Nikkei Asian Review Family businesses

Asia's family-run conglomerates drive regional growth

Deep pockets and extensive networks boost companies' clout in the region's markets

Lippo Village, outside Jakarta, Indonesia

Kenji Kawase, Nikkei deputy editor DECEMBER 5, 2016

About 25km west of bustling and crowded central Jakarta rises a modern satellite city. It is Lippo Village, developed by Lippo Karawaci, a property developer owned by the prominent Indonesian family conglomerate Lippo Group.

Lippo Village is quite different from the rest of Indonesia. Laid out by Scottish architect Gordon Benton, it has western-style homes for single families in orderly rows; its amenities include a golf course, shopping malls, hospitals and offices. An aerial view shows plenty of green space, something otherwise in short supply in Jakarta. According to the company, 154,751 trees were planted. The site boasts more than 120km of roads, a drainage system that extends 250km and a sewage treatment plant.

The village is also home to Universitas Pelita Harapan, or Ray of Hope University. Lippo Group chief executive James Riady put his heart into creating the institute, which is now regarded as one of the best in the country, attracting students and faculty members from abroad.

The population has grown to more than 70,000 since its inception in 1993. More expansion is coming. The company has already acquired 1,200 hectares of land and has rights to develop up to 3,000 hectares.

Two decades ago, the site was barren. Its transformation, led by Lippo, is one example of an Asian family conglomerate taking a long-term stance to take on risks and financial burden.

This article is from the Nikkei Asian Review, a global publication with a uniquely Asian perspective on politics, the economy, business and international affairs. Our own correspondents and outside commentators from around the world share their perspectives on Asia, while our Asia300 section provides in-depth coverage of 300 of the biggest and fastest-growing listed companies from 11 economies outside Japan.

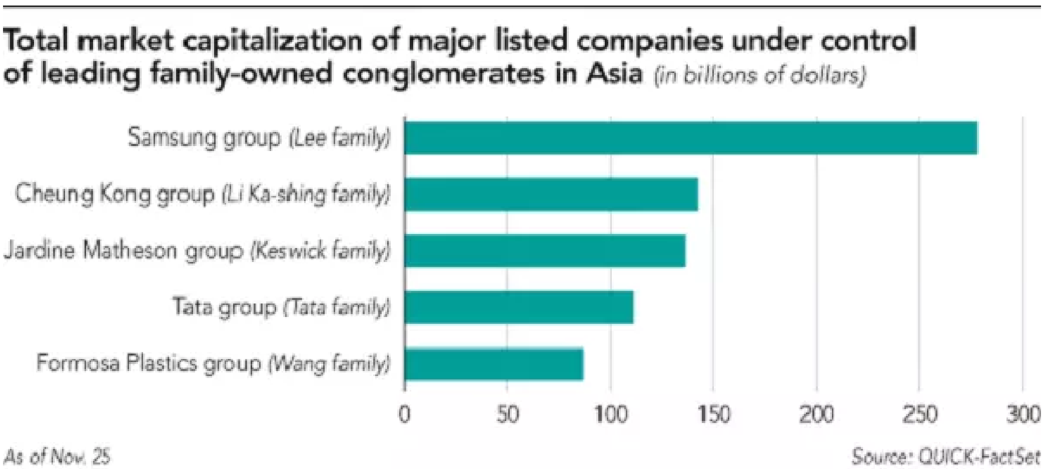
Lippo Group began as a bicycle parts trader, founded by Mochtar Riady, who was born in Malang in eastern Java to parents from Fujian province in southern China. Mr Riady's core business shifted to banking, the centrepiece being Lippo Bank (now CIMB Niaga), until the Asian financial crisis put his business in trouble.

"In an adverse economic climate, Lippo Bank had no choice but to accept three large plots of land, which had been used as collateral on loans that could not be paid," the 87-year-old Mr Riady wrote in a recent autobiography.

One of them became Lippo Village. His foresight and long-term planning turned a crisis into an opportunity for his empire to shift gear and become an urban planner.

Family conglomerates in the region also use deep pockets to open new markets.

