

The Great Succession Challenge of Asian Business

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Overview

- ◆ Leadership succession in Asian business as an urgent and challenging issue
- ◆ Why difficult to sustain a business in emerging markets?
 - ◆ Specialized assets
 - ◆ Roadblocks
- ◆ Designing corporate governance for the sustainability of Asian business

A Partial List of Hong Kong Listed Firms Experienced Leadership Transition

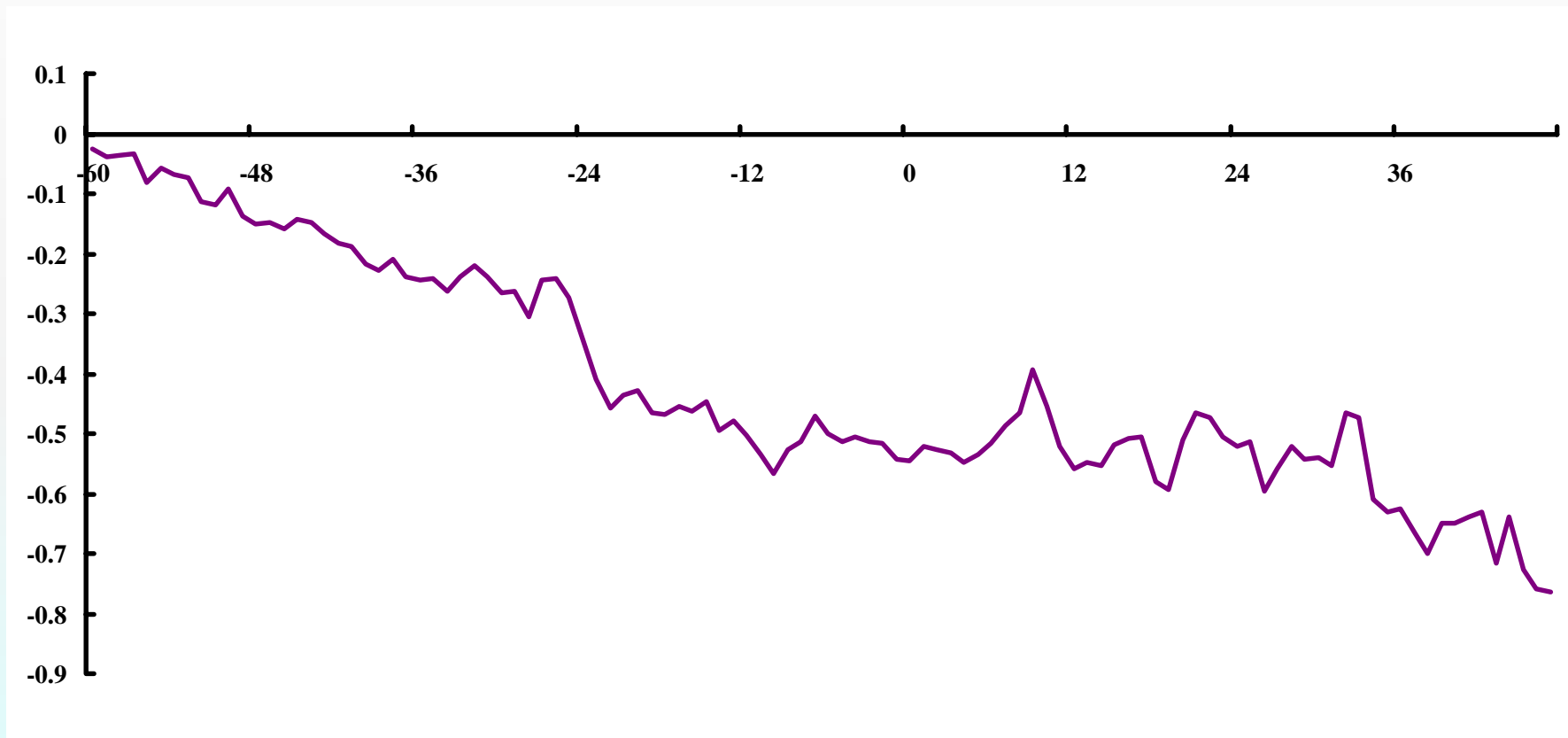
Firm	Succession Year	Founder	Age	Successor	Age
Henderson Land Development Company Limited (00012.HK)	1999	Lee, Shau Kee	80	Lee, Peter Ka Kit (eldest son)	46
Mingly Corporation Limited	2000	Cha, Chi Ming	d	Cha, Payson Mou Sing (eldest son)	66
Johnson Electric Holdings Limited (00179.HK)	1996	Wang, Seng Liang	d	Wang, Patrick Shui Chung (second son)	58
Cosmos Machinery Enterprises Limited (00118.HK)	1997	Tang, Kwan	86	Tang, To (son)	61
Fairwood Holdings Limited (00052.HK)	1999	Lo, Fong Seong	d	Lo, Dennis Hoi Yeung (son)	57
National Electronics Holdings Limited (00213.HK)	2000	Lee, Chi Hoo	—	Lee, Jimmy Yuen Ching	62
Wah Kwong Shipping Holdings Limited	1998	Chao, Tsong Yea	d	Chao, Frank Sze Bang (eldest son)	d
Golden Resources Development International Limited (00677.HK)	2000	Lam Tsang, Suk Yee	95	Lam, David Kwing Chan (son)	d
Hsin Chong Construction Group Limited ³ (00404.HK)	2002	Yeh, Geoffrey Meou Tsen	d	Yeh, V-Nee (nephew)	50
Hysan Development Company Limited(00014.HK)	2001	Lee, Hon Chiu	80	Lee, Peter Ting Chang (cousin)	d
China Overseas Grand Oceans Group Limited (00081.HK)	2003	Yung, Yau	d	Yung, Billy Kwok Kee (eldest son)	56
Southeast Asia Properties & Finance Limited (00252.HK)	2000	Chua, Siao Hua	d	Chua, Nai Tuen	57

More to come...Notice how old some of the founders are!

