



**Top International Holding:
Next-Generation Entrepreneurship
as Symbolic Succession**

Next-Generation Entrepreneurship as Symbolic Succession¹

Family business succession is typically understood as having the next generation of family members take over an existing enterprise. For Victor Tan, founder of commodities trading firm Top International Holding, succession came in a different form. His father was a businessman in Johor, who often had to transform his company completely to stay in business and remain relevant and profitable, moving from one sector to another as opportunities emerge. In the span of 3 decades, amongst other business activities, he ran a hardware store in the kampong, worked as a sub-contractor for oil and gas companies, and manufactured ceiling plaster for buildings' interior, before setting up a bauxite trading company in Indonesia, primarily exporting to China and Japan.

Often, founders expect their children to take over the family business, and at times worried that after completing higher education overseas, the next generation would desire to pursue a professional career in global cities rather than return home. The patriarch, however, left it to his children to decide for themselves what to do when they graduate. After an engineering undergraduate degree and a masters in international business, and working as an engineer in the private sector for over two years, Victor decided to start his own firm in 2014 just as his father closed his company the previous year, as Indonesia ceased bauxite export during this time. Victor's earliest ventures was to supply Malaysian bauxite to his father's former customers. Instead of formally taking over his father's company, Victor started a new one with his father's support. At one point, Victor's father was hired as the strategic adviser, who recognized that new ways of doing things is necessary for changing times. A new organization is a fresh start for transformation. Meanwhile, as his younger siblings graduated from university, each one joined Top International. Shareholders of the new company were investors of his father's businesses and their next-generation successors.

¹ This case study is written by Tommy Kevin Lee. It is a publication of the Research & Publishing Department, Strategy & Development Division. This case study does not reflect the views of the sponsoring organisation nor is it intended to suggest correct or incorrect handling of the situation depicted. The case study is not intended to be a primary source of data. The company featured has consented to the publication of the study. References and sources are listed in footnotes.

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For more information, kindly contact research@sbf.org.sg

In this sense, Top International exemplifies a form of family business continuity without formal succession planning and taking over. Victor inherited the business experiences, acumen and network that his family had accumulated for decades, which is far more valuable than the company entity itself. This is by no means discounting the importance of having a clear plan for succession early, which remains the most sensible advice for family businesses – although the anomalous case of Victor Tan and Top International demonstrates that family business “succession” can take on unconventional forms not usually espoused by business school case studies.

Today, Top International Holding Pte Ltd is a mining and trading firm specializing in bauxite and coal export and distribution across Southeast and East Asia, as well as in West Africa Guinea. From being the first to export bauxite from Kuantan in 2014, by 2016, it became the biggest exporter of Malaysian bauxite, with an annual export capacity of 20 million metric tons. It was conferred the Enterprise 50 awards co-organized by The Business Times and KPMG in 2018 and 2019, a yearly tabulation of 50 most outstanding privately-held local enterprises. At the time of writing, the company reached more than US\$100 million in annual revenue² and handles approximately 18 shipments monthly. It has over 200 employees globally, inclusive of 24 staffs at its Singapore headquarters.

Feature No. 1 follows the initial diversification and scaling up efforts of the relatively young SME, with an emphasis on the critical challenges and obstacles faced.

A rocky start to diversification

On what was supposed to be a family vacation in New Zealand to celebrate the closing of the company’s first deal in the coal business, Victor Tan and his business partner were instead in their hotel rooms engaging in phone calls with contacts in China, Singapore and Malaysia, salvaging their first coal deal which had met with unexpected difficulties. In the pursuit to diversify and grow beyond its core expertise in the bauxite trade, Top International’s foray into a new sector got off to a rocky start. At the last moment, a partnership to deliver two shipments of thermal coal to China could not be followed through. At the same time, the price of coal was dropping rapidly on the commodities market. The company was stuck with two shipments of distressed cargoes at sea with no buyer, facing a potential financial loss of over US\$3 million that comprised of coal costs, freight, and eventual demurrage charges.

² Chua, Tuan Xin; Han, Xin Yi; Chua, Jonanathan & Feng, Kelsey. 2019. *Mining a rich vein of opportunities*. The Business Times, pp. 22. 19 November.

As a new entrant, Top International did not possess a vast network of contacts to sell the cargoes. Calling on prospective buyers gave the same noncommittal response: “*we can’t make a commitment right now, let us get back to you in a few days*”. At wits end, Top International reached out to a rival bauxite firm who was also in the thermal coal business, which referred one of the most prominent Chinese coal importers. This became a pivotal point in the crisis.

