Profile: The Chinese University of Hong Kong

- The Chinese University of Hong Kong (CUHK) was established in 1963 after the amalgamation of existing colleges which date back to 1949
- The Vice Chancellor & President is Professor Joseph J.Y. Sung
- CUHK has eight faculties (Arts, Business Administration, Education, Engineering, Law, Medicine, Science, Social Science) and 62 academic departments
- CUHK is ranked #37 in the QS World University Rankings 2011 and four of its academic staff have been awarded Nobel Laureates
- CUHK is based on a collegiate system of nine colleges
- CUHK has 23,000 students; 3,000 of whom are from outside Hong Kong

Profile: CUHK Business School (The Faculty of Business Administration)

- CUHK Business School is the first business school in Hong Kong
- The Dean is Professor T.J. Wong
- The Business School is comprised of two schools (Accountancy, Hotel & Tourism Management) and four departments (Finance, Decision Sciences & Managerial Economics, Management, Marketing)
- It has over 3,800 students (full-time/part-time)
- The School offers the most prestigious business undergraduate programs in Hong Kong and each year, it receives the largest proportion of top-ranking high school students in Hong Kong (based on public examination results)
- Over 310 undergraduate business students embark on an international exchange annually
- The Business School pioneered the first Executive MBA and MBA programs in Hong Kong. In 2011, the EMBA and MBA programs were ranked 14th and 28th in the world, respectively, by the Financial Times
- The OneMBA program partners with four top business schools from Asia, Europe and North and South America and was ranked 26th in the world by Financial Times in 2011
- The School runs dual MBA degree programs with HEC in France, Rotterdam School of Management in the Netherlands, University of Texas at Austin and MIT Sloan School of Management in the U.S. and masters teaching partnerships with Tsinghua University and Shanghai National Accounting Institute in China

Dean’s Message

I would like to welcome our readers to this edition of the CUHK Business School’s magazine CONNECT. Situated at the world’s doorway to China, with a well-developed foundation in business education and research, CUHK Business School at The Chinese University of Hong Kong has a unique role in nurturing business leaders for tomorrow. CONNECT magazine provides a platform through short articles in which to educate and inform on selected business topics by staff at CUHK Business School and guest writers. This edition of CONNECT magazine focuses on Entrepreneurship and Family Businesses and we hope that you will find the articles both interesting and stimulating.

Professor T.J. Wong
Recent incidences of family court business disputes in Hong Kong are increasing at an alarming rate with poor succession planning as a root cause of the problem. The impact of poorly managed succession and family infighting can be significant both for the family business and investors. Based upon the writer’s joint research of 250 succession companies controlled by Chinese families in Hong Kong, Taiwan and Singapore, a steep decline of the stock value of these businesses can be linked to a succession period beginning 60 months before the succession date and 50 months after the succession date.

Accumulated stockmarket returns of Hong Kong, Taiwan and Singapore listed family firms before and after succession, 1980s - 2000s, %

Months from succession date

Source: Joseph Fan, Chinese University of Hong Kong

Chinese Family Value

Prof. Joseph Fan
One of the reasons for these internal family disputes is the fading of traditional Chinese culture and values within family businesses. The Chinese practice of bequeathing all the family wealth to the eldest son is diminishing. This tradition, although perceived by some as "unfair", has helped to preserve family wealth and preempt conflict. However, the new generation of Chinese family members which have been influenced by Western culture and education are adopting different family values such as equality and democracy. Succession planning is, therefore, less straightforward and more complex with greater potential for family disputes. The effects and extent of family disputes do vary depending on how succession plans are structured within a business. Outlined below are examples of succession structures and their results from well-known family businesses in Hong Kong and China.

Sun Hung Kai Properties (SHKP) is a major property developer in Hong Kong and a leader in the real estate industry. Its founder, Kwok Tak-Seng, transferred the controlling interest of SHKP into a family trust as part of his succession plan. The trust was set up as being perpetual--i.e. neither the trust nor its underlying assets can be dissolved. In the trust deed, Kwok Tak-Seng named his wife and three sons as the beneficiaries. The trust appointed the three sons to co-manage the SHKP Group. Unfortunately, the brothers were not able to stay in harmony after the founding Kwok died. There is no exit from the family ownership structure because the ownership is locked-up in the perpetual trust. Therefore, the trust is actually prolonging the family infighting and the corporate value of the business is being eroded in the process. This is an example of how a contemporary “Western” strategy has not worked for this family business.