Company	Founder	Age	Family Member	Current Position
Cheung Kong (Holdings) Limited (00001.HK)	Li, Ka Shing	81	Li, Victor Tzar Kuoi (eldest son)	Deputy Chairman, Managing Director
Li & Fung Limited (00494.HK)	Fung, Victor Kwok King	64	Fung, Spencer Theodore (son)	Executive Director
Bank of East Asia, Limited (The) (00023.HK)	Li, David Kwok Po	70	Li, Adrian David Man Kiu (eldest son)	Deputy CEO
Hopewell Holdings Limited (00054.HK)	Wu, Gordon Ying Sheung	74	Wu, Thomas Jefferson Man Sun (eldest son)	Executive Director, Managing Director
Dah Sing Banking Group Limited (02356.HK)	Wong, David Shou Yeh	69	Wong, Harold Tsu Hing (eldest son)	Executive Director
Techtronic Industries Company Limited (00669.HK)	Pudwill, Horst Julius	65	Pudwill, Stephan Horst	Executive Director
SJM Holdings Limited (00880.HK)	Ho, Stanley Hung Sun	87	Leong, Angela On Kei (fourth wife)	Executive Director
Shun Tak Holdings Limited (00242.HK)	Ho, Stanley Hung Sun	87	Ho, Pansy Catilina Chiu King (daughter)	Executive Director, Managing Director
Melco International Development Limited (00200.HK)	Ho, Stanley Hung Sun	87	Ho, Lawrence Yau Lung (son)	Chairman, CEO
Television Broadcasts Limited (00511.HK)	Shaw, Run Run	102	Fong, Mona (wife)	Deputy Chairman, Managing Director
Galaxy Entertainment Group Limited (00027.HK)	Lui, Che Woo	80	Lui, Francis Yiu Tung (eldest son)	Deputy Chairman, Executive Director
Lee & Man Paper Manufacturing Limited (02314.HK)	Lee, Patrick Wan Keung	66	Lee, Raymond Man Chun (eldest son)	Executive Director, CEO
Regal Hotels International Holdings Limited (00078.HK)	Lo, Yuk Sui	65	Lo, Poman Po Man (daughter)	Executive Director
Shangri-La Asia Limited (00069.HK)	Kuok, Robert Hock Nien	86	Kuok, Khoon Ean (second son)	Chairman, CEO
Raymond Industrial Limited (0229.HK)	Wong, Wilson Kin Lae	74	Wong, Raymond Man Hin	Deputy chairman, Executive Director

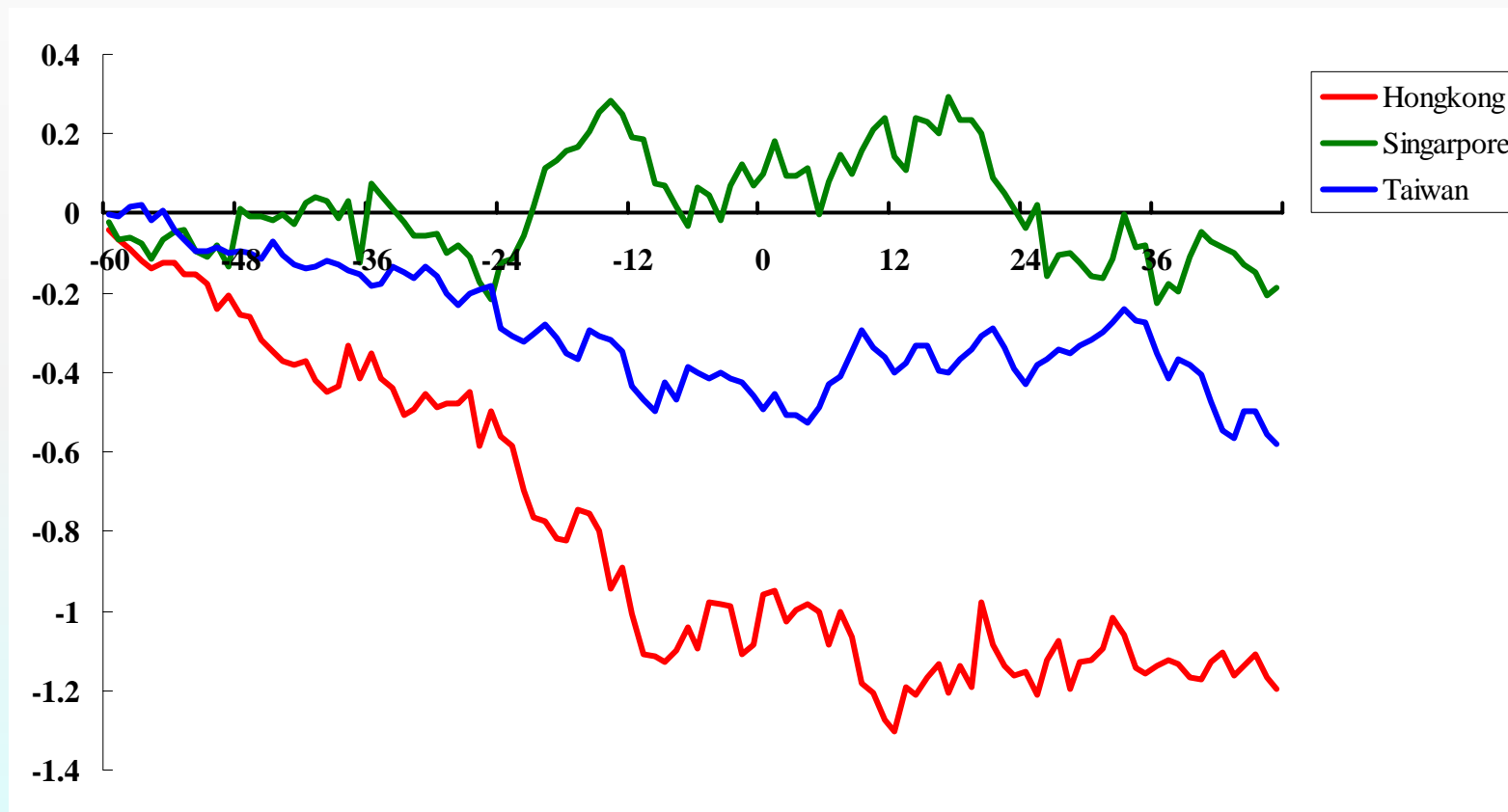
Wealth Loss During Succession

(monthly accumulated stock return, full sample)

