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TSE	ME	VSE	C\$
+125.11	+73.96	-1.61	+0.16
7780.53	3939.50	636.08	US\$69.82c
Dow	S&P 500	Nasdaq	Gold
+97.90	+6.06	+18.08	-2.90
9110.20	1115.75	1843.03	US\$307.90
London	Tokyo	Hong Kong	Crude oil
-1.40	-40.26	+78.32	-0.20
6104.10	16277.32	11420.34	US\$15.12

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Mastering Enterprise

Part Seven

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- ▲ Building bridges
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Mastering Enterprise is an exclusive feature series published by The Financial Post in partnership with Financial Times. Follow the series in The Post every Wednesday as it explores the top business enterprise issues through essays prepared by the world's foremost academic minds.

4 Mastering Enterprise

Understanding what motivates foreign direct investment in general, and Thomas Fung in particular, are keys to understanding Fairchild's success.



Thomas Fung's recipe for success: Adapt managerial practices to new environments

Reaching across two cultures

BY CHARLENE ZIETSMA, GRACE WONG & ILAN B. VERTINSKY

Fairchild Holdings is an outstanding example of a successful Asian business in Canada. It has effectively bridged cultural differences, adapting the best of Hong Kong know-how to the Canadian environment.

President and founder Thomas Fung's business card reads: "The spirit of enterprise," and he is truly a master of enterprise. Founded in 1984, Fairchild has four portfolios of operations. The media group includes a magazine and ethnic television and radio stations across Canada. The development group was responsible in 1990 for North America's largest Asian-themed enclosed mall along with other commercial and residential properties in British Columbia and Ontario. The retail portfolio includes bakeries, postal outlets, an interior design business and a Japanese restaurant. The fourth venture, a pharmaceutical company, is a partnership with one of China's largest privately held businesses, the Stone Group.

Fairchild's ties to Asia are strong. Many of its operations have involved investments by silent Asian partners. Thus Fairchild acts as a conduit of foreign direct investment. For a Canadian business that's just 14 years old, Fairchild is amazingly successful.

Why has the company succeeded when so many Asian investors have lost money in Canada? And why is Fung, whose family connections virtually guarantee him a life of wealth and success in Hong Kong, playing in our backyard? An understanding of what motivates foreign direct investment in general and what motivates Fung in particular are the keys to understanding Fairchild's success.

There are typically huge barriers to foreign direct investment caused by difficulties in adapting to the local culture and business environment. International business lore is littered with examples of firms that have done this poorly and lost their shirts. However, FDI is likely to take place when advantages of the host location combine favorably with the investor's assets (both tangible and intangible), particularly when these assets are difficult to sell in the market at acceptable levels of risk. Know-how and relationship assets fall into this category.

Hong Kong investor assets often include access to substantial amounts of capital through specialized family and interpersonal networks based on trust. These networks can operate very quickly and provide the flexibility to capitalize on investment oppor-

tunities before the rest of the market. But trust cannot be bought and sold, and these networks are highly resistant to outsider access. Furthermore, many Hong Kong investors have ample capital, only a small portion of which is invested in a particular overseas market. If necessary, this capital can be patient. Long-term land holdings paid big dividends over time in Hong Kong, and it is a lesson these investors have not forgotten.

Hong Kong investors also bring knowledge assets — particularly, some of the best entrepreneurial skills in the world. The hectic pace of business and vibrant market in Hong Kong breeds a tolerance for risk, skill at recognizing opportunities, and a capability for fast action, which may be unrivaled in the world. Again, these skills are not easily sold in the market — they require the entrepreneur's personal involvement. A 1995 Industry Canada report suggests FDI is much more potent relative to domestic investment because foreign investors come not only with capital but also with management expertise, technology and other advantages.

Why do these investors come to Canada? In Fung's view, Canada (and particularly Vancouver) has a number of geographical advantages that make it attractive to Asian immigrants. Canadian immigration policy favors the wealthy and highly skilled, making an affluent consumer market among immigrants more easy to achieve. The multiculturalism policy and education system create an open-minded environment, with less discrimination toward Asians than exists in any of the other countries that are popular among immigrants. Finally, Canada does not have a compulsory military draft policy.

