The last days of Alan Yeo

Internationally known and doyen of an established family company, Alan Yeo Chee Yeow stood for everything that was good about Singapore. He was a patriarch and an outstanding member of the business community. He headed a family that, in three generations, had built up one of the strongest brand names in the whole of Asia.

Alan Yeo's career hit a high point when he was named Singapore's businessman of the year in 1987. The award recognized his skills in turning Yeo Hiap Seng into a "superb example for family-controlled businesses to follow". A year later, he launched one of the biggest overseas acquisitions with the purchase of US tinned-food giant Chun King.

These days Alan Yeo, although still chairman and chief executive, is in a different position. Attacked by the press, resented by his family and battling in the courts, the YHS chairman and chief executive is under threat and the listed company ripe for takeover.

Looking grey and worn, Alan Yeo is a shadow of his former self. Associates claim the family rivalry has taken a heavy toll on him. Outsiders are more adamant. "He has to step down to show responsibility for YHS's poor performance," says one shareholder. "That's what the CEO did at Bank Negara."

There was a time when Alan's leadership of Yeo Hiap Seng was beyond reproach. Under his management, Yeo Hiap Seng increased its net asset value of S$8.22 million in 1969 to S$214 million in 1993. It became a formidable group with operations in Singapore, Malaysia, Hong Kong, North America and China.

But Alan's vision has blurred. From a high of S$8.8 million in 1989, operating profits before tax have fallen to S$1.6 million in 1993. Over the same period, earnings per share declined from 9.5 cents to 6.1 cents. As profits and dividends tumbled, so have the fortunes of the once closely-knit Yeo clan. "We used to attend New-Year family gatherings at a plant site or a restaurant," recalls Timothy Yeo, head of marketing and Alan's eldest son. "Recently there have been no family gatherings."

For years, Alan Yeo dazzled Singapore with his business acumen, his public statesmanship and his vision of Yeo Hiap Seng as an international giant. But with falling profits, family acrimony and takeover talk, time may be running out for the embattled 64-year-old chairman and chief executive

BY BEN DAVIES IN SINGAPORE

In the early days the rivalry was never far from the surface. When Alan was nominated top businessman, family members were quick to claim that the company's success had always been based on a joint effort. Following the death of Alan's father, Thian In, resentment towards Alan grew. "He took on the mantle himself," says one family member. "He wanted to show that he was the king of the show."

YHS's acquisition in 1989 of chop suey-to-chow mien giant, Chun King, brought the rivalry into the open and broke the family's fragile unity. The deal, signed in the evening of June 20 in New York between Kohlberg Kravis Roberts (on behalf of RJR Nabisco) and Yeo Hiap Seng, was intended to change the company's stodgy image and open new horizons outside its Singapore base.

YHS, together with the government's investment arm, Temasek Holdings, paid US$52 million in one of the biggest transactions of its kind involving a Singaporean company. The company claimed that the Chun King acquisition would propel it into the world's largest consumer market. "The concept was right. The market was right. But they took on more than they could chew," says one analyst at Baring Securities.

The first rumblings of disaster were soon heard. High financing costs and operating losses at Chun King sent YHS into the red in 1991, the first time in six years. At the annual general meeting on June 10, cumulative losses at Chun King alone were put at S$20 million. Given interest on borrowings and the appreciation of the Singapore dollar, some believe the figure could be much higher.

Insiders blame poor attention, sloppy marketing by Nabisco and changing consumer behaviour for the mess. They say Alan became overambitious and went overboard. Others take a less-generous view. "It was a nonsensical investment," says one analyst "The two just did not fit."

As the situation at Chun King worsened, Alan's refusal to sell the firm and his insistence it could be turned around fanned the flames. In late 1991 he appointed Rolland Divin, a veteran manager, chief executive of Chun King. Divin claimed he could revitalize the canned-food giant. It got worse. "Alan took up the deal and was determined to see it through," remembers one family member. "He became obsessed."

Chun King was not the only problem. In 1987, YHS had invested S$4.5 million in a high-tech prawn farm in Loyang, Singapore. But plans floundered when the crop of prawns was contaminated, leading to a US$10-million write-off. "It was typical," notes one analyst. "They simply had nobody who was experienced in aquaculture."

Other poor decisions followed. In 1988, YHS invested S$3.4 million in YH Pacific Fruit-Berry, a fruit-processing plant in Canada that chalked up losses of S$4.4 million in 1990 and S$3.2 million in the first six months of 1991. Meanwhile, the company built a 16-storey warehouse in Hong Kong just as the Pepsi franchise had been withdrawn. "There has been a total lack of focus," observes a local analyst. "Since 1988, their international ventures have been a catalogue of disasters."