The coal market

For Asia-based coal companies, China is the dominant market in the Pacific coal trade, and one of the biggest in the world. Coal is the largest energy source for China, comprising 58% of its energy mix³. The People’s Republic has the 4th largest proven reserves in the world at 138,819 million tonnes (13.2% of global reserves) after the United States (23.7%), Russia (15.2%) and Australia (14.0%)⁴. It is both the world’s top producer at 3,683 million tonnes, accounting for 46.0% of global production, with a growth rate of 4.5% per annum in 2018⁵; and consumer, at 1,906.7 million tonnes oil equivalent, accounting for 50.5% share of global consumption, with a growth rate of 0.9% in 2018⁶.

China’s coal sources are pre-dominantly in the north and west, in Shanxi, Shaanxi, and Inner Mongolia, with 70% of production from these provinces exported to the eastern and southern coasts, where demand is concentrated⁷. While domestic northern destinations may be reached via land routes, supply to the southeast is first moved to eastern ports by rail before being shipped. In this way, transport costs potentially make up half the price of coal delivered⁸. By comparison, coal exporters such as Indonesia and Australia are in reasonable proximity to and ships direct to Chinese south-eastern port cities⁹. This presents an opening for coal imports to compete in the Yangtze River Delta and Pearl River Delta markets, allowing Chinese coal buyers arbitrage opportunity over differentials between domestic and international coal prices. Since 2009, the spread favoured imports over domestic coal, turning China from net-exporter to the third largest importer within a decade, making up 12.9% of global coal imports in 2018,

³ At end 2018. **BP Statistical Review of World Energy 2019.**

⁴ Ibid.

⁵ Ibid; as a comparison, the next 5 producers (India, United States, Indonesia, Australia and Russia) have a combined global production share of 36.5%.

⁶ Ibid, similarly, the next 5 consumers (India, United States, Japan, South Korea and Russia) have a combined global consumption share of 28.2%.

⁷ **Morse, Richard K & He, Gang. 2010. *The World’s Greatest Coal Arbitrage: China’s Coal Import Behavior and Implications for the Global Coal Market.*** Stanford: Program on Energy and Sustainable Development Working Paper 94, pp. 3.

⁸ Ibid, pp. 4; note that coal prices are subjected to market movements.

⁹ Ibid, pp.6; Far-eastern Russian coal to East Asia is shipped mainly from Vostochny port, which by logic of geography, may either ship to north or south Chinese ports.

valued at US\$19.6 billion¹⁰. However, logistical differences are not the only factor influencing price. Stock quality, mining methods, and international trade rules affects costs, risks and time. Effective 1 January 2015, the Chinese government started to enforce import restrictions through port quotas, largely targeting lower grade coal through caps on ash and sulphur content¹¹.