"The old-timers joke that, if you move to the U.S., some day you will get drafted to fight China," Fung says with a laugh.

While most Asian immigrants to North America in the early 1980s were either conducting their business out of Hong Kong or establishing North American businesses in San Francisco, New York, Los Angeles and Toronto, Fung chose Vancouver. He knew the same attributes that attracted him to Vancouver would continue to attract other affluent Asian immigrants: the mild climate, low risk of natural disasters, proximity to Asia by air and wonderful living environment. "It's like a garden," he says. "Skiing, fishing, golfing and a low crime rate." At that time, land prices in Vancouver were also quite low compared with Hong Kong, and

land ownership holds a special attraction for Hong Kong natives. These things contributed to a growing and profitable Asian market in Vancouver, which was naturally protected for Asian entrepreneurs since it would be difficult for locals to serve.

While geographical advantages and investor asset profiles can predict the incidence of foreign direct investment, they do not explain how successful that investment is. The ability to become a master of enterprise depends on managerial and strategic skills. Both strategy and management must be adapted to meet the new environment and bypass or overcome cultural barriers. We examine Fairchild in more depth to understand how one firm's strategy and management paid off financially.

The man and his company

Fairchild Holdings is the creation of Thomas Fung. Fung is a master builder of relational and financial bridges that span Asian and Canadian cultures. The bridge foundations are built on trust and reputation. The traffic is money and information, and his bridges are busy places.

Fung's ability to be an effective cultural bridge stems from his experiences in two cultures. Thomas moved to Vancouver with his family from Hong Kong in 1967 as a high school student. He completed a degree in economics and became a Canadian. During this time, however, his family's business interests did not include direct investments in Canada. In 1974, Thomas returned to Hong Kong, to learn the "family business," a merchant banking empire with multimillion-dollar investments around the globe. He loved Vancouver, however, and often spent long weekends there, maintaining his Canadian connection.

Returning to Hong Kong was a cultural shock. Fung, who admits he did not think at all about business before going back to Hong Kong, was suddenly immersed in the hectic pace of one of Hong Kong's most influential families. Seven days a week, for two to three lunches and dinners each day, he attended social functions. At first, he disliked them. Once he understood their purpose, however, he began to enjoy them. "Meals are not for eating," he told us emphatically. "They are for promoting yourself for future deals, or for obtaining information that is useful."

The meal is a prominent feature of his business to-

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day, and similarly all of his top management team members are expected to build social capital during their lunches and dinners. It is this social capital that is later translated into bridge foundations.

Fung spent 10 years training in the investment business, both with the family business, Sun Hung Kai & Co., and with Merrill Lynch in New York, of which his family was a major shareholder. Fung also operated an advertising agency, feature film production and film lab in Hong Kong and produced an avant-garde film while he attended night classes in media studies in New York. His creative interests continue to be expressed in Fairchild operations.

Fung always strives to prove himself fair, trustworthy and competent in his business dealings. In fact, the name Fairchild was chosen because Fung's father emphasized that the most important thing in business was to be fair. The striving comes because his father evaluated his best efforts as 'fair', always leaving room for improvement.

Fung's immersion in both Hong Kong and Canadian cultures allowed him later to choose the best aspects of each for managing Fairchild's operations and enabled him to understand his customers and business partners in both contexts. During this time, Fung also built up substantial investment acumen, business connections and an excellent reputation for trustworthiness among potential future investors. He invested heavily in his reputation, a practice he continues to follow. These reputational, relational and cultural assets ensured Fung was well positioned for partnerships and joint ventures.

When concerns about the political situation in Hong Kong led his father to diversify his portfolio of sons geographically, Thomas saw his opportunity to capture returns from his experience in North America. He returned to Canada in 1984, knowing there would be much immigration and outflow of investment from Hong Kong in the next few years. Given his previous experience in Canada and his network of important contacts in Hong Kong, Fung positioned himself as a trusted investment partner in Vancouver. He began Fairchild Holdings with the start-up of the Saint Germain Bakery, which specialized in unique, high-quality Japanese, French and Chinese baked goods, soon expanding to four locations.