If Alan's stubbornness and autocratic style angered his rivals, the absence of young professional managers weakened the decision-making process. Of the directors that now sit on the board, the majority are past retirement age. Yeo Tien Hwa, Alan's uncle, who remains a board member, is in his early 80s. Peter Lee Soo Sung, a retired lawyer, Wee Kim Chuan, another close supporter of Alan, and Goh Kee Song are all in their mid-60s. "How can you run a company with pensioners?," asks one family member. "It makes a mockery of the whole thing."

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Alan was certainly not the only one at fault. Documents released by the Registry of Companies and Businesses show that, as of 1992, 11 of the company's directors were Yeos. Few of them had any outside experience. "Alan showed too much latitude to other family members," says one associate. "He should have brought in new blood a long time ago."

Alan's determination to groom his son, Timothy, as next in command also caused rifts. Tim, who joined the company four years ago as a corporate planner, has since been promoted to marketing executive. Insiders claim that in a company that rewards service, such a promotion usually takes 15 years.

If problems at YHS have taken their toll on Alan's image within the company, they have done little to undercut Alan's stature in the business community. Despite concerns over the Chun King investment and the ill-fated tieup with Temasek, Alan's connections with the government have remained strong. As chairman of the board of trade he has

Cause for concern. Earnings per share after tax and minority interests

pore firms that are too big for the local market but too inexperienced for the international markets. YHS was not the only company to fall prey to its overseas ambitions. Temasek's acquisition of a 30% stake in UK hotel chain, Mount Charlotte, in 1991 came at a price that was considered excessive. Jack Chia suffered problems when the group acquired property projects in Australia. Asia Pacific Breweries' S$250-million acquisition of a 27% stake in New Zealand brewer, Magnum Corp, led to a S$95-million write-off in 1991.

The problems at YHS have been exaggerated by family infighting and its inability to come to terms with an increasingly competitive environment. "They did not plan. They have not been pro-active and the world has passed them by," says one foreign broker.

Change may still come. Rival relatives Charles Yeo and Ben Yeo were appointed to the board at an extraordinary meeting earlier this year. An extraordinary meeting has been called for July 5 to force Alan's resignation as chairman. (The entry of property speculator Ng Teng Fong, who now holds a 19% stake in the company through Singapore-listed Orchard Parade Holdings and associate companies, may not be enough to save him.) Some analysts speculate that the close links between Ng and the government would enable Alan to save face. Others claim the entry of outsiders should result in the breakup of the family empire.

Alan Yeo is in an unenviable position. Amid the recriminations, he has made it known that he would like to retire and that has been looking for a chief executive outside the family to take over the firm. "He's tried to hold the family together, but it has gone too far," says one family member close to Alan. "He owes it to shareholders to keep the company going and the brands strong."

> "It was very hard to work with Alan. There was no direction. He was not looking at growth opportunities. When he wanted his way, he got his cronies to support him"

A dissolution of the YHS holding company, or a tieup with a third party, would leave Alan with little more than a token role as chairman. But, given his age, few believe he wants to remain in the hot seat much longer.

He is unlikely to suffer financially. His stake in YHS is worth S$10 million at today's market prices. His term as chief executive has been extended for five years at a monthly salary of S$29,214. His role in the government of Singapore is likely to increase — and reap him further public-service awards.

There is not much else by way of consolation. However, the outlook is not any better for his rivals. Analysts remain dismissive of the management abilities of Charles Yeo, Alan's nephew, and Ben Yeo, his cousin. They say any real recovery is impossible with so many Yeos in key positions. "An outside takeover would be extremely welcome," says one Singapore analyst. "It would take at least 12 to 18 months to turn around the company, but with its property, its strong brands and its name throughout Asia, this could one day be a big multinational."

The end may be far from over for a dynasty which has lived through three generations of business success. But for Alan Yeo Chee Yeow and his feuding family, the best may have been over. "It's very sad and unfortunate," says Jones. "They had a brave new vision. They went overseas. Somebody had to fail. And it was them."

Asiamoney requested an interview with Alan Yeo and was invited to submit questions by fax. By June 27, at the time of going to press, no reply had been received.

The last patriarch?

It all started 94 years ago, when family patriarch Yeo Keng Lian established a small soy-sauce operation in Zhang Zhou, in the Fujian province of China. The humble beginnings of Yeo Hiap Seng soon gave way to rapid expansion: first in Singapore, under the founder's eldest son, Yeo Thian In, and then in Malaysia and Hong Kong.

The latest patriarch, Alan, the third son of Thian In, completed his primary and secondary education in Singapore in the mid 1940s. After the war, he studied in Britain, graduating from St Columbia's College Dublin in 1947, and subsequently attending Loughborough College of Science and Technology and the Imperial College of Sciences and Technology.