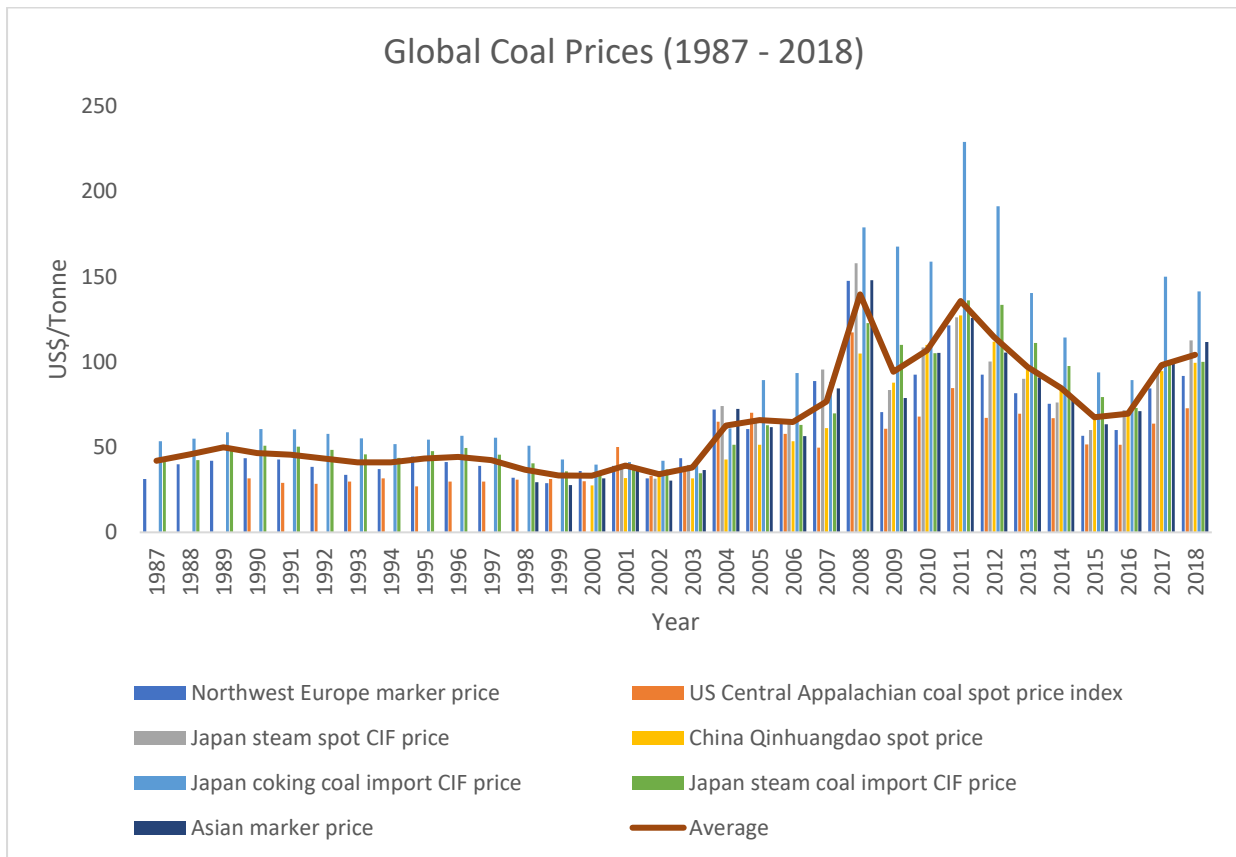


Figure 1 Global Coal Price 1987 – 2018¹²

As a cheap source of fuel, coal prices are closely associated with indicators of industrialisation and growth of emerging economies. Since 2001, prices had been steadily on the rise for a decade, apart from a steep decline in 2008-2009 which was largely attributed to the dip in demand as a result of the 2008 global financial meltdown. Prices rebounded in the next 2 years to near-peak prices in 2011, before going into general decline until the end of 2014; with a steady overall annual upward trend thereafter (*Figure 1*).

¹⁰ Workman, Daniel. 2019. *Coal Imports by Country* <http://www.worldstopexports.com/coal-imports-by-country/>

¹¹ Smith, Marie-Ann. 2014. *Coal trade: the impact of the changing regulatory framework in Asia-Pacific*. Holman Fenwick Willan, LLP.

¹² Data from BP Statistical Review of World Energy 2019

The impasse

As recounted in the opening, Top International landed in dire straits during its first endeavour towards diversification. Two alternatives were considered for the treatment of the distressed cargoes, to either source for an importer outside of the China market, or to return the cargoes to the supplier and pay it the price differentials between agreed price and sale price, if the supplier is able to find another buyer for them. Both considerations were not possible.

Finding a buyer in another overseas market was difficult as Top International was not familiar with coal markets outside of China at the time, while the supplier had no alternative buyer for the shipments. In the meantime, coal's calorific value drops with prolonged storage¹³ and loses their economic value¹⁴. Therefore, searching for storage facilities in the coal's country of origin and hold them until price recovers and until such a time when a buyer is found was not technically feasible. The company took the option of actively procuring a new Chinese buyer under near-impossible market conditions and to absorb the losses from the cost difference.

Importance of reputation to business dealings

Help was extended by a bauxite counterpart, in the form of an important referral to one of the largest buyers of thermal coal in the China market. Although competitors in the bauxite business, it may be inferred that the other firm's willingness to share a renowned client to Top International in a different sector where it is establishing itself, as attributable to its impression of Top International's business conduct.

When Top International approached the referred contact (hereafter, "M"), he already knew about the distressed cargoes as the information was spreading among industry insiders. While M gave his word to assist, he asked for a few days to arrange a deal, which was a similar response to other prospective buyers. During this time, the demurrage charge was US\$12,000 per day, along with declining coal prices. Impressed with M's sincerity during their first face-to-face meeting when Victor got back to Singapore from New Zealand, Top International placed the two shipments on voyage from Indonesia towards China, with neither a signed contract nor a confirmed port of destination. In short time, M followed through.