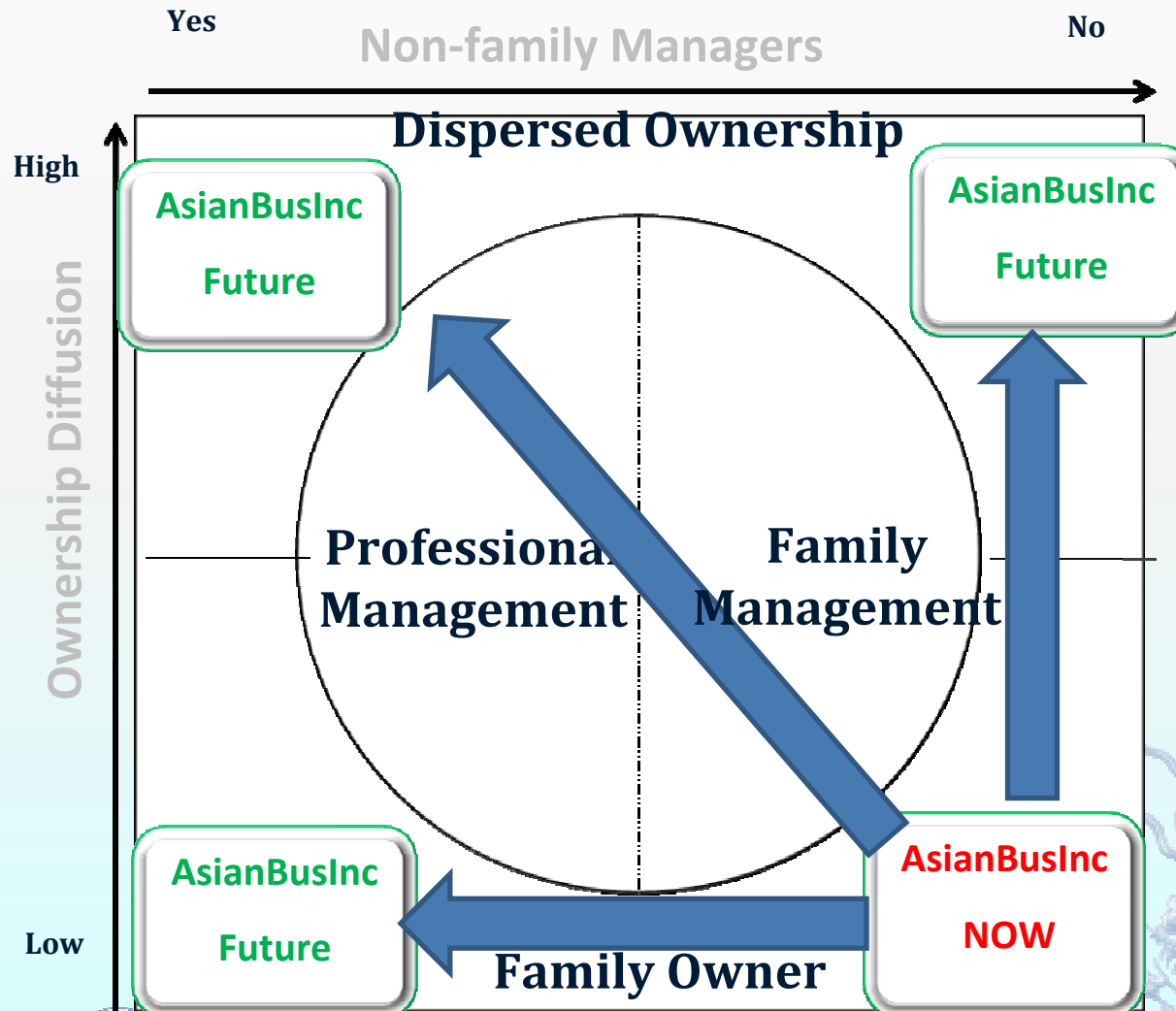


Wealth Loss During Succession

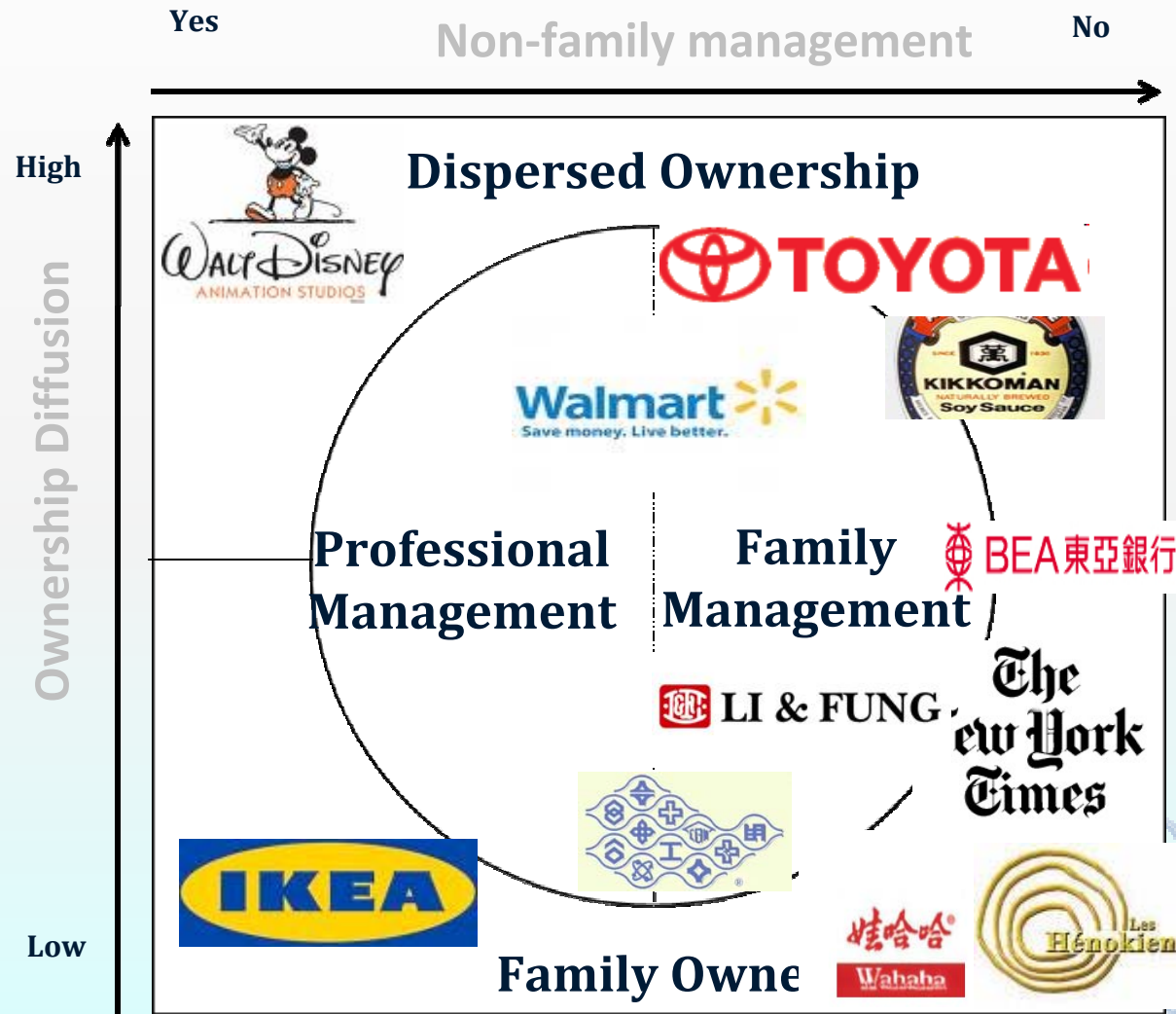
(monthly accumulated stock return, by economy)



