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Feuds threaten Asia's family businesses

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From Samsung in South Korea and India's Reliance Industries to Hon Hai, the Taiwanese maker of the iPad, family businesses dominate Asia's, and increasingly the world's, corporate landscape.

They account for half of Asia's publicly listed companies, a third of the region's stock market value and employ millions of people, according to investment house Credit Suisse, making their success key to Asia's emerging economies.

But these corporate dynasties, most founded in the aftermath of World War II, are facing new challenges as their elderly founders hand over the reins to the next generation.

Many are failing to plan for this transition, leading to uncertainty at best, and potentially ruinous family feuds at worst, experts say.

"Many Asian entrepreneurs are very successful businessmen but they fail on this simple question," says Joseph Fan, a finance and accounting professor at the Chinese University of Hong Kong, who has studied the succession of family-run companies in Taiwan, Hong Kong and Singapore.

Bitter battles

The business - and gossip - pages of Asia's magazines and newspapers are rife with examples of corporate families locked in bitter court battles over the family fortune:

Last month, Lee Kun-hee, the 70-year-old the chairman of electronics giant Samsung, was sued by both his brother and sister over company shares left by their late father.

In December, Winston Wong, eldest son of the late Taiwanese tycoon Wang Yung-ching, sued to recover $4bn worth of disputed assets that he claimed were siphoned off by members of his father's third family. Wang founded Formosa Plastics, one of Taiwan's biggest companies.

India's richest man, Mukesh Ambani, became embroiled in a five-year dispute with his brother Anil over their father's vast Reliance empire.

And in Hong Kong last year, a bizarre row erupted over the future of billionaire Stanley Ho's Macau casino business, that pitted Mr Ho against some of his own children.

Given that many of Asia's tycoons are now in their 80s and 90s, the next decade will probably see a number of leadership successions.

"It could be a systemic risk," says Prof Fan. "They are very significant components in their respective economies."

For example, the Ho family is said to account for 40% of Macau's economy.

Stock performance

Prof Fan says that while not all family businesses experience bitter power struggles, the generational shift still has a profound impact on a company's stock market performance.

In a recent study, he tracked the market performance of 250 family companies that underwent a succession.

He found that, on average, these companies' stock values declined by almost 60% during the period starting five years before the succession up until three years afterwards.

Prof Fan says that the success of a family firm is often down to the skills, charisma and connections of the founder, something that subsequent generations may find hard to replicate.

"The most challenging task is passing to the next generation these intangible assets," he says.

"For example, anyone could build a house or construct a building like Li Ka-shing, but not everyone has his reputation or political connections," he adds, referring to Asia's richest man, who runs Hong Kong conglomerates Hutchison Whampoa and Cheung Kong.

Third generation

Li & Fung, a Hong Kong-listed trading company that manages the supply chains of companies like Wal-Mart, is often cited as an example of a company that has handled the pressures of running a family business well.

It is run by brothers William and Victor Fung. They are the third generation of their family to manage the firm, taking over the company in 1972 after attending Harvard Business School.

"One of the first challenges that Victor and I had when we came back was how to expand if you outgrow the family resources in terms of management skill and financial resources," William Fung told a conference on reinventing the family firm last month in Hong Kong.

The Fungs found the solution was to list the company on the Hong Kong stock exchange.

"The idea is if you go public you bring in public scrutiny, bring in outside directors, bring in a regular dividend policy and you bring in value for your shares," he says.

"All those things combine to make the separation of management and ownership much more powerful and easier to accept by the family.

"In the old days, perhaps you always had to guarantee a relative a job but (once you list) that no longer needs to be the case because you can benefit from ownership and not work."

More recently, Li & Fung appointed an outside chief executive. Observers say that this regrouping will give the company time to see if the brothers' children, who are still relatively young, have the interest and ability to run the firm.

William also jokes that the company benefited from their grandfather being a Catholic, meaning that unlike many traditional patriarchs of that era in South East Asia, he only had one wife.

Sacrifice?

Many of the most bitter family feuds, such as the Ho family in Hong Kong and Macau and the Wang family in Taiwan, result from infighting between multiple wives and children.

Further problems stem from the different attitudes of a younger generation, who have often been educated abroad, and may not share the grit and determination of their forefathers.

"These families play a very important part in explaining the Asia economic miracle," says Prof Fan.

"They were highly motivated and willing to sacrifice their personal interest in favour of family and business interests.

"The question now is whether the same values can be passed down to the next generation."