

Chinese Family Business and the Equal Inheritance System

Unravelling the myth

Victor Zheng



Routledge Contemporary China Series

Chinese Family Business and the Equal Inheritance System

This book disputes the traditional argument that the equal inheritance system hinders the growth of Chinese family business, approaching this not only in terms of economic capital, but also in terms of human capital such as education and leadership, and social networks.

Zheng argues that most of the family business patriarchs only focus on the passing of economic capital, but give little attention to human capital and social capital when they come to the stage of transferring control to the next level. It further elaborates that the equal inheritance system itself isn't the destructive force that weakens family business competitiveness, but can assist economic development by generating dynamism and capital.

Based on extensive primary research, the work discusses how equal division encourages sibling comparison, analysing how such comparisons initially generate stress and anxiety, but ultimately galvanize competition, benefiting the business. The author also assesses how family division can offer initial economic human and social capitals that can motivate siblings to start their own businesses and be free from the subjugation sometimes associated with a family firm. Through the evaluation of these issues the book argues that the equal inheritance system can be regarded as the origin of the self-employment mentality, which not only fosters the growth of Chinese family business, but plays a crucial role in promoting economic development.

Providing a valuable contribution to the field, this work will be of great interest to all scholars of Chinese and Asian business.

Victor Zheng is currently Research Assistant Professor of the Centre of Asian Studies, HKU. His research interests include: Chinese family business and inheritance; Hong Kong commercial history and society; social indicators; and social development.

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To my beloved wife and daughters

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Abbreviations

CCC	Chaozhou Chamber of Commerce
CPPCC	Chinese People's Political Consultative Conference
HSBC	Hong Kong and Shanghai Banking Corporation
IC	integrated circuit
IRD	Inland Revenue Department
JP	Justice of Peace
KBE	Knight Grand Cross Order of the British Empire
LCST	Lee Chung Shing Tong
MBE	Member of the British Empire
<i>MPDN</i>	<i>Ming Pao Daily News</i>
NPC	National People's Congress
OBE	Order of British Empire
PCP	Po-Chai-Pill
PLK	Po Leung Kuk
PRC	People's Republic of China
SHKP	Sun Hung Kai Properties
TWGH	Tung Wah Group of Hospitals
YCH	Yan Chai Hospital

Introduction

Unravelling the myth

I

Nina Wang Kung Yu-sum, Asia's richest woman, died in 2007. She was the chairwoman of privately held property giant Chinachem.¹ Her personal assistant said of her: 'She had been working in the office over the past few weeks. She also made the decisions on investments in allotments of new shares, and the recent purchase of land in the New Territories was done under her instructions' (*South China Morning Post* 5 April 2007).

Nina Wang preferred to be known as Chinachem's chairlady. She had undergone a marathon legal battle with her father-in-law, Wang Din-shin (aged 96) to control the estate of her late husband, Teddy Wang. It included the Chinachem property empire. At the conclusion of legal proceedings she was cleared of forging Teddy Wang's will.

According to *Forbes* magazine's 2007 rich list, Nina Wang was the 204th richest person in the world, with a net worth of HK\$32.7 billion. There was much speculation about the distribution of her fortune. Soon after her death, a similar lawsuit commenced over her own estate and over the validity of her own will.

II

Bitter sibling rivalry unfolded inside the boardroom of Sun Hung Kai Properties (SHKP) in 2008. The brothers, Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen, struggled for control of the HK\$325 billion empire their late father, Kwok Tak-seng, had built.

It was a highly public dispute, replete with charges of mismanagement, questions about the undue influence of a woman friend, charges that the eldest brother, Walter, suffered from a psychological disorder, media leaks and court injunctions. It ended with Walter Kwok's ousting as chairman on 27 May 2008.

[T]he power struggle at SHKP also raises a long list of questions about the quality of its corporate governance. Throughout the dispute there were

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allegations and counter-allegations of questionable management practices, though most directors sided with the two younger brothers. But the installation of their 79-year-old mother, Kwong Siu-hing, as the new chairman also raised eyebrows.

(South China Morning Post 9 June 2008)

SHKP's boardroom battle is unrivalled in Hong Kong's recent corporate history in terms of drama, intrigue and acrimony. The family feud cast a shadow over the company and raised concerns about the opaque succession plans at other family-controlled companies in Hong Kong – some of which are still run by their octogenarian founders.