Returning to Singapore, Alan joined Yeo Hiap Seng, the family company, in 1958, moving rapidly up the ranks until he took over as managing director in 1969. "I have seen the company grow into a market leader in the food and beverage section in Singapore and the region," Alan recalled in a recent letter to shareholders. "The interests of the company and its shareholders have always been my top priority."

Whether a Yeo will once again rule over a united family empire seems unlikely. With six families and a total of 48 descendents, the Yeo dynasty has become too diffuse and its loyalty to the founder hard to pin down. Alan believes bringing in a major outside shareholder would strengthen the business. His brothers claim that would betray the family name.

"Alan is like a Shakespearean character," says one family member. "His biggest enemy is himself. He wrongly believes that he is the only one who could make decisions." Others are no less adamant. "If the family founder could see what is going on, he would turn in his grave," says one.

the previous system. To bring in new expertise from outside the bank, Chatumongol also appointed key outsiders like Chaktip Nitiphon, former country manager of Credit Agricole Indosuez and Kiatchai Sophastienphong, a former senior vice president of the Siam City Bank. He also beefed up the legal department, spearheading a flurry of criminal investigations against officials deemed responsible for serious violations.

Even more far-reaching has been the overhaul of the supervision department, which is now headed by deputy governor Tarisa Watanagas. Prior to the re-organization, supervisors were officially restricted to examining the same bank's book on a maximum of two occasions. Under the new structure, the same team of supervisors will continuously oversee one particular financial institution – be it a bank or finance company – with their reports checked in turn by the heads of other supervision teams.

"The problem with the central bank [when I came in] was that they knew nothing about central banking," says Chatumongol. "They knew economics extremely well. They knew about supervision rules the old way. But they were not doing risk management or other new techniques because they lacked the training and organization."

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At a broader level, Chatumongol, advised by a working committee headed by Gerald Corrigan, a former member of the Federal Reserve, has also established a new Monetary Policy Committee to advise on the setting of interest rates and other key inflation rate targets. Of the nine directors appointed to the new committee, six will be appointed from outside the central bank.

Perhaps the biggest challenge facing Chatumongol, however, has been to implement a wholesale transformation of the bank's existing culture. If before, the BoT's hierarchy was primarily based on seniority and often personal relationships, the emphasis now is on a meritocracy. Executives will in future be paid on performance. Promotions will be carried out on a similar basis. In a country where the value of relationships cannot be overstated such radical behaviour almost amounted to heresy. Several central bankers left or accepted early retirement. But their places were filled by a younger generation of BoT scholars prepared to accept change. "A lot of people like a comfortable life," says Chatumongol. "They don't want to run. But there are always people who want to take up the challenge and our staff here still have more PhDs than probably any other central bank – even the US Fed."

Chatumongol's no-nonsense approach has won high marks from outsiders. "Chatumongol has done a very solid job in giving back respectability to the Bank of Thailand as a professional, independent body," says Korn Chatikavanij, president of JF Thanakom. "He is probably the most competent governor that we have had since Khun Chavalit." Even his critics (and there are many of them) admit that while Chatumongol's management style is unorthodox, his uncompromising personality and his readiness to seek outside assistance have had a beneficial effect on the bank both in terms of increased transparency and the implementation of internal risk controls.

That sentiment is supported by the latest economic indicators. Since Chatumongol took over the reins of the BoT, the economy has stabilized. From a low of Bt43 to the US dollar in May 1998, the baht has strengthened to around Bt38. Short-term interest rates have also tumbled from 15% to less than 5% – their lowest level in more than a decade.

Chatumongol's apparent success in restoring confidence in the economy has, however, masked less favourable traits. Even from the very earliest days, his uneasy relationship with Tarrin has been no secret. A row over a key bank appointment in mid-1998 brought simmering tensions to the boil. When the top job at state-owned Krung Thai Bank fell vacant, Chatumongol pushed for Mechai Viravaidya, the outspoken social activist and former chairman of the Telephone Organization of Thailand (ToT), to take up the post. A long-time associate of Chatumongol's with a clean track record, Mechai was widely known for his success in promoting family planning and other social development programmes. But the former economist had no experience of managing a bank. Tarrin initially resisted the move, preferring to recruit a seasoned banker. Chatumongol, however, eventually got his way.

In the event, Tarrin's judgement proved correct. Mechai resigned after a leaked report by PricewaterhouseCoopers put NPLs at the bank at 84%. Mechai's departure was followed by nine of the bank's 10 directors. The unfortunate episode undoubtedly strained relations between Tarrin and Chatumongol. It also provided clear parallels with the BoT. Krung Thai's problems were not restricted to operational systems but to the very culture of the bank.

Tarrin, widely considered one of the country's most erudite finance ministers in decades, has not been the only one to

Under pressure: Tarrin Nimmanahaeminda.