In the case of the self-made gambling and property billionaire, Henry Fok, he had outlined in his will that the family assets were to be concentrated under “one-roof” with no distribution of assets. He appointed the second son of the first branch to manage the assets and to distribute a monthly “salary” to family beneficiaries listed in the will. Mr. Fok also prohibited the second and third branch family members to be in family businesses.

Conflict began when the third son of the first branch accused the second son of trying to steal (claim sole ownership of) the assets. One problem with Mr. Fok’s succession arrangement is that, like the Kwok Tak-Seng set up, he did not leave a mechanism for non-interested family members to exit. When the second son tried to buy out the other family members, a family dispute erupted. This dispute has yet to be resolved, and in the meantime, the family business is being undermined in the process. It is anticipated that the resolution of the Fok dispute will likely be faster than that of the Kwok family as it will be extremely difficult to disentangle the perpetual trust ownership arrangement.

Lastly, Wang Yongching transferred controlling ownership of Formosa Plastic Group to Cheung Geng Memorial Hospital, a charitable foundation. A benefit of this structure would be the avoidance of the high government inheritance tax of 50%. Wang also knew that his big family would eventually start infighting for the family wealth after he had passed on. The foundation ownership was established to protect his business from being affected by the anticipated family dispute. This was achieved through a charitable foundation upon which no family members could be a beneficiary of the assets. All of the income needs to be reinvested into the business and/or donated for charitable purposes and no family members could serve as manager unless he/she is elected by the 15 member board of the foundation. The 15 board members can only include five family members and the rest are non-family, professional managers and external directors. Wang Yongching, by way of this charitable foundation, has achieved business continuity and has sheltered his family business from family infighting. However, it may be the exception rather than the norm that an owner is prepared to gift ownership of a successful business to a charitable foundation with the proceeds being given to charities.

“...a steep decline of the stock value of these businesses can be linked to a succession...”
From these examples, one can see that the succession issue is very challenging for Chinese families. Families that share the same values and goals have a much better chance of survival. The writer’s research shows that in the cases where “the first generation builds, the second generation sells or moves on”, businesses tend to flounder much of the time and ultimately fail. Under the “first generation builds and the second generation improves” model, businesses tend to grow and flourish. Without these shared values and goals, the children often have little interest in participating or taking over their parents’ businesses.

When planning for the succession of family businesses, there are three particular aspects which need to be considered:

1. The importance of family governance

Chinese families need to implement and enforce a system of governance which identifies shared values, consolidates family interests and resolves conflict. The system should also regulate family members’ involvement and provide exit strategies for the family business. The writer observes that Western based solutions consisting of Western family values are not always applicable. Similarly, Western corporate governance models (requiring standardized financial reports, independent directorship, etc.) do not always work to protect shareholder interest in Asia and China. How Western family governance strategies may be modified to suit the Chinese context is an important topic for Chinese families.

2. The importance of ownership structure

In the aforementioned family succession cases, we have seen that the founder’s preference is to “lock-up” the wealth and ownership of the business in some way. Family members, however, expect to receive a “fair” share of their inheritance and after the founding generation passes away, court action inevitably follows. The effects of the infighting on the family business are not the same. In the first two cases, the disputes have damaged the family businesses significantly. This is not the case for Wang Yong-Ching’s plan which has largely served to minimize the impact of family disputes on the business. The writer, along with the co-authors, have written a Harvard Business School case about the Wang Yongching model and a research paper on the pros and cons of trust ownership in Hong Kong.

3. The importance of corporate governance

Successors of family businesses, even if they share the values and passion of their parent founders, may not be seasoned business professionals. It is, therefore, important to build a strong management team and establish an effective model of corporate governance which can effectively monitor leadership and results. The writer observes that companies that have been led by succeeding generations tend to implement more transparent accounting practices and greater checks and balances.