Fairchild's next venture was the development of 100 residential lots in Coquitlam, a site Fung visualized as having particularly good "feng shui" (physical arrangement to promote good luck), though he does not personally believe in it. While the profitability of this venture was virtually guaranteed and Fung could easily have raised the required capital on his own, he invited a powerful Hong Kong family to participate. "I showed them that it was possible to make a profit in Canada", he said, and he enhanced his reputation and trustworthiness with the family and their network, ensuring a flow of capital for future projects.

He then developed Aberdeen Centre, the largest enclosed Asian shopping mall in North America at the time. "No one wanted to be the first in," he remembers, and no leasing agents would take on the project for fear of hurting their reputations. His adaptive solution was to start several businesses within the mall himself, which he later sold as turnkey operations. Seeing a critical mass, new tenants followed and he was successful in leasing the entire mall. He now has no trouble attracting financial partners and buyers for the next, much larger phase of the project.

Fung's love of media led to the purchase of a Vancouver multicultural radio station in 1992. He also realized the growing number of businesses aimed at Asian consumers needed more effective channels for reaching those consumers. The following year, he bought two beleaguered Chinese-language television stations and quickly made them profitable. He has since expanded his media holdings to include a magazine and several other radio stations. He attributes his success in gaining CRTC approval to Fairchild's reputation for balanced reporting, fairness and social responsibility. In nearly all his ventures, he has partnered with other (typically silent) investors.

Fairchild's most recent venture has been with the Stone Group of China in the production of Vitamin C. "My intention originally was to joint venture with the Stone Group, not for the specific business opportunity, but because of their good standing and their good reputation in China," Fung told us. Although beset with falling markets at the beginning (the commercial Vitamin C world market collapsed unexpectedly), plans are under way to turn this business around through diversification into other pharmaceutical products.

More important, the relationship between Fairchild and Stone has grown strong through this "baby-venture" — a test for future dealings. "We wanted to develop the working relationship, get to know each other better, then identify what the op-



Fung: 'I showed them it was possible to make a profit in Canada.'

portunities are between the two companies."

Fairchild gives Stone connections to world markets and a trustworthy venture partner. In return, Stone provides Fairchild with an understanding of how to do business in China as well as the political connections to overcome bureaucratic barriers. This understanding could open up many opportunities for Fairchild as a bridge for international investors on the road to China. Already, Fung has been consulted by the Canadian government for a trade mission and has advised other firms. In the future, Fung is planning to help other businesses enter China in return for equity stakes in the ventures.

In some ways, Fung's interests in China bring Fairchild back full circle to the investment banking business of his family. However, Fairchild differs from traditional investment bankers in the degree of hands-on control it exercises.

Fairchild's strategy

Fairchild's underlying strategy was to get into Canada early and develop a reputation as a cultural and financial bridge for Asian investment. To put that strategy into play, Fairchild served Asian consumer markets in Canada. By selling to a market Fung was already familiar with, Fairchild bypassed substantial cultural barriers in adapting to Canada. This tactic is still working well for Fairchild, though there are signs that adaptation will be required soon. By bringing in foreign investor partners whenever possible, and treating them well, Fairchild's reputation as a cultural and financial bridge has grown strong. It is this reputation that will provide future gains for Fairchild.

When Fung examines a project for potential investment and syndication, he looks for uniqueness and visibility — ways to enhance his reputation. Where these exist, he looks for synergies with his existing businesses and return on investment potential. The linkages between Fairchild's diverse businesses are evident when the underlying strategy is known. The bakeries served the purpose of acquainting Fung with the Vancouver business scene. Indeed, Fung was fully involved in operations, even learning how to bake the products himself. His Coquitlam developments were an opportunity to build a relationship and prove himself as a player in Canada. His Asian-themed malls capitalized on his development experience, expanded his Canadian visibility and network, and provided a home for such Asian-themed businesses as his bakeries. His Asian media portfolio ensures further visibility and network connections among the Canadian Asian community and provides an advertising vehicle for his retail tenants and ventures.

