

Abstract

In this paper we put forth the Overseas Chinese Family Business (OCFB) as a distinct business type and more recently as a multinational enterprise. Three important factors are presented as contributing to the rise and success of OCFB in the Southeast (S.E.) Asian region, namely, culture, paternalism, a bounded environment and the interaction of these factors, which in turn leads to familism and networking practices. This paper, therefore, addresses a gap in the literature that links culture to the dimensions of societal institutions and behaviors, including how environmental factors influence behaviors. Despite predictions that the OCFB may not be able to continue its familism practices, we argue that these practices will persist, at least in the S.E. Asian Region and in particular Indonesia since the conditions that fostered the OCFB still exist. The implications of these factors are discussed with regard to the future of the OCFB in the S.E. Asian Region.

Introduction

This paper aims to discuss the cross-cultural aspects of family business in the Southeast (S.E.) Asian region and Indonesia. There are three major factors which have directed the focus of our research on family businesses owned by the Overseas Chinese (OC) in S.E. Asia and Indonesia. First, our research is driven by the paucity of empirical research concerning family businesses in S.E. Asia, in general. Second, the OC still owns a large percentage of family businesses in S.E. Asia as well as the private capital in Thailand, Malaysia, Indonesia and Philippines (Peng 2000; Tan & Fock, 2001; Yeung, 2000). Third, scholars have argued that the business environment which made S.E. Asian economies flourish in the 1980's and 1990's have not really changed in the post 1997 financial crisis period (Carney, 2004; Carney & Gedajlovic, 2002; Hamilton, 2006). It is our view that these factors direct our attention to the cultural aspects of family business that are owned by the OC in this region. However, the diversity of cultures found in this region necessitate us to consider other factors that are predominant in the S.E. Asian region as variables that also contribute to alternative explanations for the family business culture in this region.

Our discussion takes an eclectic approach whereby we draw on a number of literatures from different fields ranging from Anthropology, Organizational Behavior, Political Economy and Psychology to provide the structure and content of this paper. The introduction briefly analyses, culture as a social concept and its essence in business organizations. These sections will build a knowledge base from which we can begin to identify the features of family businesses, and outline how these features evolve and are perpetuated to create family business climates found in S.E. Asia.

The literature suggests that a salient cultural feature of family business firms in S.E. Asia is the influence of Confucian, collectivist and power distance values on business structure and practices. This view is supported by the fact that a large percentage of family businesses in Indonesia and S.E. Asia are owned by the OC, that is, Chinese nationals who have migrated from mainland China to the surrounding nations in S.E. Asia. Theorist and practitioners have also attributed the strategic fit between the socio-economic environment of S.E. Asia and the social climate in this region as explanations for economic success in S.E. Asia. It is our view that the bivalent nature of family business comprising the institutions of family and business, along with Confucian values, in-group

collective behavior, acceptance of power inequalities; as well as the strategic fit between the social climate and economic environment has created a predominantly deal-making climate and autocratic-democratic structure underlying family business firms in S.E. Asia.

Based on our interactionist theoretical explanation we offer propositions concerning the relationship between culture, the environment, structure and institutions on networks, particularly its strength of ties. This addresses the challenge which Gelfand, Nishii & Raver (2006) highlighted for culture scholars, namely, to propose and validate dimensions of societal institutions and link these two dimensions of culture. We finally conclude with a discussion concerning the future of in the S.E. Asian Region and in particular Indonesia. We highlight the fact that S.E. Asian political and economic environment that fostered the Overseas Chinese Family Business (OCFB) to develop and succeed still exist, notwithstanding recent significant changes.

The Content of Culture

Hall and Traeger (1953) asserted that culture was a social and *person-made* product which comprises many systems, for example, communication systems, social, time, space, and material. It is believed that the systems are integrated in the culture via focused activities which in turn establishes societies within the culture. The activities are viewed as direct extensions of the organism and the environment, which forms the culture, thus "activities of living matter are functions of neither chance nor of design, but of direct and dynamic interaction of the organism and its environment" (Hall & Traeger, 1953; p. 7). At the same time, these are also constrained by the very presence of other organisms and their association with each other during the focused activities.

Hall and Traeger (1953) argued that the interaction and association between the organisms in a group are fundamentally established through communication systems, which in turn establishes the foundations of the culture (i.e., systems of meaning; Redding, 2008). The developed or focused activities performed by group are labeled work or labor, and are differentiated from the family or marriage system (other scholars call it institutions; Brown, 1995; Rademakers, 1998; Redding, 2008) as they are thought to possess a distinct form of hierarchical structure. The distinction between the labor system and other systems due to its hierarchical structure, therefore, resembles the distinguishing characteristic between formal organizations and other collective groups (Aldefer, 1983; Katz & Kahn, 1978).