In conclusion, it is typical and quite normal that Chinese founders would want their offspring to stay together and lead the businesses they have founded. However, this is often “wishful thinking” as family members, especially those not involved in the family business, often want to sell the business and move on. Family governance structures that intend to harmonize family relationships and interests can also be quite unrealistic. As a result, family disputes start shortly after or even before the founders have passed away. Chinese family business founders are using a range of different methods to solve the problems and often these are ad hoc, resulting in varying degrees of success.

Chinese family business founders need to consider the broader aspects of family governance, ownership structure and corporate governance when planning for succession. The writer’s research indicates that unsuccessful succession will result in a drastic decline of the company’s stock value. Many Chinese business founders are now becoming more proactive on this matter and are participating in classes and seeking knowledge to resolve the succession issue. The writer is doing his share by researching, writing and teaching on this topic.

Professor Joseph Fan

(Editorial Input from Roger Shew)

For more information on Professor Fan’s work, visit the website: http://ihome.cuhk.edu.hk/~b109671/index.html
Succession in the family business: A tough process, but a chance to shine

by Dr Denise Kenyon-Rouvinez

In the Western world, only about 10% of all family businesses created make it to the third generation. While this is not a very high proportion, the figure is steadily increasing as knowledge on transitions is shared and skills are developed to help families through the long and often rocky process of transition. In Asia, there are indications that a smaller proportion of businesses make it through to the same stage. Some of the issues that impact on these lower figures in Asia could be the relative youth of the field of family business and the greater importance of culture and traditions – such as a more systematic transition to the first-born son and a strong sense of respect for elders.

The big question is how best to ensure that the family business can be passed on to following generations, regardless of the country of origin or cultural background. This is important because it is a well-documented fact that successful, competent family businesses consistently outperform other kinds of businesses. This article focuses on a few critical elements that can help increase the chances of a family business beating the odds and surviving several or many generations. While the culture of each country and region means that there is not a “one-size-fits-all” model, there are some fundamental issues facing families during transitions worldwide.

A great deal can be learned from successful, long-lasting family businesses no matter where they are in the world, and from the rich, in-depth studies that have been undertaken over the past 30 years in the field of family business. Here are a few essential lessons learned from successful families.

I. Learning from others

a) The vital importance of succession planning
Most long-lasting entrepreneurial families pay particular attention to the importance of succession planning: they discuss it, set clear rules about succession (not necessarily in writing) and spend years grooming their next generation(s). Mellerio dits Meller, the French/Italian fine jewellers who have designed and produced jewels for the kings and queens of this world since 1613, are a great illustration of this, having groomed 14 generations of some of the finest craftsmen in the world. Reaching such an unsurpassed level of knowledge, precision and skills – generation after generation – requires years of training, hard work, learning and intense dedication to excellence. Preparation can never start too early; in the most successful multi-generation businesses it starts in very early childhood.

Succession can be taboo for some families and thus, not readily discussed. As a result, the future of the business is too often left to fate and decided only at the time of the owner’s death. In a large majority of cases, the failure to plan for succession puts the business itself at risk. The story of a German company, where the owner died unexpectedly in a car accident at the age of 59, is a sad illustration of this. The owner had not trained any successors nor appointed
any second-in-command. He probably felt he was young and had plenty of time to think about succession. His wife and children had never been involved in the business during his lifetime. Following his sudden death, they tried to manage the business, but were soon faced with conflicts and problems far beyond their ability to deal with them. As a result, the company went bankrupt within six months and all 850 employees were made redundant, a particularly painful confirmation that “failing to plan is planning to fail”.

b) The critical transition from the first to the second generation
The succession from the founders to the second generation is usually the most difficult of all transitions for a family business, with two-thirds of family businesses never reaching that stage. However, if done properly, it is possible in the transition stage to establish many of the founding principles for a robust and stable family business and it is these principles which can help make subsequent transitions far easier. This is often the phase where core values are identified, the vision crystallised and rules about prioritizing competence are established. A successful transition from the first to the second generation is generally a predictor of smoother successions later on. A large number of family businesses in Asia are currently approaching, or in this delicate phase of transition between the first and the second generation, rendering whole economies potentially more fragile than they appear.

c) Growing economies
Oddly enough, while family businesses thrive during recessions, crises and difficult economic times, they tend not to perform as well as other businesses in growing economies, leaving the door open for new entrants to their respective markets. In that respect, a booming Asia is both a blessing and a warning for family businesses to pay increased attention to excellence and competence.

