FAMILY TREE PLANNING

As Hong Kong entrepreneurs from the 1960s pass retirement age, their families are faced with the often difficult problems of succession. *Liana Cafolla* talks to both business experts and family therapists

In February, Cheng Yu-tung, Hong Kong's fourth richest man, according to *Forbes'* Rich List, announced his retirement at the age of 86 as chairman and executive director of the property giant New World Development. He passed the reins to his son, Henry Cheng Kar-shun, at the same time making Henry's son, Adrian, an executive director and joint general manager, and Adrian's sister, Sonia, chief executive of New World Hospitality. Late last year, Cheng had listed the company jewellery business, Chow Tai Fook Enterprises, on the Hong Kong stock exchange.

Between the IPO and the nominations, it was, observers said, a well-planned succession, covering not just the second but also the third generations. It was not, however, Cheng's first attempt to ensure the future of the company he had founded in 1970.

He had previously retired in 1989, after handing power to Henry. But the business quickly ran up debts of HK$25 billion, prompting Cheng senior's return to the company a year later. He stayed put for another 23 years.

That scenario is one which other family businesses in Hong Kong are seeking to avoid, observers say, and never more so than now. "We are in the midst of the greatest inter-generational transfer of wealth that this region has ever seen," says William Ahern, principal of Family Capital Conservation and a family consultant on succession, tax and legacy.

Many of the city's largest companies were founded around the same time by young entrepreneurs in the 1960s, who are now in their 80s or 90s. Cheung Kong's Li Ka-shing is now 84, Lee Shau-kee of Henderson Land Development is 85, and Stanley Ho Hung-sun of Shun Tak Group is 91 – and has already faced a vitriolic and highly public family governance crisis.

Family businesses are a traditional format in Chinese society, and often appear to have a straightforward organisational structure. Nonetheless, passing on a family business to the next generation is often anything but simple.

From the inevitable overlap between family relations and business concerns, to the difficulties wrought by the generation gap – or gaps, when third or even fourth generations become involved – to questions about decision-making, accountability, and responsibility for the bottom line, transitions in Asian family businesses can be a minefield.

In some cases, families decide to call on an objective outsider, such as a family therapist, to help work out the structure of the business for the next generation.

Pearl Lau is a family therapist, and says that family businesses in Hong Kong, in common with family businesses in other cultures, are often confronted with issues relating to unclear distinctions in relationships, a focus on activities that are outside the core business, and family roles being at odds with career roles.

From a family therapist's perspective, these issues can be better resolved by understanding the family's structure – structure meaning hierarchy; and birth order, both chronological and psychological; relationships between siblings and across generations; rules governing the family; boundaries the family has with other subsystems and/or the greater system; as well as boundaries family members share with one another, she says. "A therapist can gain insight into a family's structure by assessing communication patterns, mapping out family relationships through use of tools such as a family genogram and assessing the personality of family members."

It is not a case of a therapist coming in and telling the family what to do, Lau says. Rather, it is a two-way process.

"Just because the therapist may conceptualise the family's/family business's problems in one way, it is still necessary to understand how they view their own issues," Lau says.

While every family is different, Lau says, balancing family with business roles is particularly important to resolve, because many different factors combine to create an individual or family cultural identity.

Christian Stewart, managing director of Family Legacy Asia in Hong Kong, who deals with family governance issues, says understanding and agreeing on these roles is vital to the success of a family business over generations. "If you want to preserve family wealth, the key issue is how the family makes decisions together," he says.

Research on successful family businesses shows that they need to agree on who owns the business, Stewart says.

"What matters is how the ownership is divided up, and how the family members as owners make decisions together about the business, and whether the family as owners will support the business or not. So ownership turns out to be more important than management," he says.

Most family businesses fail because of family conflict – the breakdown of trust and communication, he says. This happens where open communication and reaching a consensus are rare events, typically the case with Asian families built on a Confucian-style model of patriarchy.

In such families, the father and founder typically answer to no one and make most of the important decisions. After a lifetime of wielding that kind of power, handing over is difficult.