ASIAN BUSINESS: WHERE DO YOU WANT TO GO?



LOCATING FIRMS IN THE OWNERSHIP-CONTROL QUADRANT



Key Questions

- ◆ What determine the choice of the structure of ownership and control of a business?
- ◆ Given the choice, what sort of governance is needed to sustain the business?
- ◆ From policy perspective, what institutional changes can be considered to improve the efficiency and sustainability of the business?

Most Asian Firms Choose Family Succession

Successor Choice of 217 Publicly Traded Family Firms in Asia (Fan, Jian, Yeh, 2009)

	Hong Kong		Singapore		Taiwan		Total	
Family member	43	69%	17	36%	80	74%	140	65%
Heir	18	29%	4	9%	57	53%	79	36%
Relative	25	40%	13	28%	23	21%	61	28%
Outsiders	6	10%	17	36%	24	22%	47	22%
Sold-out	13	21%	8	17%	4	4%	25	12%
Unknown	0	0%	5	11%	0	0%	5	2%
Total	62	100%	47	100%	108	100%	217	100%

Succession Challenges

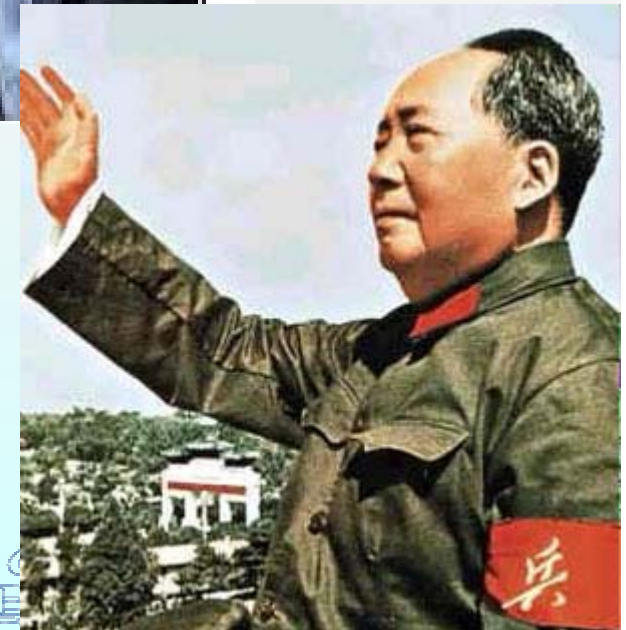
- ◆ **Difficult to pass on critical specialized assets**
- ◆ Family fight
- ◆ No suitable successor
- ◆ Founders are reluctant to leave
- ◆ Other family, market, and institutional roadblocks

SPECIALIZED (FAMILY) ASSETS

- ◆ Value Based Leadership
- ◆ Relationship, network
- ◆ Informal enforcement authority (culture, norm, implicit rules, etc.)
- ◆ Human capital (skills, techniques, creativity)
- ◆ Common properties
- ◆ Longevity
- ◆ These assets, often intangible, critically contribute to the success of Asian business, but they are specialized to the entrepreneur and his/her family, cannot be quickly learned or easily bought and sold in marketplace

Value-based Leadership of Zong Qinghou Wahaha (China)

- ◆ Wahaha is literally a laughing sound in Chinese opera
- ◆ But it is also the name of the largest bottled water and soft drink producer in China
- ◆ Founder, chairman and CEO: Zong Qinghou
- ◆ Role model: Chairman Mao, an “open minded dictator”
- ◆ Zong does not use computer. Making order by phone calls and approve/disapprove subordinates’ requests by traditional brush pen with red ink



The Ideology campaign of Wahaha against Danone

- ◆ Danone: a French based global dairy products, bottle water producer
- ◆ 50-50 joint venture
 - ◆ Danone provided financing in return for the right of Wahaha brand; Wahaha provided management and production
- ◆ The dispute
 - ◆ Danone accused Zong set up factories outside the JV to produce and sell products that were supposed to be produced and sold under the JV.
- ◆ The defense by Zong
 - ◆ The Wahaha brand was never approved by the Chinese government. Therefore Danone did not have the right for the brand
 - ◆ National media campaign portaiting Danone as a vicious intruder trying to take over Chinese businesses, just like its French ancestor
- ◆ The outcome
 - ◆ Danone lost the legal case, sold its JV back to Wahaha, and exit the China market in 2009



What's in a Handshake?

Hu Jintao met Li Kar-shing in Shengzhen, China (September 6, 2010)