The pharmaceutical business seems qualitatively different, and it would be easy to attribute its losses to a lack of fit with the rest of Fairchild's portfolio. However, the pharmaceutical business further extends Fairchild's bridge-building capability. The venture is about a relationship and future China trade. Pharmaceuticals are just a tool for bridge construction.

Fairchild's management

A major reason many international businesses flounder is they fail to adapt their managerial practices to the new environment. In Fairchild's case, the differences between Hong Kong work culture and Canadian work culture are striking. "In Hong Kong ... you don't really have to do anything hands-on because there is a lot of support. You can just give your orders, and people will follow them and you can spend your time looking for new ventures. In Canada, because of the cost of labor and the labor code, it is more efficient sometimes to be hands-on," Fung told us. For each of Fairchild's ventures, Fung has been involved in a very hands-on way, particularly in the creative elements he enjoys so much. "I put some of my ideas to the design, the look and the color [in all my projects]. I always develop my promotional brochures, even write the copy." As Fairchild has grown, however, his hands-on

involvement has had to be reduced.

For the present, Fairchild has a senior management team of four people in addition to Fung, two of whom concentrate on the financial aspects and control, and two who focus on strategy and marketing. Up to this point, Fairchild has hired other cultural bridges like Fung: they speak the language of both foreign investors and locals and they understand both business environments. To guard against the risk of a team member leaving, Fung ensures there are three people who are up to speed on any given venture, one of whom is always himself.

Because Fairchild has tended to recruit from a common culture, it has been able to find staff that are very committed to the organization. "They are proud to be a part of the team and see the company grow," Fung says. Fairchild managers accept the grueling social schedule that accompanies their business responsibilities. Fung himself admits to working very fast, similar to a Hong Kong pace, and demanding the same from his managers. In this way, Fung is maintaining the old Hong Kong work culture within his top management team, though he has had to adjust his expectations and slow down in his dealings with others.

Future challenges

Fairchild faces a number of challenges for the future. The television industry is undergoing dramatic technological transformation, which has the potential for restructuring the business environment. Last fall, Fairchild faced a dilemma as Rogers Cable moved it further down on its channel lineup to make way for its new ME-TV package, resulting in a loss of service to 2,000 subscribers. Rogers has since rectified the problem. Other technological changes, such as digital video compression and wireless cable service, will require Fairchild to be ever vigilant for new opportunities, and to invest continuously in hardware upgrades.

Demographic changes among its primary market — Asian immigrants to Canada — are also a serious concern for Fairchild. As the rate of immigration from Hong Kong and elsewhere in Asia slows, the Asian consumer market will slow its growth. As those who immigrated earlier (and their descendants) become increasingly Canadianized, they may be less attracted by pure Chinese media programming. Finding a way to appeal to these segments may be critical for the long-term success of Fairchild's media interests.

Canadianization of Asian immigrants may also create a problem for Fung's reliance on a Hong Kong work culture among his top management team. As Fairchild grows, Fung must relinquish more and more control of the operations of his ventures in order to keep his strategic vision for the company clear. If his top management team doesn't provide the kind of support and dedication that Fung is accustomed to, he may have problems relinquishing control. How long can Fung maintain the Hong Kong work culture? The development of substantial interests in China trade may only exacerbate this problem if Fung continues to contribute the same hands-on involvement.

Already Fung has indicated concerns about finding a second in command. Although Fung is yet a young man (he's 47), Fairchild's reliance on a rich network of personal connections means it runs the risk of failing when the founder leaves. In Hong Kong, the business would be passed on within the family, though Fung insists he hires only on the basis of merit. It will be interesting to see in the future how Fairchild manages this transition to the Canadian environment.

For the time being, however, the future looks bright. Fairchild's bridge to China should be well traveled as the Chinese business environment opens up to the world. Undoubtedly, Fung will be very busy in the next few years — all in the spirit of enterprise.



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