Hall & Traeger (1953) viewed the perpetuation and elaboration of focal activities within a culture through three fundamental patterns, formal, informal and technical patterns. *Formal patterns* are behaviors which are imparted by traditions within an explicit learning context; thus an interaction between older and younger member of the society whereby the interaction establishes learning, a degree of protection and unquestioned patterns of behavior. *Informal patterns* are established without, or outside of an explicit context and are believed to occur through observations. *Technical patterns* are characterized by the transmittal of information in a unidirectional mode which is subject to scrutinization and change.

The above view of culture complements other views of human behavior development within a context. Bronfenbrenner (1977) identified four major ecological subsystems influencing the development of human behavior; they are *micro-*, *meso-*, *exo-* and *macro-systems*. *Microsystems* refer to the interaction between the person and a setting, which include the interpersonal interactions within a given environment where particular roles are engaged. *Mesosystems* constitute interactions between two or more microsystems. *Exosystems* is an extension of the mesosystem, which consist of linkages between subsystems that embrace other social structures and indirectly influence the individual. *Macrosystems* are the ideological components of a given society (e.g., core values) of which micro-, meso- and exosystems are the concrete manifestations.

Redding's (2008) account of culture is also complementary to Bronfenbrenner's (1977) view. Summarizing DiMaggio and Zukin (Cited in Redding, 2008), culture is conceptualized as influencing how actors define their interests; constraining peoples' efforts on their own behalf; shaping a group's capacity to mobilize; and shaping the purposes of such mobilizing. Within societies, each consist of sets of domains, such as family, polity, economy, with each having its own logics of action, goals, strategies, and bases for evaluation. Societal culture then can be viewed the overarching holistic glue (Redding, 2008). In short, societies and institutions exist with cultural contexts that socialize its members with sets of rules and how to use across situations.

Organizational Culture

It has been argued that a firm's behavior is the combined effect of the internal organizational factors and the external environmental conditions which the firm exists in (Frost, Moore, Louis, Lundberg & Martin, 1985; Schein, 1985; Zucker, 1983) i.e., a function of the mesosystem and exosystem (Bronfenbrenner, 1977). In this manner, the way an organization behaves also resembles the culture, which members within the organization

ascribes to, thus the structure and norms, which regulate its goals and strategies. This particular view of organizational culture is a functional one, namely, one that views corporate culture as a set of solutions to specific problems which are socially derived from past events and past successes (Frost et al., 1985; Schein, 1985). In other words, organized groups will behave and solve problems in ways that have been successful in the past.

In novel situations, (i.e. new problems with similar features to previous problems) it is assumed that the organization will also produce solution in ways that resemble past solutions. The matching variables between the current and previous situation provides the organization a script to address the new problem therefore, some behavior patterns and solution patterns may be maintained in light of the new situation (Schein, 1985; Zucker, 1983). These problem solving patterns that groups produce in turn creates distinct behavior patterns. In light of the distinct patterns that are created within a society we contend that the family firm also maintains its own set of problem-solving techniques, norms, goals and strategies, that is, its own distinct business culture.

Development of Business Culture in Family Business Organizations

Among diverse societies, laws, customs, and behavior govern the roles taken by different members of the family. It is believed that in most societies the family is the institution which formalizes the relations between people, where people are born, and how they are protected through long periods of their dependence on each other (Hall & Traeger, 1953; Miller & Rice, 1988). The family and its structure have, therefore, been proposed as the earliest form of human organization and basic business unit (Brown, 1995).

Analyses of organizations suggest a distinction between the concepts of formal and informal organizations on the basis of the recurring pattern of activities each organization maintains. Formal organizations are those whose functions are maintained by a continued pattern of energy renewal or transformation of energy. In contrast, informal organizations are those whose functions are maintained by common interest, relational and/or emotional ties (Katz & Kahn, 1978; Mintzberg, 1979). Business firm are considered formal organization since it maintains its function of providing goods or services to the public by receiving monetary returns, which then procure materials and transforms into the goods or services it provides to the public (Rosenblatt, DeMik, Anderson & Johnson, 1985).

Given the above view, theorists and practitioners conceptualized family firms or family businesses as a distinct form of business organizations (Davis & Taguiri, 1985; Donckels & Frohlich, 1991; Donnelley, 1988; Poza,

2007; Rosenblatt, et al., 1985; Tsui-Auch). By their very nature, the family business as an organization system embodies both the institutions of family and business, where the patterns of beliefs and values adhered to by the family influence the organization (Davis & Taguiri, 1985; Donnelley, 1988; Maruyama, 1984; McCollom, 1988; Miller & Rice, 1988; Rosenblatt et al., 1985). Researchers and practitioners also agree that the family business involves complex interrelationships between the environment and the business, with culture affording both opportunities and risks.

