

## Li Ka-shing's business empire diversifies to prune risk

Long-term planning is crucial when it comes to a company's succession strategies, especially in terms of sustaining a dynasty over many decades



Asia's richest man, Li Ka-shing, is in the middle of executing a long-term plan for his empire, diversifying his investments and business risk by taking on a more global profile.

For the past two years, Li has invested more in Europe and North America while exiting a number of high-profile projects in Hong Kong and other Asian countries.

Although there might be sound macroeconomic policies to support this, I believe it is also a strategic move as he plans for the eventual succession of the empire from himself to his two sons, Victor and Richard.

Without doubt, Li is one of the most successful businessmen in Asia and his impressive story, from selling plastic flowers in the 1950s to being the richest man in Asia, is well known.

However, even the most successful businessmen do not live forever and the task of transferring the family business from one generation to the next is a daunting challenge.

In our new book *The Family Business Map: Assets and roadblocks in long term planning*, Professor Joseph Fan, of the Chinese University of Hong Kong, and myself propose a new framework to help families in Asia choose the best path possible for prosperity and happiness of their family and business.

The challenge is tremendous.

Our research has shown that in a 10-year period around succession, publicly traded family firms in Hong Kong, Taiwan and Singapore lose more than half of their wealth.



Therefore, efficient long-term planning of how to transfer business empires across generations is one of the biggest challenges that Asian economies faces today.

We invite family firms across Asia to think deeply about the challenge of long-term planning and we strongly believe that families can learn from successful ventures in Asia and across the world.

The starting point for any family is to ask two simple questions. The first is: What is the family's unique contribution to the business today and in the future?

We have observed that such contributions are the key to most successful family businesses in Asia. This can be the strategic use of family connections in business, political or regulative affairs. It can be how the family name and legacy is part of the business strategy or how family values drive the model of business operations.

The first dimension when it comes to long-term planning in successful business families is to identify and preserve family assets and use them to enlarge the value of current and future business strategies.

The second question is: What are the challenges or roadblocks the family and the firm could face in the next 20 years? In particular it is important to understand how the increasing number of family members and branches will impact on the business.

By identifying these challenges, families are able to design governance instruments for the family and the firm that reduces or eliminate such roadblocks.

If parents understand the potential for collaboration and the potential for family fights and disagreement in the next generation it is also easier to design long-lasting ownership and succession models that will get the best out of the family and the company.

Trust structures are very popular in Hong Kong today. We urge families to let such structures be a result of long-term planning and not just a standard product of law firms or private banks.

In Hong Kong, trusts are often sold by suppliers as a solution to all roadblocks that families face: securing the next generation's wealth and prosperity, binding family members together in future business operation and solving long-term tax planning.

While we agree that trusts are powerful mechanisms, we also find it important that families understand the downsides: trusts may reduce the engagement of many family members because they become passive partners. In addition, trusts may increase conflict in family firms.

The fight between the Kwok brothers, the owners of Sun Hung Kai Properties, has been extended because ownership was transferred to a trust such that it has been impossible to separate the brothers through restructuring.

We do not claim that the trust is the actual source of conflict but the trust structure has most likely extended the conflicts and thus has been costly for the family and the shareholders.

I cannot emphasise enough the importance of starting and structuring the process of long-term planning. This is not easy and it is a sensitive task to embark on for many entrepreneurial families.

The old generation has been brought up with strict Asian values but the next generation has often spent extended time in the West obtaining overseas education and experience.

How to bridge a dialogue between generations is not easy but all our research shows it is crucial for the long-term success of the business and the family.

Li grows his fortune on exploiting a unique set of family assets built up over decades. This includes a powerful business network and a unique relationship with regulators and politicians, all of which benefited his business for decades.

His two sons have received the best international education and spent more of their time in the US and Britain. Thus, it is not clear if the powerful family assets, which have been so useful in building the empire, are transferred to the next generation.

However, the redirection of the business empire towards more Western engagement and partial exit from many Asian projects is consistent with long-term planning that exploits the potential of the two sons in the best possible way.

The examples of Li and other successful family businesses in Asia should be followed by all business families.

Long-term planning is crucial and requires a personal and family investment. Families should identify the importance of family assets for future business strategies and design family and corporate governance to reduce future roadblocks.