

THE BUSINESS OF LEADERSHIP AND LEARNING

Management @WORK



A
fisherman's
tale

Chia Song Kun,
founder and CEO,
QL Resources

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COVERSTORY

A fisherman's tale

Former mathematics lecturer Chia Song Kun and his fishermen brothers built a billion-ringgit company from scratch. Today, QL Resources continues to demonstrate the same ingenuity and simple values despite regional success.

BY Jennifer Jacobs

If you ever speak to QL Resources' founder and CEO Chia Song Kun, ask him about the "coconut" road he built with his brothers in the late 1970s, leading to a particular beach that they had to get to everyday to gather shells.

Needless to say, the brothers — fishermen all, except for Chia, who was a mathematics lecturer — did not know how to build a road. What's more, they didn't have the money to do it the way the Public Works Department, for instance, would have.

So they looked about and noted that the path in question was lined with dead coconut trees. They cut these down, sawed the trunks to lengths of 10ft each and stacked them across the road. Two trunks on either side to bind these and some sea sand to fill the gaps and the swampy mud path, which would have confounded the wheels of any vehicle attempting to pass through, was suddenly stable enough for a cart hauling about a tonne of shells at a time.

It was this kind of ingenuity that elevated QL from its humble beginnings to where it is today. And Chia is full of such stories. You just need to draw him out. Soft-spoken and courteous (we mistakenly arrived a day early for the interview and he interrupted a board meeting to come out and have his picture taken to save The Edge photographer another trip to the Shah Alam office), he is a man who prefers to think about things rather than talk about them.

Until, that is, he gets excited about what he is telling you. Then, the words come tumbling out as he jumps up to illustrate a point on the white board, the lecturer-that-was still coming through.

Chia comes from a large family — nine boys and five girls. They lived from hand-to-mouth on the little their fisherman father was able to eke out from his daily catch until Chia's two older brothers turned 11 and were old enough to go out to sea with their father.

When it came to Chia's turn, a teacher showed up at their doorstep and begged his parents and elder brothers to let him continue his education. "This boy can study," the teacher said. "Please give him a chance." And so they did. The fishing village did not offer any classes higher than Standard Four, which meant that Chia had to go live with relatives in Sekinchan.

He did well in school and went on to graduate with first-class honours in mathematics from Universiti Malaya. A career in academia seemed to be on the books. "But I was restless. I didn't want to be a lecturer. I wanted to go into business with my brothers," he says.

Which is what he ended up doing. But ask him to tell you about it and he will head off the question. "So much has been written about the company. Surely, everyone knows that the brothers started out gathering shells and sea sand from a particular beach in Selangor, crushing the same and selling it to feed millers?"

This story, true in essentials, glances over the best parts. Just how did the Chia brothers end up on that beach gathering shells? And if it was this profitable, how come no one else had thought of it?

It started with an academic paper on the nutritional value of rubber seeds that Chia collaborated on, way back when he was still a lecturer at Universiti Teknologi MARA. "Rubber seeds had no value. They were scattered throughout the rubber estates and people used to collect these and process them into

animal feed. We did a paper looking at both the nutritional and toxic effects of such seeds and presented it at a seminar," he says.

That was where Chia met the feed millers. And it was there that he learnt that people actually supplied sea sand and crushed seashells to these millers to be processed into animal feed. The sea sand and shells provided the calcium component in the mixture. Some people used limestone for calcium but organic sources were generally thought to be better.

Chia was astounded. People would actually buy these things? Coming from a family of fishermen, he knew where to get a supply. All he needed was a licence that could be easily procured from the Forestry Department for a nominal fee. It all seemed so simple, and he organised the family's first business around this idea. The practice, however, was a little more complicated.

For starters, the beach in question was inaccessible by road. So Chia and his brothers would have to go there by boat. When the water receded from the beach at low tide, they had to wait for a few hours for the shells and sand to dry. And then they would have to sieve out the detritus before loading everything into plastic bags to be hauled away by boat.

Transporting the bags out of there was another problem. "Even if you sent them to the jetty of the nearest fishing village, the road leading to the main road was terrible. Imagine estate roads in those days. How do you send a lorry on those roads to collect the shells and come out? That in itself was a major challenge. This is why the project nearly failed from the outset."

And finally, when the shells reached the feed mills, there were many complaints. "They would say the shells were too coarse or the moisture was not right. There were all sorts of problems."