II. Competence is key
Given our modern world of globalized trade and sharpening competition, competence is key for any business to succeed in the 21st century.

a) Grooming competent successors
Competitiveness is built on competence. Whether it has one or several successors, it is important for the long-term stability of the business that entrepreneurs groom family successors to know as much as possible about the business, its products, clients, employees, suppliers and competitors, whether they intend to be active in the business or not.

Grooming competent successors for their family business is so central to the strategy of Bekaert that they have started their own “Next Generation Academy”. All members of the next generation are invited to attend the academy where they follow a number of specific programs aimed at increasing their knowledge of the business and their skills, instilling pride in the family’s business heritage, and engaging them in the family’s desire to preserve it for generations to come.

Most businesses are not the size of Bekaert, but much can be done on a smaller scale to achieve the same effect.

b) Choosing the next CEO
Strong business skills alone are often not enough to successfully lead a family business. Family successors also require “people skills”. They need to embrace the family values and be able to instill a strong sense of belonging, pride and motivation in employees and other family members. In view of this, depending on the person and the circumstances, a first-born son may or may not be the best candidate to lead the family business into the next generation. A choice based on competence rather than birth order has helped many families around the world build leading and healthy family businesses.

c) What if the required level of competence is not found in the family?
In view of the skills needed to lead a family business in the 21st century, it may be that such competence is not found within the family itself. In such cases, having the courage to look externally to find a suitable CEO is the mark of talented and visionary entrepreneurs. It is certainly not easy to arrive at such a decision, but a strong, non-family CEO surrounded by competent family owners can be an ideal arrangement for lasting success until the next talent emerges from the family.

Summary
Family businesses are the backbone of the economy. Their performance and success are crucial to the economic development of entire geographic regions. Transition periods, however, can make them particularly vulnerable, and it is key that they establish a few essential principles (on their own or with external help) that can guide them through the long, difficult process of succession. The more businesses and families plan transitions, talk about them, and select and groom competent successors, the better positioned they will be for high performance and sustainable success.

Dr. Denise Kenyon-Rouvinez

* Bekaert is a global technological and market leader in advanced solutions based on metal transformation and coatings, and the world’s largest independent manufacturer of drawn steel wire products.

- Founded & headquartered in 1880 in Belgium (Europe)
- Customers in over 120 countries and in all markets and sectors
- 28,000 employees worldwide
- Combined sales in 2011: €4.6 billion
- Listed on Euronext® Brussels (BEKB)

Source: [http://www.bekaert.com](http://www.bekaert.com)

For more information on Dr. Kenyon-Rouvinez, google “kenyon-rouvinez” or contact kenyon@span.ch
In 2009, The CUHK Business School conducted a comprehensive investigation on the state of entrepreneurship in Hong Kong and Shenzhen. The ensuing report, “Global Entrepreneurship Monitor Hong Kong and Shenzhen 2009” revealed, with a measure of surprise, that only a mere 3.6% of the adult population are involved in early stage entrepreneurship in Hong Kong.

The CUHK Business School has long recognized the need to support entrepreneurship in the region and launched the Center for Entrepreneurship (CfE) in 2005. The CfE is actively supporting the development of entrepreneurship in Hong Kong, the Pearl River Delta, Greater China and the world through research, education and practice. Professor Kevin Au, Associate Director of the CfE, outlines that the aim of the CfE is to: “Help change the prevalent attitudes and perceptions of entrepreneurship and then to translate this into actions. The emphasis of the center is not only on the theoretical but also towards putting ideas and theory into practice through a hands-on approach”.

One of the specific areas of study at the CfE is the relationship between family businesses and entrepreneurship. Professor Kevin Au states that, “a lot of the entrepreneurship spirit arises from family so it is about how we can best preserve, continue and educate the second generation to expand an already existing business to become a leader in the industry and other sectors in society”. As part of the center’s work to better understand the intricacies of managing a family business through to succession, Professor Kevin Au, Professor Florence Ho and a management consultant (who has worked with many family businesses) recently met with first generation and second generation family members to gather insights into family businesses’. This article reveals some of the thoughts, reflections and learnings of three family members from medium-sized businesses across three different industries.

