Asia

Asian values

In the world's most dynamic region, family companies occupy the commanding heights of capitalism

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THE BUSINESS CAPITAL of the Philippines is a part of Manila called Makati. But it might be called Ayala, after the country's most powerful company, which seems to dominate it. Ayala's 35-storey headquarters stands in the heart of Makati, in Ayala Triangle just off Ayala Avenue. Its tenants include the Philippines Stock Exchange as well as a roster of the world's big banks. The local museum is called the Ayala Museum (and houses a stunning collection of pre-colonial gold). Even the headquarters of the Bank of the Philippine Islands (BPI), which challenges the Ayala Tower for dominance of the skyline, is not really a rival: BPI is the financial arm of the vast Ayala empire.

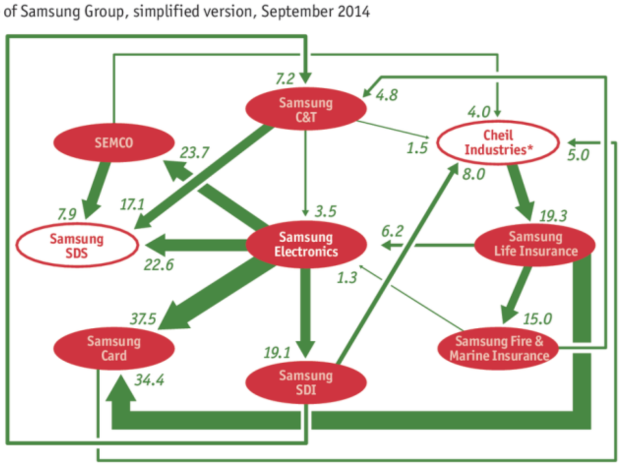
Ayala has six divisions: property (Ayala Land), banking, mobile phones, utilities, call-centres and electronics. But this list understates the company's ambitions. Ayala Land is in the business of turning plots of Philippine land into parcels of the American dream (and lifting their market value sky-high).

The Ayala empire has been run by the Ayala-Zóbel dynasty for the past 181 years. The family started out in agriculture, then diversified into everything from construction to phones. The Zóbels have professionalised and focused the company in recent years. The six main businesses have been listed on the stock exchange and put in the hands of professional CEOs, but the family remains at the heart of the firm. Two brothers from its sixth generation, Jamie Augusto and Fernando, run the holding company that sets the strategy. Three children from the eighth generation are working their way up the corporate hierarchy.

Jamie Augusto has a glowing vision of the company as the driver of his country's modernisation. It has always taken a leading role in this, from building infrastructure to supporting corporate philanthropy; the Ayala Foundation is one of the country's largest. But in recent years it has increasingly focused on the mass market in an effort at "nation-building". Jamie Augusto, an alumnus of Harvard Business School, says this change of direction has been influenced by eminent management gurus. C.K. Prahalad urged companies to look for the "fortune at the bottom of the pyramid" and Michael Porter advised them to embrace "shared value". But it would be just as accurate to credit the influence of Globe, the family's communications business: you cannot build a mobile-phone empire without considering the poor.

A spider's web

Corporate structure of Samsung Group, simplified version, September 2014



Source: CLSA

*Formerly Samsung Everland

Economist.com

It is hard to know what to make of this vision of the family company as nation-builder. On the one hand Ayala is an unelected body with an interest in keeping new businesses out of the market. On the other, it is an efficient organisation that has had to compete with other conglomerates, some of them run by overseas Chinese, notably Henry Sy's SM Group. Whatever their faults, these conglomerates do a better job of providing services than does the Philippine state, with its noxious mixture of incompetence and rent-seeking.

Ayala Land provides Makati with much of its public infrastructure in the form of walkways and parks. In 1997, when Ayala took over Manila Water, the taps in the utility's headquarters did not work. Today it offers a reliable water supply to more than 8m customers. The company is good at long-term thinking and co-ordinating activities across a broad range of industries. In one of Ayala Land's projects, Nuvali, it is building not just houses but also schools and churches for the people who work in the company's factories and call-centres.

The commanding heights of the world's fastest-growing region, Asia, are dominated by great business families. At first glance companies such as Samsung and Hutchison Whampoa may look like regular public companies, but closer examination quickly reveals a family dynasty and a family saga. The partial exception to this rule is China, where state-owned enterprises (SOEs) still dominate. But even there the country's own brand of family capitalism flourishes wherever the state allows it to.