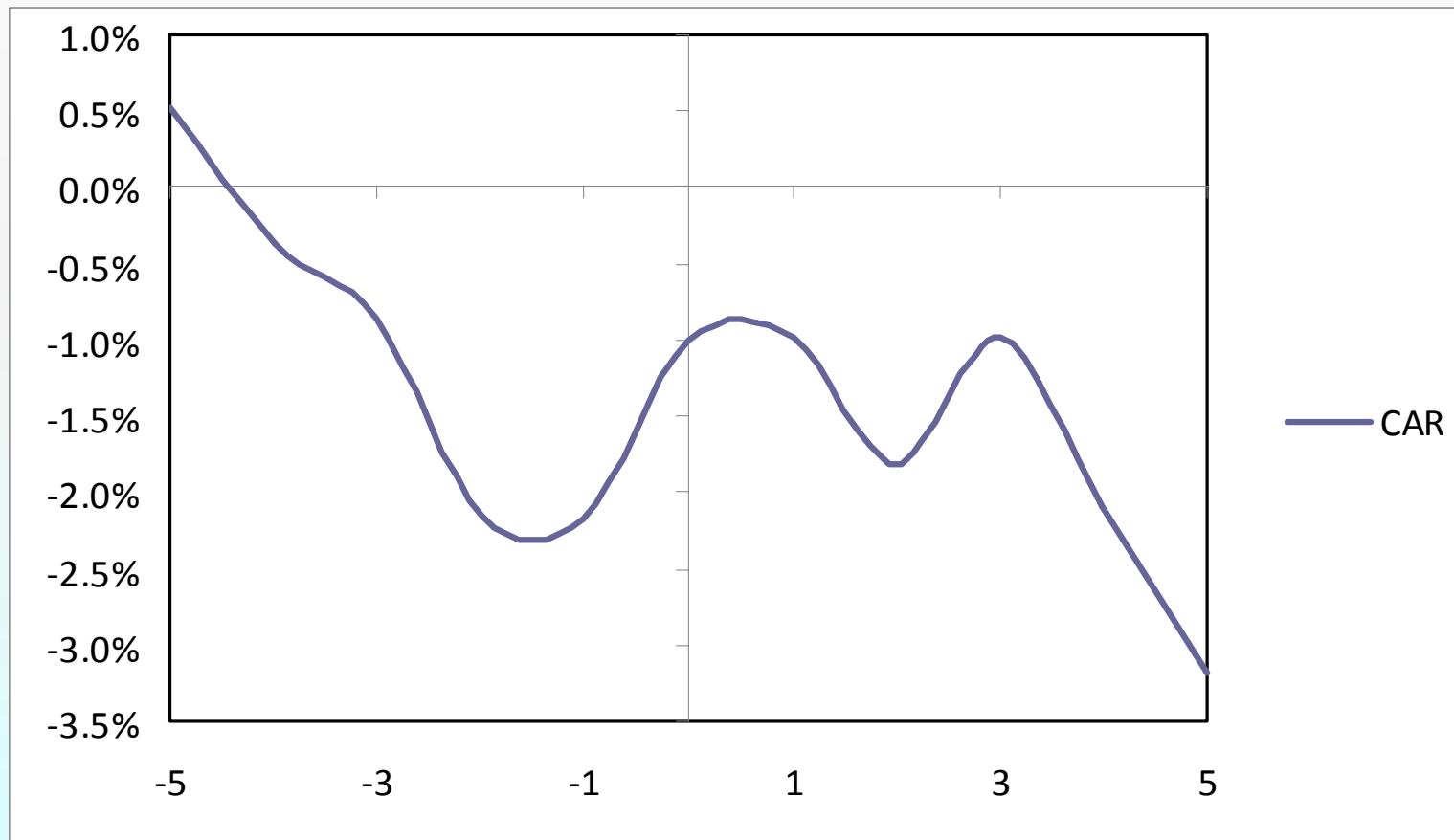




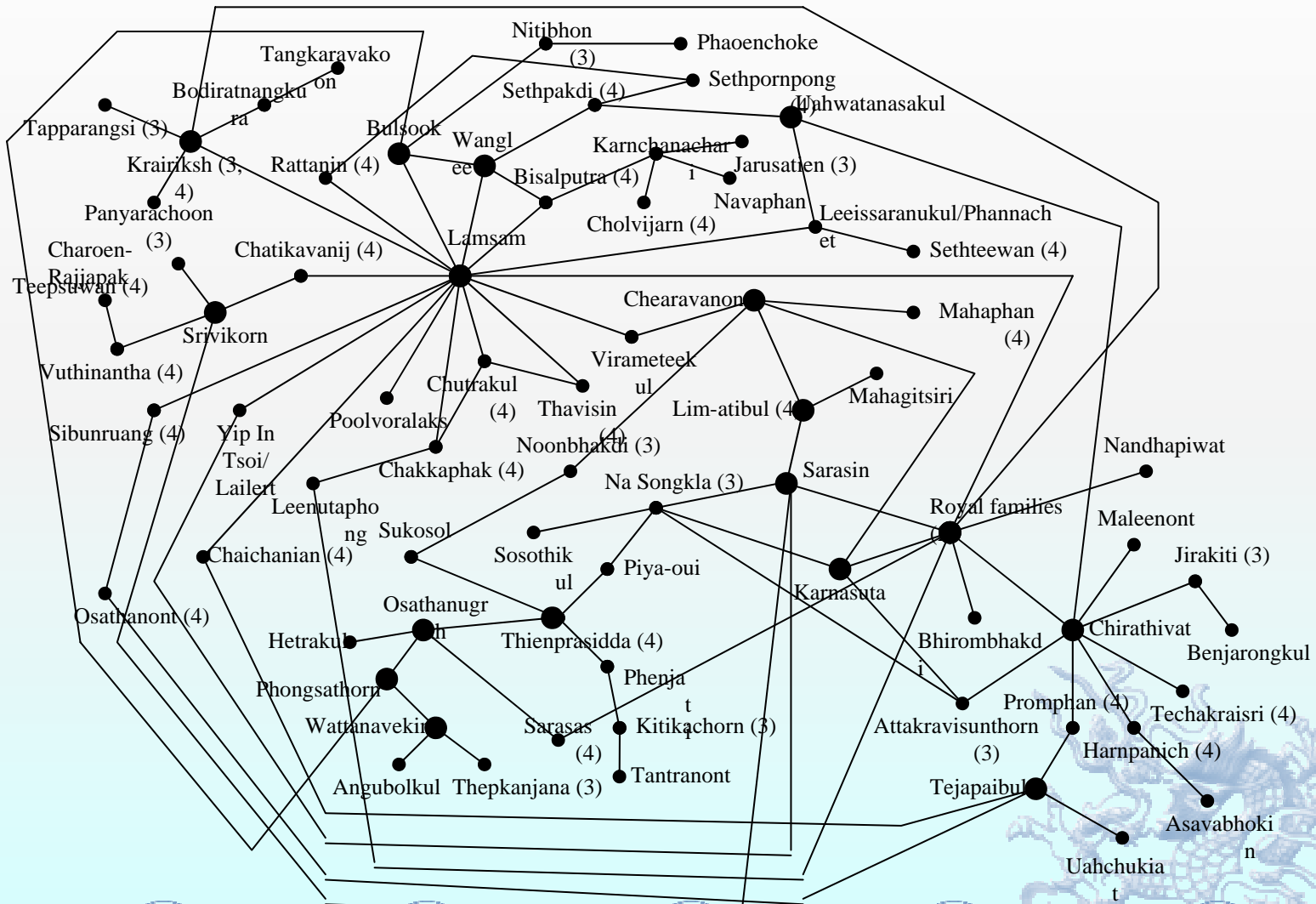
图片上传于 李嘉诚 - 明星中国 LIJIACHENG.FAMILY.NET

Chong Kong Holdings' daily cumulative abnormal stock returns around founder Li Kashing's hospitalization at age 77