A Keen Candidate
Mr. Kwon started a family business in the retail industry in the 1970s and was keen to pass the business on to his son, Lucas, who was very interested to become involved with the family business yet was fairly inexperienced. In order to enable Lucas to get a feel for the family business before managing it on his own, Mr. Kwon created a specific business project for his son. It was Mr. Kwon’s hope that success achieved through the project would provide Lucas with the confidence and experience to venture into the retail industry. Mentors were also enlisted during the project to offer extra assistance to Lucas.

Lucas took up the challenge with enthusiasm, however, it was an unsuccessful endeavor and he was unable to complete the project. One of the major reasons was the choice of the mentors. Mr. Kwon had chosen the mentors without first understanding clearly about Lucas’ career development needs. Although the mentors were overseas professionals who knew the family business well, they lacked operational experience within the industry. The mentors were, therefore, not able to provide the appropriate advice for Lucas, and in the end, could not be fully trusted by Mr. Kwon either. Even though Lucas was committed to the project, the mentors’ inexperience hindered his execution of the project.
Despite this setback, Lucas currently still remains on track to take over the family business and has attempted to launch new business ventures that leverage on his family’s resources. He now realizes that he needs to further his studies and knowledge of the retail industry in order to be more successful in the future.

In hindsight, Mr. Kwon realizes that he never fully thought about it from Lucas’ perspective. For mentorship to succeed, both the mentor and protégé need to be able to work together and, in this case, the mentor was not the right “fit” for Lucas. Mr. Kwon could have communicated more thoroughly with Lucas in order to better understand his son’s needs and, in turn, Lucas would have obtained a more accurate understanding of his father’s expectations of him.

In addition, the family learned that it is essential for mentors to be carefully selected, not only based on technical know-how, but also on their ability to educate, coach, and support the protégé. In essence, these are two different skill-sets and a mentor that possesses outstanding technical expertise may not have a talent for coaching.

An Uncertain Candidate
Rodney Tsang was uncertain about whether he should join the family business. His father, Dr. Tsang, is a successful entrepreneur who had launched a new technology service in mainland China in the 1990s. In this case, there was an added psychological dimension which affected Rodney’s decisions. Dr. Tsang has always had a competitive nature and his son has followed his lead. They are both competitive individuals and have been in a subtle contest often trying to prove that they are better than each other in various aspects of life. In actuality, Rodney truly admires his father and simply wants to identify with him, therefore, he feels he should mimic his competitive character as well. This relationship dynamic has created an emotional need within Rodney which compelled him to study at an elite U.S. university. During his time in the U.S., and influenced by his peers, he decided to choose finance as his career path as it was considered a more lucrative and high-profile profession. Since he is currently achieving success with this career choice, Rodney is hesitant to join his father’s business although he probably feels some obligation to do so due to family loyalty and identification with his father.

Upon reflection of this case, the management consultant commented on the psychological barrier among potential family successors known as the “prince” syndrome. In these types of cases, certain family members tend to harbor anxieties of others viewing them as privileged and taking advantage of the family’s wealth. As a result, these individuals constantly strive to prove their abilities or simply choose to disassociate themselves from the family business to avoid ridicule from relatives, colleagues and friends. This syndrome can potentially obstruct individual family members from achieving a successful career in a family business.

2 The names of the individuals mentioned in this article are not their real names and have been changed to protect their identities.
What can be learned from this case is that these individuals need to become aware of and understand their issues. It is only then that they may realize that their apprehensions and concerns are unwarranted and could be a hindrance to their success in the family business. Once they exhibit signs that they wish to change, then providing coaching and support is vital to help them gain perspective again.

An Obligated Candidate
Justin Yung trained as an engineer and had little knowledge of luxury retailing when he was required to take the helm of the family enterprise due to the sudden passing away of his father. He was the eldest son of a large family and only in his early 20s when he was presented with such a daunting responsibility. Justin was expected to manage and operate the company in order to ensure that his family members would continue to be provided for and that the family legacy would continue on. The selling of the business was not a viable option.