III

An investigation into a pair of secret trusts set up in 1979 for six of the eight Eric Ho Tung children led to a sequence of lawsuits between the Ho Tungs. In 2006 the high court ruled that Eric Ho Tung had no right to disinherit Sean and another son, Anthony, from two trusts worth HK\$100 million. The trusts were to be paid out when Eric Ho Tung died.

In 2009 Sean Ho Tung lost his bid for a slice of the estate left behind by Sir Robert Ho Tung. Like other grandchildren of Sir Robert who were born after his death, Sean was not entitled to be a beneficiary of Sir Robert's will.

Mr. [Sean] Ho Tung, son of billionaire philanthropist Eric Ho Tung, was born nine years after his great-grandfather died. Some of his siblings were also born after Sir Robert's death. That meant they should not receive any money from the estate.

(South China Morning Post 21 March 2009)

When talking about the development and inheritance of a Chinese family business, words such as paternalism, cronyism and nepotism rapidly come to mind. Unprofessional management, poor succession planning, constant family feuds and extreme sibling rivalry are also seen as characteristics of Chinese family businesses. Some may even see these things as inherent in Chinese culture.

With many doubts, but a strong curiosity about the developmental pattern of Chinese family business, this book tries to unravel the mythology around Chinese family business through the frequently criticized but seldom discussed equal inheritance system. In order to test the conventional negative impression that Chinese family business is inefficient, ill-managed, short-lived, unstable and filled with internal rivalry, fieldwork was conducted in the period 1997–2000. A total of 35 Chaozhou merchants from 26 families were interviewed. In addition, 20 wealthy long-established Hong Kong families were also selected for closer study and comparison.

As expected, many of the studied family businesses have suffered from some of the above-mentioned problems. However, many of them overcame them to

become extremely successful business concerns generation after generation through rational separation of family disputes and business management.

After in-depth analysis, some salient findings were revealed. First, it is found that the equal inheritance system does not necessarily lead to internal family conflict and rivalry. Quite the opposite, equal arrangements among heirs can alleviate sibling disputes and disagreements. In other words, the equal inheritance system per se has a certain constructive function that can reduce business instability and family conflict instead of provoking internal rivalry.

Second, it is also found that the equal inheritance mechanism does not definitely lead to the levelling of capital and suffocation of business development. In fact, for the wealthy families studied, it is found that although they divided their family estate from generation to generation, the dominating shares in their family-controlled companies were seldom affected. In fact, after making their family-controlled businesses listed companies, not only did their family wealth increase drastically as the businesses expanded, the sense of keeping the business under family control is also further enhanced. Thus, it is quite clear that although family estates divide from generation to generation, family control over certain companies does not generally follow this path as most family members see that concentration of shares can give each member or *fang* (branch) better protection, or to be more specific, can better serve each member's interests.

After cross-examining families with a successful transmission of leadership and those with a less successful succession, it was further found that in those less successful successions, family attention was only focused on the passing on of economic capital. Little attention is given to the transmission of human capital and social capital. For those successful succession families, apart from a clear transfer of ownership of family estates and company shares from one generation to the next, their patriarchs also paid attention to education and the re-establishment of new leadership, business networks and personal connections.

Looking from a positive perspective, we can see that the equal inheritance system can in fact assist economic development by generating competition and capital. Equal division is a criterion for sibling comparison. Comparison generates stress and anxiety, with each member trying to outdo the others, while galvanizing competition. On the other hand, family division can offer initial capital that can motivate siblings who want to be free from subjugation to start their own businesses. In other words, the equal inheritance system, in fact, can be regarded as the origin of the self-employment mentality, which not only doesn't hinder the growth of Chinese family business, but plays a crucial role in promoting economic development.

To conclude, a strong self-employment mentality drives Chinese family business to develop its own special pattern or structure, while *jiazu jituan* (literally, family-based consortium) is the most distinctive type of structure that I propose as a description to differ it from the Japanese zaibu (or kietartu) or the Korean chaebol. For this type of family business, different family members diversify into different businesses or professions. These businesses or professions may or may not relate to each other. However, they maintain a certain level

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of interconnection under the banner of the family (*jiazu*). They can compete and/or support each other during a time of expansion, reorganization, difficulties or crises. In short, if patriarchs can handle the inheritance issue properly, their family businesses not only can be highly competitive and resilient, but also can be maintained from generation to generation.