Cumulated Daily Stock Return



Network created by marriages (Thailand)



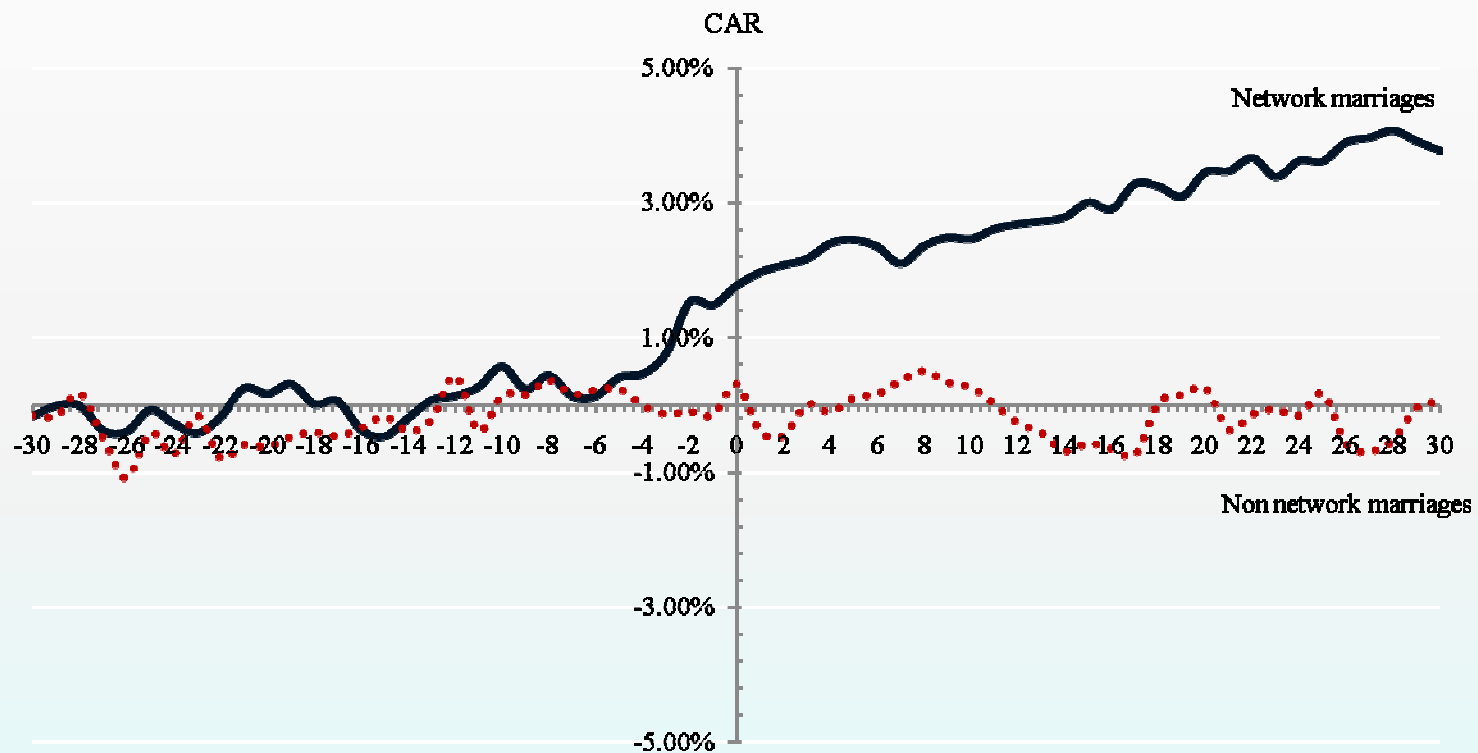
Business Family Members' Marital Choices (Thailand's top 150 business families)

The partner's family background

	Number	Percentage
A. Family background		
Royal, noble [1]	9	6.4%
Politician, military, civil servants [2]	35	25.0%
Big business [3]	18*	12.9%
Business [4]	48	34.3%
Foreigner [5]	9	6.4%
Others [6]	21	15.0%
B. Type of networks		
Political network [1]+[2]	44	31.4%
Business network [3]+[4]	66	47.1%
Non network [5]+[6]	30	21.4%
C. Network marriage?		
Network	110	78.6%
Non network	30	21.4%

** Each side of the couple is analyzed separately*

The stock market reaction to marital news



Succession challenges

- ◆ Specialized assets are difficult to transfer
- ◆ Family fight
- ◆ No suitable successor
- ◆ Founders are reluctant to leave