Justin set about his role with the wisdom and savvy of a person possessing experience beyond his years. He first worked with a long-term partner of the company and quickly learned and absorbed every aspect of the organization, fast-tracking his entry into the business. He then made a large impact by advertising. In those days, during the mid-1970s, advertising was new and revolutionary in the industry, and he soon became known as a pioneer who deployed very innovative and ingenious marketing tactics. This allowed him to gain legitimacy and credibility within the industry and he eventually took full control of the family business. Furthermore, Justin became renowned in the industry as an individual with vision. As he expanded the business, he lured sought-after peers into the management team which created further value and successes for the company. He was also able to persuade other family members to come back and work for the family firm. The family members could see prospect in the company since Justin had already established a solid foundation and platform on which to grow the business.

Since his tumultuous entry into the family business decades ago, he is now planning his retirement and grooming successors for the business. He hopes that his succession plans will be managed with greater care compared with his own experience. Upon reflection of his life, he feels fortunate and satisfied that fate and family obligation determined his choice of career rather than requiring him to make a decision on his own.

This case shows that being obligated to take over a family firm may be a highly beneficial and advantageous situation. For a talented youngster, it eliminates all other options, which in turn, minimizes uncertainty and potential confusion about what career choices to make in life. It also shows that in order to expand a family business successfully and entice other family members to join, it is critical to first build a strong foundation upon which they feel they have the potential to develop and thrive by being in the family business.

Professor Kevin Au
(Edited by Bianca Zee and Roger Shew)

For more information on Professor Au’s work, visit his website: http://ihome.cuhk.edu.hk/~b033713/CUHK_Kevin_Au/Welcome.html
**Professor Joseph Fan**
Joseph Fan is a Professor at the Department of Finance and School of Accountancy and Co-Director of Institute of Economics and Finance, The Chinese University of Hong Kong. He received a Ph.D. in finance from University of Pittsburgh, USA. His research and teaching focuses on corporate governance and corporate finance and he has undertaken extensive research on Chinese family business governance. He is also an expert in finance and entrepreneurship in China. Professor Fan has published many of his works in top academic journals worldwide. He is one of the most well-cited finance professors in Asia and his research has been featured in various business publications including The Economist, New York Times, Asian Wall Street Journal, and Financial Times. Professor Fan is on editorial boards of several leading academic journals and has consulting activities with the World Bank, OECD and Asian Development Bank.

**Dr. Denise H. Kenyon-Rouvinez**
International speaker, consultant and educator in the field of family business, Denise is the founder and CEO of Gen10 SA, an independent company providing high quality, VIP Boutique services to large entrepreneurial families and families of wealth around the globe. For nearly 20 years, Denise has worked extensively with very large family businesses in Asia, the Middle East, Europe and North America and has widespread experience dealing with complex governance and wealth situations. She has received several awards for her research work and is also a Family Firm Institute (FFI) Fellow and mentor. Denise has published articles on IPOs and governance issues and authored several books: Why Me? Wealth: Creating, Having and Passing it on (2007); Who, Me? Family Business Succession. A practical Guide For The Next Generation (2005); Family Business – Key Issues (2005); Sharing Wisdom, Building Values – Letters From Family Business Owners To Their Successors (2002); A Woman’s Place - The Crucial Roles of Women in Family Businesses (2008).

**Professor Kevin Au**
Professor Kevin Au graduated from The Chinese University of Hong Kong with a B.B.A. and earned his Ph.D. in management/international business at the University of British Columbia. He co-founded the CUHK Center for Entrepreneurship (CFE) and is the Associate Director for the center. His research areas include international management, entrepreneurship, family business, social networks, and cross-cultural research methodology. He has published many academic articles, case studies, and book chapters, and has served on the editorial boards of several academic journals. Professor Au also served as a director for the Hong Kong Business Angel Network Ltd., Family Firm Institute (USA), and International Study of Entrepreneurship Education Outcomes. As Chairman of the Successful Trans-generational Entrepreneurship Practices (STEP) Project of the Asia Pacific Consortium, he worked with schools in Asia to promote family business research in the region. His edited book, Family Enterprising in Asia: Exploring Transgenerational Entrepreneurship in Family Firms, was recently published in 2011.