Notes

1 Chinachem is a cash-rich conglomerate that owns more than 200 buildings in Hong Kong. It is the only major local developer not yet listed on the city's stock exchange.

1 Equal inheritance and family business continuity

Family businesses contribute to most of the gross national product and provide most places of employment. In the United States, up to 90 per cent of all enterprises are family-owned. In Spain, 75 to 90 per cent of the total jobs are provided by small family-owned businesses (Gallo 1988). Family businesses also proliferate in Canada, Europe, Latin America and Asia (Ward 1987a, 1987b; Swinth and Vinton 1993). Litz (1995) even estimates that family-owned businesses comprise over 95 per cent of all business establishments worldwide.

The dominant role of family businesses in the Hong Kong economy is also obvious. Evers (2000: B3) reports,

[T]raditional Chinese family businesses, like the empires of Li Ka-shing, Robert Kwok [Kuok] or Mochtar Riady [also known as Lee Man-tjin], now make up over 70 per cent of the Hang Seng capitalization and a huge chunk of stock markets across Asia.

In other words, family businesses could be considered the lynchpin of the modern economy.

The problem of continuity

Although the family business is recognized for its vital role in the economy, its short life span is frequently criticized and negatively stereotyped. Americans talk about ‘rags to riches to rags’ or ‘shirt-sleeves to shirt-sleeves in three generations’. The French say ‘it is easier to make money than to keep it’. The Chinese say ‘great wealth doesn’t last beyond three generations’ (*daifu buguo sandai*) or ‘a gentlemen’s grace becomes extinct in three generations’ (*junzi zhize, sandai erzhan*). Whatever the saying is, one thing is common – most people consider family business unstable and short-lived. Ward (1987b: 1) succinctly describes the developmental path of family business: ‘[T]he first generation builds the business, the second generation “milks” or “harvests” it, and the third generation must either auction what is left to the highest bidder or start all over again.’

In order to support this generalization, Ward (ibid.) conducted structural research on the issue in the United States in 1986. Unsurprisingly, in his survey

6 *Equal inheritance and family business*

of 200 family manufacturing firms, he found that their firms' life was short. Only three out of ten survived into the second generation. To be specific, only 16 per cent of all family businesses would be transferred to the third generation. Most small firms went out of existence after ten years. In other words, the transience of family firms is obvious.

In fact, Ward is not the only one to come to this conclusion. Other scholars also draw similar conclusions from their research (Beckhard and Dyer 1983; Davis and Stern 1980; Lansberg 1988). What are the main obstacles that hinder the development of family business? In their nationwide survey, Winter and Fitzgerald (1993: 106) summarize their findings: '[O]ne-fifth of the respondents indicated economic reasons for quitting, the remainder indicated family, health and retirement, or employment reasons.' Beckhard *et al.* (1987: xv) go a step further and write:

Family businesses tend to have relatively short life spans. Problems such as succession, the interplay of family issues and business decisions, the professional development of family members, the transition of non-family management, the retention of competent non-family employees, and the balance of personal and corporate finances are all factors that make the survival of the family firms perilous.

Danco (1987: xiv) places the responsibility directly on family members and points out succinctly as follows,

Family businesses fail because they [family members] allow themselves to be destroyed slowly but surely, by the action – or more accurately, the inaction – of their owners/managers. The businesses fail because, more often than not, these people never make the decision needed to ensure the vitality of their companies in an ever-changing, even more complex world.

Although very few family businesses pass from generation to generation, some of them still can overcome the structural issues and last for centuries. For instance, in Japan, Daimaru was set up in 1717, Mitsukoshi in 1673, Matsuzakaya in 1896. These are still well-known names today (Chen 1988). In European countries, family businesses that last beyond three generations are also common. For example, in Italy, the Agnelli family set up their car business in 1899, while in England, the Sainsbury family founded their distribution business in 1897. Other notable examples, such as the Kristiansen family (1932) in Denmark, the Dassault family (1928) in France, the Swarovski family (1885) in Austria, the March family (1926) in Spain, the Brenninkmeyer family (1841) in Holland, the Goulandris family (1900) in Greece and the Schmidheiny family (1912) in Switzerland are also frequently quoted (Lam 1993).

If there are successful cases in other cultures, what about Chinese family businesses? When talking about Chinese family business, many people will immediately think that very few of them last over three generations (Qi 1984,