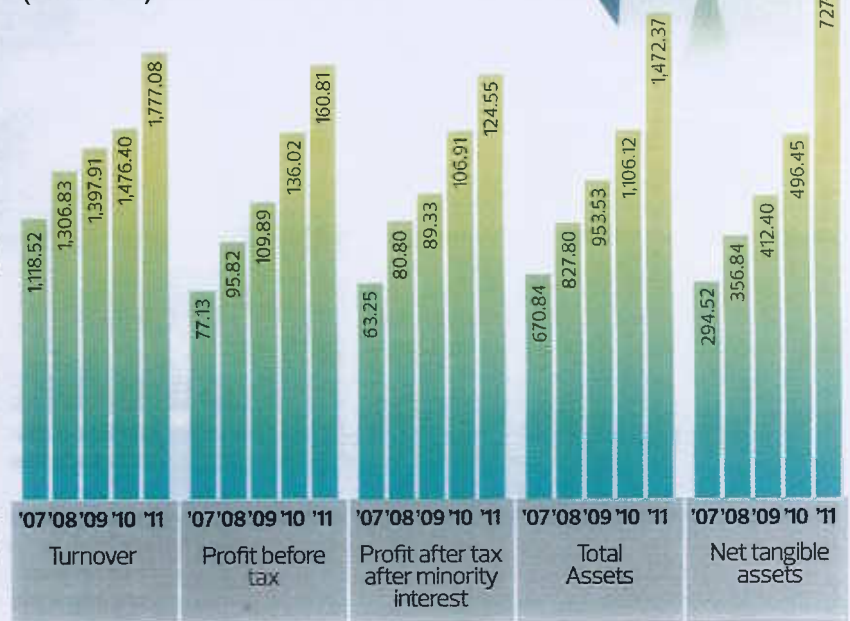
QL's first breakthrough came two to three years into its operations when the company secured a buyer in Singapore. "There was this guy, Mr Lee, who was a dealer in Singapore, supplying to all the poultry farms over there. He appreciated our material even if it was coarse or slightly wet. So he started taking 80% to 90% of our supply and we could command a slightly better price. We used the money we received to build the coconut road leading to the beach."

Once the road was constructed, the company was able to send carts over it to pick up about one tonne of shells and sand at a time. "It became a lot easier because we no longer had to transport the sand and shells by boat. This saved us a lot of trouble and cut short the trip to the feed millers."

Once the access and market problems were sorted out, the brothers turned their attention to the quality of the produce. "We had two acres of land near the beach and we built a small factory on it. We didn't have to worry if the sand was wet because we had a shed in which we could dry everything. And then we put everything into a machine that crushed it into powder; it was quite simple really."

Actually, it wasn't. There were no machines to crush shells at the time. But there were, however, machines to crush fish. "I had a relative with a factory in a fishing village who had one of those. I took over a bag of shells and asked if I could try out the machine. He said yes, and it was wonderful. The shells were crushed to powder and there was no injury to the blade. So we started to think how to build such a thing for ourselves."

QL Resources' financial results (RM mil)



The alignment between the needs of family members and corporate goals is very important.

— Chia

Like the road, it was based on a simple idea, but it solved a major problem. "In the early days, we could only produce 50 tonnes of crushed seashells a month for the feed mills. Once we built the small factory, we could do 10 times as much. So little by little, we tackled and solved our problems and our business began to take off."

The worst was over and now Chia could look around, take stock and think of expansion. He looked to see what the others in the fishing villages were doing. "We started to buy fishmeal from Sin Chip Huat Fishmeal Sdn Bhd, which was along the Sungai Burong/Sungai Besar river and then we took over the plant and modernised it."

In 1993, QL migrated to Hutan Melintang along Sungai Bernam, its present base. "There was a kampung along Sungai Bernam that used to flood all the time. The villagers, who had lived there for several generations, fished and planted coconut trees. They had built bunds along the riverbank to prevent flooding but frequently, these bunds would break and the water would seep into their coconut plantations.

"They got fed up and started to migrate out of there. We bought the whole kampung, about 70 to 80 acres of land, for about RM1,000 an acre. When we went in, it was just a muddy abandoned village with no roads leading to it. We spent RM80 million to RM90 million to build a whole complex in this area. Our fishmeal, surimi, fish ball and snack plants are all there. Also more coconut roads. And the land is now worth about RM8 to RM10 psf," says Chia.

But how did the company branch out into all these new products? And more importantly, how did it secure the Japanese market? "At first, we were only doing fishmeal. Then we noticed that when the fish-



ing boats came in, the other people who were also buying the fish were processing them into higher-end products such as fish ball and fish cake. Of course, these people were established and had been doing it for many years. So how would we compete on supply, market and technology?"