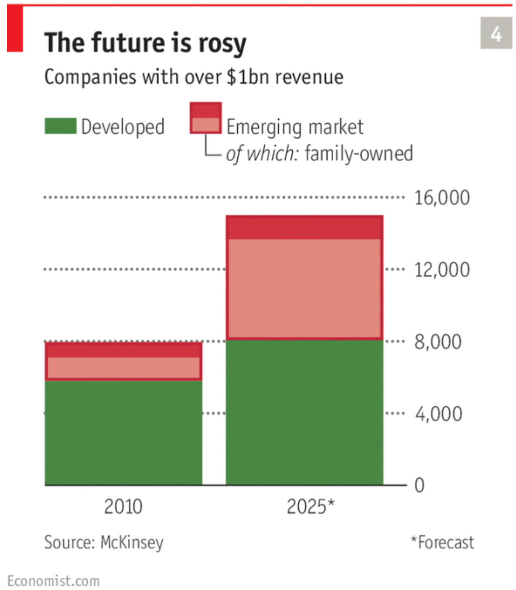
Family companies were at the heart of the development of capitalism in Asia. Family names acted as a guarantee of honesty for fellow businesspeople and quality for consumers. Family ties allowed businesspeople to operate across countries and regions. Some families such as the Tatas added further lustre to their name by standing up to the colonial oppressors. Indians love to tell the (probably apocryphal) story of how Jamsetji Tata built the Taj Palace, the grandest hotel in Mumbai, because he was refused entry to a European-owned hotel.

For some observers these family companies are turning into eye-catching relics as specialised firms move in and contracts are enforced by lawyers. The great patriarchs who once presided over these dynasties are being replaced by professional managers who could just as easily work in London or New York as in Hong Kong or Mumbai. Many hereditary businesspeople share these doubts. Anand Mahindra, the boss of Mahindra Group, a conglomerate that has been run by a member of the Mahindra family for three generations, is uncomfortable with talk of family capitalism. Family companies are mostly stuffed with family members "99% of whom should not be there", he says.

But the numbers tell a different story. Asian countries are far more family-oriented than Western ones, and well over half the largest business groups in South-East Asia and India are controlled by families. Family companies continue to draw on time-honoured advantages such as their good names and deep connections, and continue to reinforce their positions through judicious marriages.

Family companies can also draw on new advantages, such as modern management techniques and their connections with Western companies. The local princes and princesses are almost invariably educated at famous Western business schools (to which they make generous donations) and then polished in well-known Western companies such as McKinsey and J.P. Morgan.

Vikram Bhalla, of the Boston Consulting Group, points to an even more important competitive advantage of Asian family businesses: their entrepreneurial zeal. They are more likely than public companies to make big bets and take big risks, and better than lone entrepreneurs at making things happen because they can mobilise far more resources. Being able to take a long-term view and co-ordinate activities across a wide range of sectors allows them to shape entire industries.



Which is yours?

Mr Bhalla divides Asian family companies into five main categories. The first is family-driven conglomerates, formed as the company repeatedly expands into new areas to provide jobs for the children. Boys tend to get "hard" industries such as construction whereas girls are given "soft" sectors such as hotels. The second is splitters, the opposite of the first: the family undergoes a strategic split to avoid (or disentangle) family conflicts. This can work smoothly, but is more often messy. The Birla family has repeatedly divided its empire amid furious arguments. The third group is institution-builders: the family hands over the day-to-day management of its businesses to professional CEOs and consolidates family power in holding companies. Anand Mahindra rules his group from his holding company. He likens himself to a "private-equity player" who chooses where to invest in the "Mahindra federation".

The fourth category is joint families, in which several family members manage a company together. The main example of this is Asian Paints, which is flourishing under the joint control of three brothers. The fifth is serial entrepreneurs. Here the business platform is the family rather than the company: it moves from one industry to another but continues to use its name and connections to power its business dealings. The Piramals are a good example. Having started life in textiles, they shifted to pharmaceuticals, then used the profits from a judicious sale of their generic-drugs business to America's Abbott Laboratories to go into big data and financial services.