In India, Reliance Industries — an empire led by Mukesh Ambani which encompasses energy, petrochemicals, textiles, natural resources and retail — is flexing its financial muscle to crack the mobile phone data market.



The Mumbai-based conglomerate, originally established by Mr Ambani's father Dhirubhai Ambani in the mid-1960s and later split up between brothers Mukesh and Anil, launched fourth-generation mobile telecoms services in September, with the idea that the existing voice call regime had to end and fast data were the future. It started by offering free data until December 31 and free voice calls after that.

Its entry into the telecoms sector, through subsidiary Reliance Jio Infocomm, not only spurred a price war among major incumbents such as Bharti Airtel, Vodafone India and Idea Cellular, but also helped spread the use of smartphones by making them cheaper.

While existing operators have slashed rates for voice calls and data in response, Jio claims its data rates will be far cheaper even after the offer period expires, at about Rs25-Rs50 ($0.37-$0.73) per gigabyte. The cheapest packages offered by the three leading players average about Rs250 for 28 days.

On the voice side, Jio's network remains free. Existing operators are complaining to the regulator over what they see as predatory pricing and are refusing to provide interconnectivity. Even so, Jio had more than 50m customers as of November 29.

"Calling from Jio to Vodafone or other service providers, it connects late after some pause and beeps and sometimes says 'busy call'," said Vaid Naran, a resident of Mumbai. "However, as it is giving three months free service, it is a boon for customers like us."

Jio's aggressive stance is made possible by the financial muscle of its parent conglomerate. Most of the group's subsidiaries are profitable and the parent itself is cash-rich. Reliance Industries, which owns 99 per cent of its unlisted unit, has already spent about Rs2.5tn on its 4G initiative.

According to Fitch Ratings, earnings from the group's refining and petrochemical businesses will provide a cushion for the growth of its telecom operations for some time. In a note on November 3, the credit agency said it expects the group to "take advantage of the strong growth potential in the India telecoms market . . . We expect the robust infrastructure, along with its affordable 4G data offerings, to support Jio's growth."

GSMA, an organisation representing the interests of mobile operators worldwide, forecasts that the number of 4G connections in the country will grow from 3m at the end of 2015 to 280m by 2020.

In China, the strength of Asian family conglomerates has long been demonstrated. At the end of 1978, Deng Xiaoping, then China's absolute leader, called for foreign direct investment in a 180-degree shift to reform and opening up after decades of self-inflicted chaos under dogmatic political and social campaigns.

In the early days, global business largely remained on the sidelines. But overseas Chinese either directly invested or led the investment of about $417bn from 1978 to 2005. This was about two-thirds of total FDI into China during the period, according to a paper published in 2011 by Ren Guixiang, a researcher at the Chinese Communist party's history research institute. Bangkok-based family conglomerate Charoen Pokphand Group was one of the early investors.

In 1981, Dhanin Chearavanont, a second-generation leader of the Thai conglomerate, became the first person to register a joint venture

The Asia300 is Nikkei's list of the continent's biggest and fastest-growing companies, selected by market capitalisation and adjusted for growth potential and geographic balance. Drawing on Nikkei's unrivalled network of news bureaux across Asia and its 140-year-old reputation for quality and reliability, the Asia300 brings you the untold stories of the region's up-and-coming companies.

in Shenzhen, one of the four special economic zones newly opened to foreign investment. The corporate registration number for its animal feed venture is "0001". CP was also the first to open a carpet factory in another special economic zone of Swatou, Fujian province, where Mr Dhanin's father Chia Ek Chor was born and Mr Dhanin himself spent his primary school years.

Mr Dhanin wrote in a recent memoir, published in the Nikkei Asian Review, that the Cultural Revolution turned China into a different place, where the "situation was bleak" and "there was nothing". However, he saw opportunities, where "you could develop something from the ground up. I immediately made the decision to invest". This was in late 1979, when he visited Guangzhou, where he had spent a year as a teenager, and found it to be "unrecognisable".

His bold first step has paid off. Chia Tai Group, as CP is known in China, has become a conglomerate in itself, investing a total of Rmb110bn ($15bn) and earning annual revenue of close to Rmb100bn in 2015.