¹³ Aich, Subhajit; Nandi, Barun Kumar; & Bhattacharya, Sumantra. 2019. Effect of weathering on physico-chemical properties and combustion behavior of an Indian thermal coal. *International Journal of Coal Science & Technology* 6(1):51–62.

¹⁴ Şensögüt, Cem & Özdeniz, A. Hadi. 2008. Decrease of Calorific Value and Particle Size in Coal Stockpiles. *Energy Sources, Part A: Recovery, Utilization, and Environmental Effects* 30(11): 988-993.

The episode marks the beginning of a trusted partnership with M that commenced the building of a supply chain between two firms. Gradually as Top International scaled up, its Chief Executive no longer takes care of the day-to-day operations of its coal trade, while M had since left the other firm. However, strong collaboration continues to this day.

Leaders' values translate to company decisions

Although Top International lost about US\$300,000 on its first coal trade (price difference between agreed price to supplier and final sale price, plus demurrage charges), the incident demonstrated Top International's ability to navigate exceptional circumstances. At the dire hour it is often easy to be unwilling to absorb significant losses and forget the bigger picture that the supply chain is the lifeblood of a trader. It is often in difficult times that management's conduct reveals itself. The leadership at Top International maintained clarity of their stand and proceeded to take ownership of the problem and acted accordingly, which not only saved their reputation but bolstered it.

The individual values of business leaders translate into choices made at critical moments, setting a company on its unique trajectory, and to a large extent shape its interaction with stakeholders under the context of the macro business environment. The silver lining being that the industry saw that the company was able to handle pressure and come out of the crisis holding onto its integrity, honouring both shipments and contracts.

Scaling and diversification: Difficult but Necessary

Apart from the ability to navigate predicaments, business leadership must show willingness to take risks in order to grow. Rather than resting on its laurels, leadership has to be cognizant that depending only on existing capabilities without seeking constant improvement, even if the firm is ahead of its competitors or at the top of its game, leads to devolution into a one-trick pony. Diversification and entering a new market can be a scary prospect. But without the hard work towards sustainable paths to growth and opportunities, being stuck with stagnation and decline is worse. "One dimensional competency" is not a path to sustained success.

Sequencing provides the element to professionalising and scaling up. In this manner, Top International begun with exporting Malaysian bauxite in 2014. During the initial years it build up competent staff in both the management and technical teams. By 2016, it had a core team that can operate in the field geographically far away from management, which, along with

having trusting partners, was imperative to Top International's decision to mine bauxite in Guinea. Similarly, with coal it actively sought to diversify into other sectors of the mining trade after solidifying its operations in bauxite, procuring additional sources such as in Indonesia from 2017. At the same time, it nurtured sustainable relationships with partnering firms at the organizational level that goes beyond the individuals that started the association, which is crucial to scaling up, freeing the leadership from the day-to-day operations to explore new opportunities.

In 2019, the company participated in the second run of Enterprise Singapore's *Scale-up SG* programme, which provided 70% government co-funding to participating firms which were each paired with either McKinsey & Company or PwC, with the aim of archiving high growth and to scale up rapidly. For Top International, it developed, improved upon, and executed its growth plans in close partnership with McKinsey, its anchor consultant. It is now conducting market and technical assessments to diversify into agriculture, and of feasibility to vertically integrate ship chartering into its business.

Too often, organizational development may be desirable but not a priority for smaller firms that are fixating on the day-to-day matters at hand. Having a formal avenue and the expertise of management consultants to implement structured transformation and to adopt and adapt best practices in the areas of Human Resource, for example, creating talent development and healthier workplace programmes, instituting a leadership framework, and improving corporate communications processes both internally – to align employees with management's vision – and externally for more effective public relations, has proved to be useful to the company.

While diversification will become necessary for growth at some point in the future, a start-up should focus on developing expertise and excel in one area before trying to expand. There is no one-size-fits-all approach. To avoid the long-term negative consequences from growing too fast without solid foundations, business leaders have to identify viable solutions and uncover their own management style suitable to execute the plans unique to its company. For Top International, sequencing and the building up a core competent team, having trusted partnerships at the organizational level, professionalising management and tapping into a scaling up programme with substantial funding support are essential factors to growth. Partnering only with trustworthy partners, conducting business deals with integrity, quality delivery, and operating prudently with a long term view are key management philosophies accumulated over the course of its experiences.

It should be emphasised that business is situational and contextual. Anecdotes and rules of thumb are not universal. A business leader is expected to figure out what situation the company is in vis-à-vis the larger contexts, and whether or not wisdoms, lessons or strategies derived from cases are applicable.

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