But even such typologies risk understating the role of families in Asian business. Most of them are far more deferential to their patriarchs than their equivalents in the West, even in the face of dubious business decisions. They are also far more all-enveloping, even if they seem completely Westernised. Ajay Piramal, chairman of the Piramal Group, is a habitué of Davos; his wife, Swati, a doctor, is a member of Harvard University's Board of Overseers; his two children were educated at "all the brand-name universities and business schools". But the entire Piramal clan, numbering 40 in all, lives together as a huge extended family, discussing business and family affairs over every meal. "We go to Harvard," says Mrs Piramal, "but we also wear saris."

Perhaps the best place to learn the secrets of Asian capitalism is not the business sections of the newspapers but the gossip pages of glossy magazines. The stories of family feuds and scheming mistresses that can be found there are far more likely to change the balance of corporate power than the latest hostile takeover. As in family businesses the world over, the most important dramas are to do with succession. Many of the great patriarchs who created modern Asian capitalism have been useless at succession planning. They hold on to power until they have one foot in the grave. Talking about succession, they reckon, "is almost like putting a curse on someone", in the words of Yupana Wiwattanakantang, of the National University of Singapore Business School. Sir Run Run Shaw, the chairman of Television Broadcasting Limited, waited until he was 103 to announce his retirement, handing his position to his 79-year-old wife. Joseph Fan of the Chinese University of Hong Kong studied succession in 250 family firms in Hong Kong, Taiwan and Singapore and found that on average the firms lost 60% of their value in the period spanning five years before succession and three years afterwards. Many lost a great deal more.

Again, feuds are commonplace. One of the highest-profile ones was the bitter dispute between Mukesh and Anil Ambani over their conglomerate, Reliance, after their father, Dhirubhai, died without leaving a will. Mukesh has proved the more talented of the two, celebrating his relative success by building a 27storey house in Mumbai for his family.

The tale of the Kwok family is even more colourful. Kwok Tak-Seng built up his company, Sun Hung Kai, to become the second-largest business group in Hong Kong and then left it to his wife and three sons, Walter, Raymond and Thomas. This quartet got on well until Walter was kidnapped and held in a wooden cage for a few days until a ransom was paid. The aftershocks of the kidnapping tore the family apart. Walter accused his brothers of quibbling over the size of the ransom, the rest of the family tried to oust him from his role as chairman of the family trust, and the fight continued for years.

Asian family politics are further complicated by Chinese patriarchs' tendency to have several families. Stanley Ho's gambling empire has repeatedly been convulsed by fights over inheritance between different branches of his family (he has had four wives). Given that the company once accounted for 40% of the Macau economy, these quarrels have aroused keen local interest. And since Wang Yung-ching's death in 2008, his Formosa Plastics group has been rocked by rows among the nine offspring he had with his three wives.

Fixing family capitalism

As the patriarchs who built Asian capitalism after the second world war retire or die, Asia is seeing one of the biggest transfers of wealth in history. Some families are learning how to prepare their companies for a different age, preserving a measure of family power while also modernising their patrimonies.

The retiring generation has given its children two things that they need to succeed in this new world: personal wealth and a privileged education. But they are also wired into the old world of "Asian values". Victor Chu, the boss of First Eastern Investment Group, is one of the rising generation of middlemen-cum-dealmakers. He earned his reputation in Japan by founding Peach Aviation, a low-cost carrier. ("He may not have his own plane but he does have his own airline," quips a friend.) But his real talent lies in connections: he spends his life introducing Western companies to the East and vice versa.

The best example of a successful transition is Asia's richest man, Li Ka-shing. When he put together his property and trading empire, Cheung Kong, political and family connections were vital. He had a genius for establishing monopolies through licences and building businesses with astonishing speed. But he has been preparing his empire for a different world for decades. He chose the cleverer of his two sons, Victor, to succeed him and set up his other son, Richard, in a different business to head off any quarrels. He has consolidated his empire into a more formal structure, with Hutchison Whampoa at its heart, and is moving its centre of gravity from Hong Kong to the global stage.

The Zóbels of Ayala fame also look likely to be around for generations to come. They have made use of all the tools of sensible family government and are training up the next generation of Zóbels in the family business. In a society given to flashiness, they come over as relatively modest. That helps at a time when the gap between the new business aristocracy and the poor is opening ever wider.