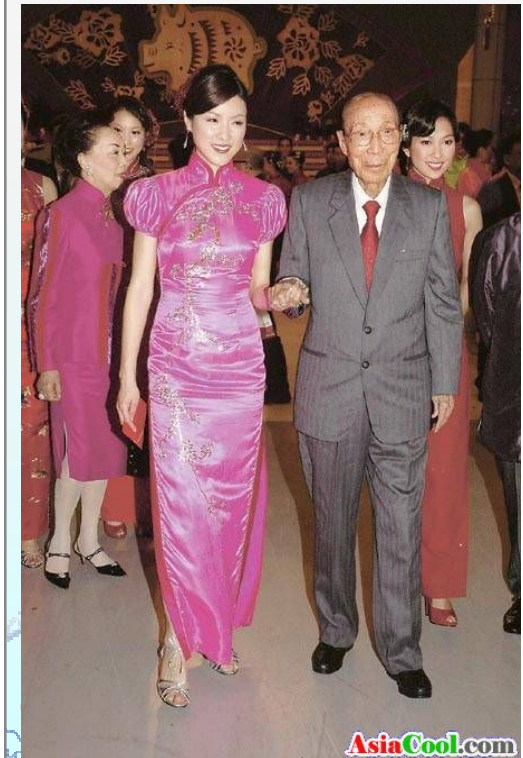
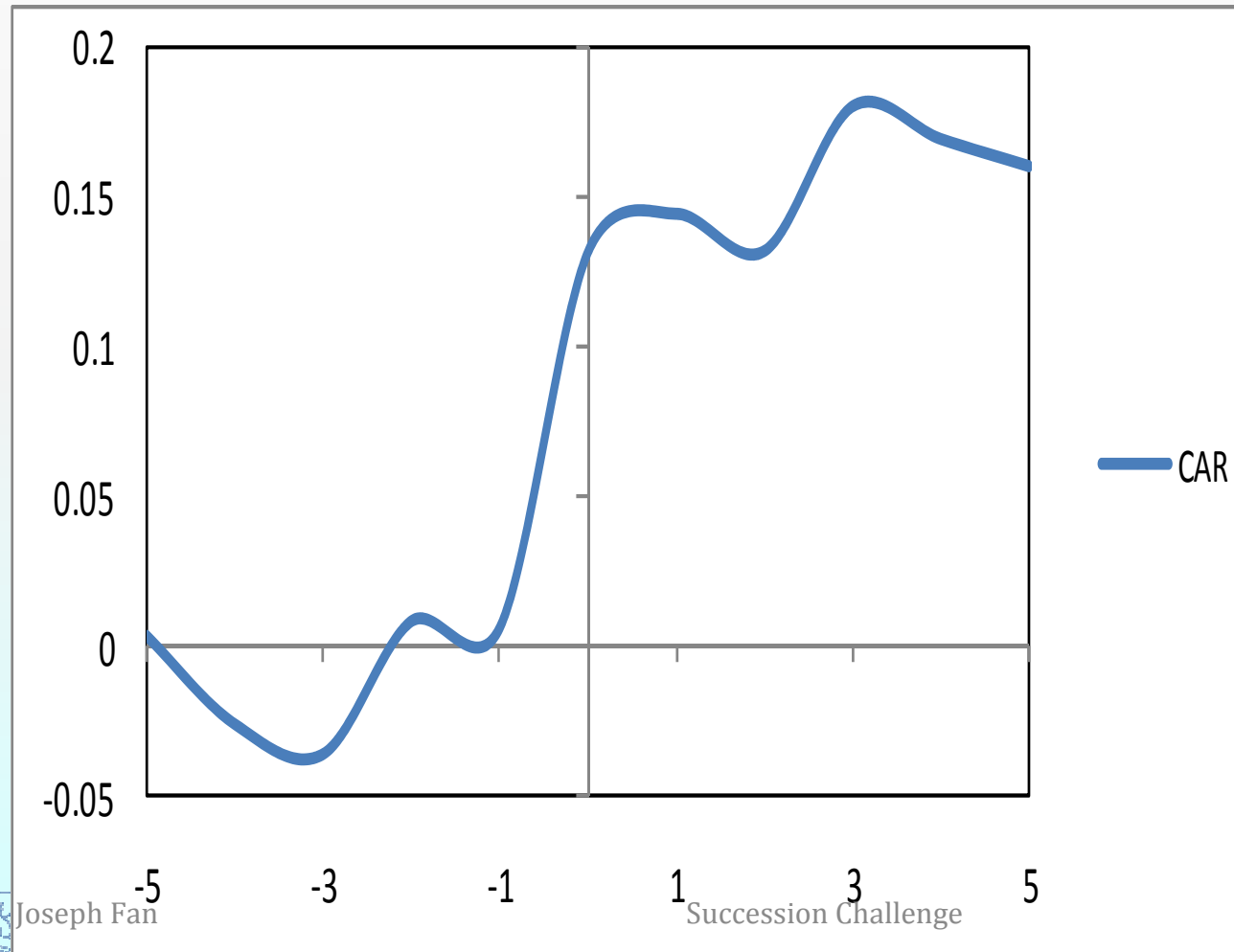
Family Fight and Cumulative Abnormal Stock Return of SHKP



