shareholders, but unfortunately you have others who are not generous," he says. "Selfishness is part of human nature in many cases." When it comes to the subject of succession, Mr Firmin-Didot is fairly relaxed.

"Age could be an issue," he says. "We try to avoid [owners] over 80 years old."