"It's very hard to talk to them about succession issues, it's typical that they'll be very reluctant to let go."

The flaw in the Confucian model is that the patriarch is accountable to no one, but his successor is typically answerable to shareholders and other family members, and must develop a good working relationship with these stakeholders.

That is a new challenge, especially for siblings who may have to cooperate for the first time.

"The paradox is that the first-generation patriarch is always the wrong model to follow if you want to be a successful second-generation successor," Stewart says. "Where you really get into trouble is if the son is going to be appointed to lead the business in the future, even if he's the majority shareholder, if his sister is, say, a 25 per cent shareholder, he'd better learn that he's going to have some accountability to her. That's the sort of adjustment they have to go through."

Another is the fundamental difference between the wealth creator

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and his successor.

"What the patriarch wanted from that money, what he was thinking about when he was making it, is unlikely to be the same as his kids are thinking about it," Ahern says. Good family governance can help to bridge this gap. "My observation is that families in this part of the world are beginning to see the link between good family governance and long-term harmonious family wealth.

"It's been happening in the US and Europe for a long time, because of the maturity of the wealth there. But here it's really only beginning to cross the generations, so it's natural that people are beginning to start thinking about this."

The best way to preserve the family business, Stewart says, is by "pruning the family tree".

"The classic conflict area in a family business is between inside and outside shareholders," Stewart says. "'Inside shareholders' means the ones who are managing the business. 'Outside shareholders' means outside passive shareholders with no management role. These classically fight, anywhere in the world. So if you have a fair process for allowing the outside shareholders who are not interested in supporting the business to sell out, and you allow the inside shareholders to build up their control and ownership stake, then you actually avoid family conflict, while helping continue the family business."

Stewart says it is rare in Asia for a

William Ahern: links good governance and long-term family wealth.
Photo: Edmond So

family business to have existed beyond three generations. In such cases, they tend to have consolidated the share ownership through pruning, he says.

Japanese family businesses are the most successful, because they consolidate ownership and are not afraid to bring in outsiders, Stewart says. They tend to pass ownership of the entire business to one offspring, although the wealth may be shared among many family members, and they bring in outside professionals to fill expertise gaps.

The typically large size of Asian families is partly to blame for the failure of family businesses over three generations, according to Roger King, adjunct professor at the Hong Kong University of Science and Technology, where he teaches EMBA and MBA courses related to family businesses and entrepreneurship.

"When you get so many people involved in the business in subsequent generations, there are bound to be differences, jealousies and everything else," he says.

Family businesses that succeed over generations tend to share several characteristics, King says. "Fundamentally they have a good family to start with. That means all the people within the family have good relationships, aside from the business side.

"And also there's recognition that not all offspring need to be in the business. There are other things they can do. For example, some of them can be managing foundations for the preservation of legacy for the family itself."

King says family businesses face many challenges in surviving. The Asian patriarch's tradition of holding onto power until he is in his 80s or more means that the second generation often takes over only when they are in their 60s and 70s, and up to then they may never have made any decisions at all.

Globalisation also challenges the family business model, King says. Younger wealthy Asians are increasingly choosing to study abroad, weakening the traditional family closeness, which helps communication, and instead bringing in new ideas and ambitions. "For example, typically in a Confucian society, the birth order is very, very important," King says. "But people coming back, they may say, 'wait a second, performance and skills are just as important. So why should older brother take over the business if I'm more skilful?'"

Other challenges include changes to traditional businesses. Many Chinese family fortunes have been built on conditions, such as cheap labour, which are fast disappearing, King says.

To ensure sustainability, Chinese families need to overcome their wariness of bringing in outside talent, he says: "We have to recognise that families do not have all the talents, and we've got to be able to attract talent from outside to help us to build and maintain the growth of the business itself."

Ultimately, King says, success lies in applying the best business principles from around the world: "We have to recognise that not everything in the east is good, and not everything in the west is good. Let's try to extract things that are good from both sides, and try to bring them together." M