Robert Kuok Hock Nien, an ethnic Chinese-Malaysian tycoon, was another early mover. Shangri-La Hotel, one of the main businesses of his Kuok/Kerry Group, opened its first property in Hangzhou in 1984. Including other brands such as Traders, Kerry and Jen, it now runs 60 hotels in mainland China, more than half of its worldwide operations.

Mr Kuok, who made his fortune in the sugar business in Malaysia, expanded his foothold in Chinese real estate in 1985, kicking off with a joint venture to build the China World Trade Center, which remains a landmark in the heart of Beijing. During the first six months of 2016, his Hong Kong-listed flagship realtor Kerry Properties reported over HK$4bn (US$516m) in revenue from property sales and rents in China.

As Hong Kong manufacturers shifted their production sites to the mainland, especially into adjacent Guangdong Province, CLP Holdings, a power company controlled by the Kadoorie family, was quick to grasp the resulting opportunity. Even before Deng's change of direction, Lawrence Kadoorie, the late second generation chief of the Jewish conglomerate based in Hong Kong, visited Beijing in May 1978, which led to a contract to supply electricity to Guangdong through interconnecting the grid in 1979.

In 1985, partnering with Guangdong Nuclear Investment, CLP started construction of a pressurised water reactor nuclear power plant in Daya Bay. The facility is now producing electricity for both sides.

The Kadoorie family's other main business is Hong Kong and Shanghai Hotels, which runs the Peninsula Hotel and the Peak Tram in Hong Kong. On November 25, it celebrated its 150th anniversary.

The company previously owned luxury hotels in China, including The Astor House Hotel in Shanghai, until they were confiscated by Mao Zedong after 1949. Along with their electricity business, the Kadoories made a comeback in China in 1982 to run the Jianguo Hotel in central Beijing as a joint venture. However, it was only in 2009 that the Peninsula Hotel opened its doors in Shanghai.

Along with the dynamic way they conduct their businesses, big family enterprises tend to make better investments. Credit Suisse, which tracked the share price movements of more than 900 listed family-owned companies with market capitalisation of over $1bn, found that they have outperformed the MSCI All Country World index since 2006.

The majority of this group are from Asia, including Lee Kun-hee's Samsung Electronics and Li Ka-shing's Cheung Kong Property Holdings. Market capitalisation of major listed companies under Mr Lee's Samsung group adds up to $278bn and Mr Li's Cheung Kong group to $142bn as of November 25.

Joseph P H Fan, a professor at the Chinese University of Hong Kong, says family-run businesses "usually do better than state-owned enterprises or diffusely held corporations in terms of sustainability and profitability". He attributes this to "intangible capabilities" such as relationships, trust, networks and values that are "very difficult to buy and sell in the marketplace".

However, there are some downsides, the major one being succession. The recent strife at Indian company Tata is a good example.

A move by the board of Tata Steel to remove Cyrus Mistry as chairman with immediate effect on November 25 highlights a widening rift with his predecessor, Ratan Tata. Group holding company Tata Sons on October 24 said it would remove Mr Mistry from the chairmanship, which he assumed in December 2012, and temporarily return it to Mr Tata. The move touched off an all-out feud within the country's largest business group, which boasted total revenue of Rs6.77tn last year.

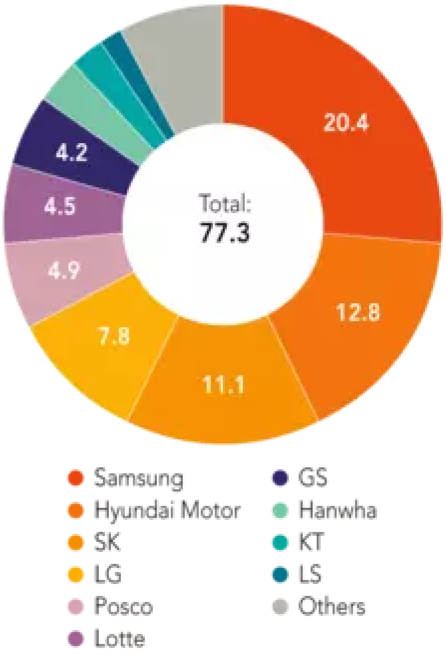
Mr Mistry is hitting back, claiming a "total lack of corporate governance" at the board of Tata Sons and constant interference from his predecessor during his tenure. Tata Sons released a statement on October 27 saying that "the tenure of the former chairman was marked by repeated departures from the culture and ethos of the group".