Simple: Move up the value chain and compete in a completely different market. "We could use better technology and target a more high-end market and in that way create a competitive edge."

To do this, the company employed a Japanese consultant on a part-time basis. "He would tell us what sort of machinery we should use and what sort of quality assurance we should have. This was an important step. You must buy their machinery and do things their way if you want the Japanese to buy from you. And that was how we broke into the Japanese market."

But this was still not enough. "Surimi is only a semi-processed paste we could sell to Japan, Singapore and South Korea. We wanted to go one step further and turn it into products we could sell to the Malaysian market so that we would not have to depend on the export market entirely. This is why we started manufacturing fish snacks."

When QL first started out, people didn't think they could go very far. "But I believe if you work hard, work smart, use technology wisely, open up markets and create an advantage for yourself, you can compete. Innovation was important to us. We used many innovative ideas along the way."

Today, QL is a marine product manufacturing giant. It has extensive oil palm plantations and integrated livestock farming. And it uses the waste products from its farms and plantations to produce green energy. QL posted a pre-tax profit of RM161 million on a turnover of RM1.78 billion in FY2011 ended March 31.

Most family businesses are notoriously difficult to run and lay the companies open to charges of nepotism. Also succeeding generations, not having had to struggle to overcome adversity, tend to live it up and lose the money. How does QL avoid this?

"Respect is important. You cannot force it; you have to earn it through the years. People will see what

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you say and how you behave. If you really walk the talk, they will relax because they know you put your company's interests before your own. When people respect you, they are more likely to listen to you. Differences will be much easier to resolve."

But being a family business, keeping the family happy is of prime importance. "The alignment between the needs of family members and corporate goals is very important. Some people say the company needs to grow so we should declare less in terms of dividends. But I don't agree. You must keep your family members happy by giving them enough cash distribution. They have children and grandchildren to support. It doesn't matter if their shares are worth a lot of money if they don't have ready cash."

This is why from the time the company was listed, it has declared a payout ratio of 25% to 30%. "So these people will see a stream of cash every year and feel that their investment is meaningful."

This is especially important as some members of the family were against QL being listed. "They asked why we should list the company when everything is going so well; only people who have problems or who want to sell their company go and list it. That was their thinking. A high dividend payout proves to them that listing is not necessarily a bad thing."

And nepotism? "There are family members who are asked to leave because they don't perform. And what kind of car you drive is subject to company policy rather than who you are related to. If you are supposed to sit in a Datsun, you sit in a Datsun. We brought in a lot of top management concepts from day one to blend in with family needs."

He admits that there are many family members running divisions within the company, but says this is more a tribute to their ability than to any special treatment. "It just so happens that they are good. They run Kota Kinabalu, Tawau, Endau and can work as regional managers. They share our vision, they share our values, they meet their budgets and they perform."

QL Resources has poultry farms Kulim, Rawang, Nilai, Kuching, Kota Kinabalu and Tawau and major

fisheries complexes in both Endau in Johor and Hutan Melintang which produce surimi and fishmeal. In Indonesia, it has fisheries operations in Surabaya and poultry farms near Bandung. It has also planted 10,000 ha of oil palm in Eastern Kalimantan.

And how does the second generation stack up? "Very well. The members of the first generation are naturally very simple as they were all fishermen and grew up the hard way."

"But the second generation has been brought up properly as well. One of my nephews is a director in the company earning a healthy package and he stays in a double-storey link house. Others in his position would have bought a RM10 million bungalow by now. Another nephew, also earning a lot, stays at Hutan Melintang. He could afford a Mercedes 300 but chooses to drive a Japanese car."

In fact, Chia is pleased with the next generation. "I'm happy that they are not the kind who only know how to enjoy themselves and spend money. They know how to carry themselves, do business and command respect from others. When you are in a big family, you must command respect."

"Yes, you can be a good worker, but if we know that you are always going off to Genting Highlands and have two or three mistresses, you will lose the respect of the rest of the family. And when the brothers get together to decide who is going to be the next CEO, your name will be discounted. People will neither trust nor respect you. Values are important to us and we don't want a corrupt leader."

"To be a CEO, you must prove that you are clean, that you don't simply spend money and that you are all for the company. If one brother is corrupt, it's hard enough. But if it's two or three, then it becomes that much harder. Fortunately, all my brothers still have the same values. It's the hardship we endured growing up. When you lead a tough life, you value things and you have to be united. Otherwise, how would you turn around your lives?"

QL Resources was The Edge Billion Ringgit Club winner for 2011