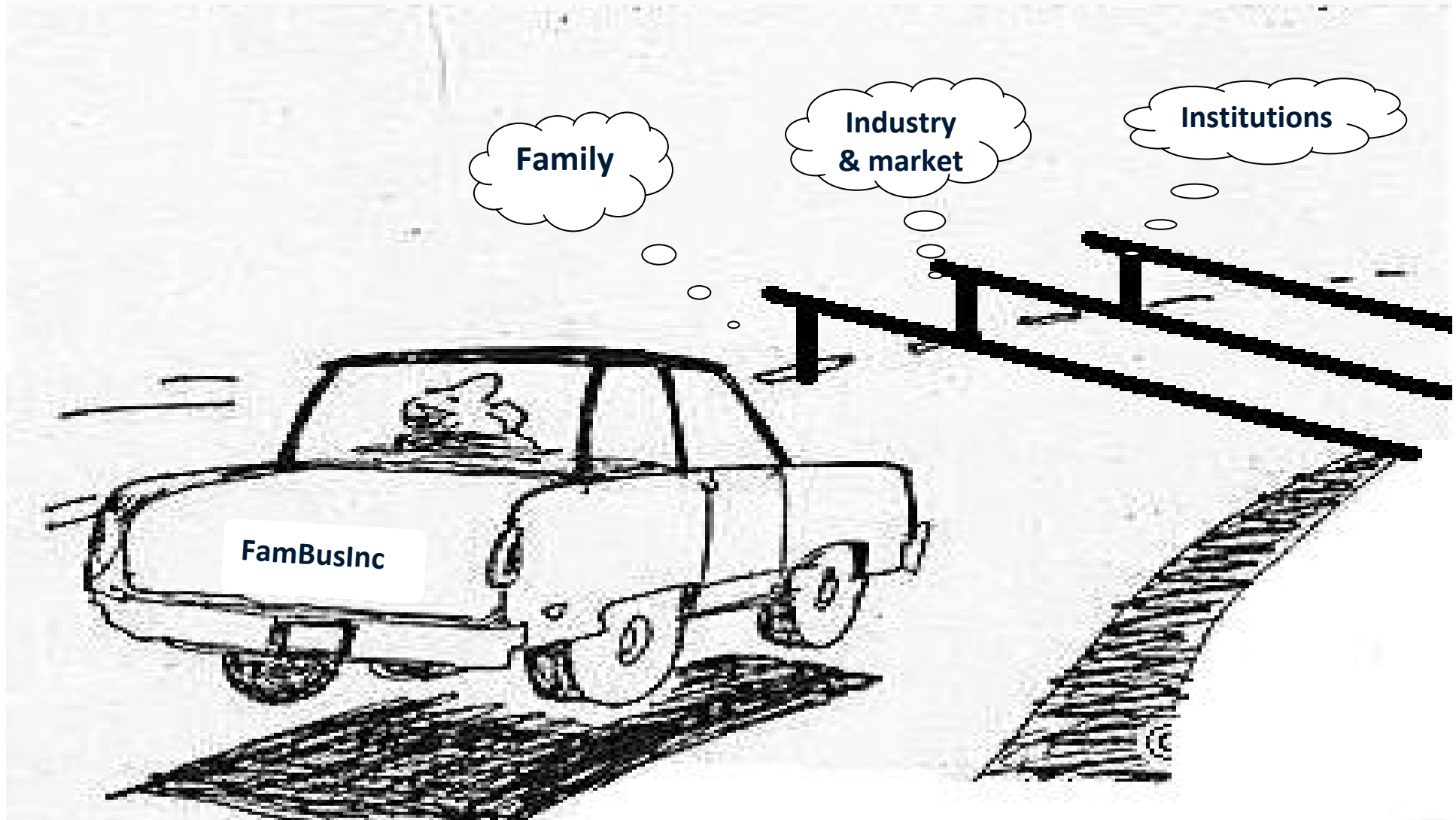
Succession Challenges

- ◆ Specialized assets are difficult to transfer
- ◆ Family faction
- ◆ No suitable/interested successor
- ◆ Founders refuse to go

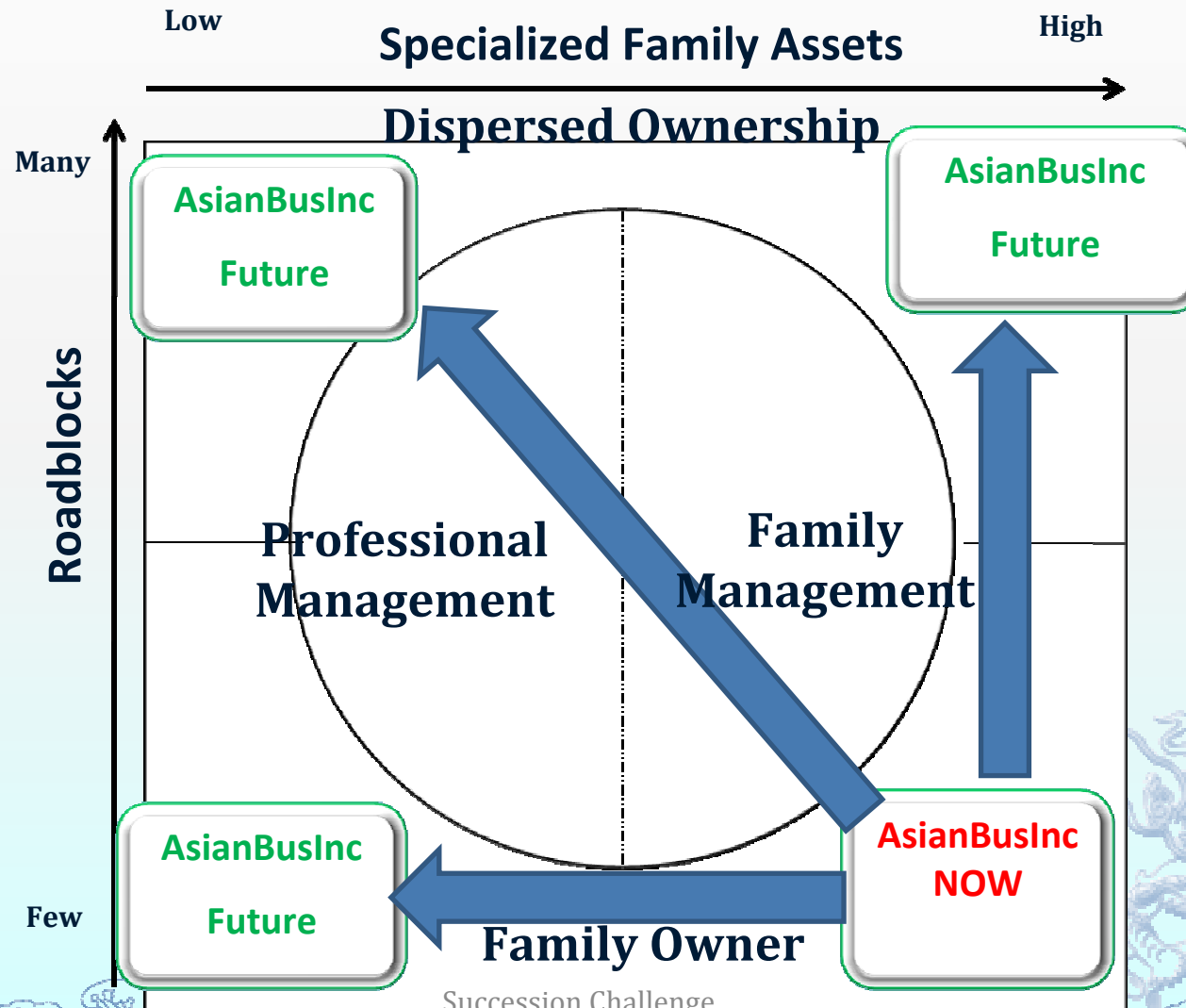
Daily accumulated abnormal stock return of TVB around the day founder R.R. Shaw was sent to hospital at age 98



ROADBLOCKS of ASIAN BUSINESS



A GOVERNANCE ROAD MAP FOR ASIAN BUSINESS



Governance for Sustainability

- ◆ Clear ownership and control
- ◆ Training reliable and competitive successors
- ◆ Recruiting, inspiring and retaining professional managers
- ◆ Professionalism and standardization
- ◆ Preserving core value
- ◆ Enhancing corporate governance (mechanisms for conflict resolution)

Conclusion:

Answers to the key questions of business continuity in Asia

- ◆ The extents of specialized family assets and roadblocks determine the ownership and control of Asian business
- ◆ The owner of Asian business should adopt corporate/family governance that is most suitable to its business model
- ◆ Policy makers should remove roadblocks to help sustain the business

Thank you