The bickering is taking a toll on reputations and share prices. The combined market capitalisation of 29 group companies has fallen to Rs7.41tn, 4 per cent less than at the end of March, while the overall Mumbai market has gained 8 per cent. All eyes are on group companies' shareholders' meeting starting in mid-December.

In South Korea, the so-called "Choigate" scandal has brought to light collusion between the political elite and family-run conglomerates. Politicians have allegedly been pressing family conglomerates, known as chaebols, to set up funds for their own interests in return for business favours

The latest incident involves allegations that Samsung Group bribed Choi Soon-sil, a longtime confidante of President Park Geun-hye, to win support from the state pension fund, which voted for the merger of the group's two key affiliates last year. Prosecutors are investigating, and have raided the offices of both Samsung and the National Pension Service.

Corporate donations to two foundations controlled by Choi Soon-sil *(in billions of won)*



Source: Chaebul.com

"Park Geun-hye/Choi Soon-sil gate is a typical case of collusion between political and economic powers, considering the Republic of Korea's most powerful person was involved in collecting money from corporations," said Sohn Chang-wan, a law professor at Yonsei University, in a forum on November 22. "Such collusion was repeated in the previous governments, but this case is a big setback in the nation's democracy, considering it is a corruption scandal by the president herself."

A banker in her 40s in Seoul, who had previously worked for an affiliate of SK Group, said she was disappointed to see such collusion repeating over and over again. "Influential figures in the political and economic sectors still collude for their own interests, and have not changed from their old habits," she said.

Chaebols were aggressively supported and nurtured during the administration of president Park Chung-hee and became the main driver of South Korea's economic growth from the late 1960s, dubbed the "Miracle of the Han River". Ironically, his daughter, the current president, had to offer her conditional resignation on November 29.

Hong Kong is another place where relationships between political power and family conglomerates are constantly questioned.

When the territory's next chief executive is elected in March, representatives of family conglomerates led by Mr Li and others will each cast several votes. Voting rights for the 1,200-seat election committee that selects the territory's leader are allocated to various business and social sectors and to people holding largely ceremonial posts in China's rubber-stamp legislature and top political advisory body.

There was a symbolic scene on September 22 2014, when virtually the entire leadership of Hong Kong Inc was summoned to Beijing by Chinese president Xi Jinping. Along with Mr Li and Mr Kuok, a delegation of more than 70 business leaders headed by Tung Chee-hwa, a shipping mogul who served as the city's first chief executive, were lectured by Mr Xi on Hong Kong policy and how "Hong Kong and the motherland are in the same storm-tossed boat, their fates mutually dependent on each other."

This was immediately after the start of the Occupy Central movement, in which students and citizens demanded genuine universal suffrage to elect the chief executive. The movement was thwarted, but frustration with Beijing persists, especially among the young, and to a certain extent against the local family conglomerates that support Beijing.

For good or bad, family conglomerates are taking centre stage in Asian business.

One of most striking factors in Asia's growth over the past few decades has been the rise of family-owned conglomerates.

In a region often dominated by state-owned enterprises, these big corporate groups have used wealth, connections and entrepreneurial skills honed for generations to carve out their own empires.

Many of these sprawling groups are connected to companies on our Asia300 list of major players to watch. Investors have good reason to keep an eye on them. In terms of share price, large family-owned businesses tend to outperform the global index of blue-chips, according to research by one investment bank.

Of course, there is a downside. Family squabbling over succession and money can get out of hand, while close ties to governments can invite accusations of collusion. On the whole, however, these companies remain a major engine of growth and a key barometer of the region's economic fortunes.

33 major family-owned conglomerates in Asia

Nikkei staff writers Jun Suzuki in Jakarta, Rosemary Marandi in Mumbai and Kim Jaewon in Seoul contributed to this story.

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