Family Firms as Distinct Business Organizations

The family firm is distinct from most other formal organizations in a number of ways. For example, the ownership and control relationship patterns as well as level of commitment have been proposed to be unique in comparison to other types of organizations (Litz, 1995; James, 1999; Poza, 2007). Davis and Taguiri (1985) proposed the Bivalency theory, which conceptually accounts for the behavioral characteristics of family firms. It posits that participants in the family firms as possessing dual allegiance to the family and to the business, which in turn creates both advantages and disadvantages. Members of the family business are viewed as having overlapping tasks, for example, the founder and the head of the family is also the owner and the CEO of the firm, likewise the son of the founder may own a share of the company and is an executive in the firm. Members in the family firm, therefore, have simultaneous roles as relatives, owners and managers (James, 1999; Rosenblatt et al., 1985). There are three simultaneous roles members can have. As *relatives* they are concerned with the welfare and harmony of the family unit; as *owners* the focus is on return of investment and the survival of the firm; and as *managers* they are concerned with the effectiveness of the firm. In addition to the multiplicity of roles which family members may perform within the family, they also share lifelong common history, identities, emotional ties, mutual awareness, collective meaning of the firm and a unique private language.

Davis and Taguiri (1985) proposed that the owner and leadership overlap is a dynamically powerful concept as it creates a centralized structure which, can serve to integrate and instill loyalties within the firm (Bond & Hofstede, 1990; McCollom, 1988; Pellegrini & Scandura, 2008; Rademakers, 1998; Tan & Fock, 2001). It is our view that the owner-leadership overlap is the most salient and volatile feature of the family business and may determine both the formal and informal climate of the firm.

Bivalency theory highlights the importance of the *simultaneous role* attributes through the variables involved in decision-making. For example, the availability of information concerning resources and goals of the firm as function of the simultaneous roles facilitates efficient and effective decision-making in the best interest of the firm. The negative aspect of the owner-leadership overlap, however, is the fact that the family firm is more *emotionally charged* than other types of firms thus, family considerations may intrude on business decisions (Donnelley, 1988; Miller & Rice, 1988). Davis and Taguiri (1985) also highlighted the fact that the overlap of the social systems enables the founder-father-CEO to retreat in his role as a father and treat his son-subordinate as a child to override decisions and/or to maintain control (Aycan, 2006; Barry, 1989; Miller & Rice, 1988; Pellegrini & Scandura, 2008; Whitley, 1990).

Relatives who work together share *lifelong common history* (Davis & Stern, 1988; Dyer, 1988) and *shared identities* (Donnelley, 1988; McCollom, 1988). For example, the family name is "an identity for family members and has a meaning to people inside and outside the family" (Davis & Taguiri, 1985; p. 5). In business, contacts are formed and fostered through reputation (Shapiro, Gedajlovic & Erdener, 2003; Silin, 1976; Yan & Sorenson, 2006; Yoshihara, 1988; Tsui-Auch, 2005), thus, the family name is an important image for the family business to maintain. The family history in turn creates a strong bond between the relatives because of the time they shared growing up. This *time* together also fosters a *collective meaning* for the family firm (Donckels & Frohlich, 1991; McCollom, 1988). Davis and Taguiri (1985) view the collective meaning of a firm as an important entity that influences work and relationships between relatives, as well as ensure stability (James, 1999).

The years of experience shared by relatives also fosters the evolution of a 'family language' or a *private language* among the family members. This private language may be comprised of special words, phrases, expressions and body movements that have shared meanings (Frost et al., 1985; Hall & Traeger, 1953). The combination of a familial private language and the mutual awareness among family members facilitates more effective communication thus valuable in a decision-making situation.

The relatives are also aware of individual's strengths and weaknesses that in turn can facilitate efficient divisions of labor and effective team work within the family firm. Many years of experience shared together establishes *mutual awareness* of each other's needs and circumstances. This is an attribute that can both integrate

and enhance communication between the members of the family firm. However, there is a drawback associated with knowing each other individual's strengths and weaknesses, sharing personal information, shared ideas and family secrets. Family members may feel constricted within the business, or the information could be used to hurt or sabotage business deals operations if a member or members of the firm disagree with a business decision or policy.

In this section we have outlined a number of characteristics of the family firm. The consensus is that the pattern of rules, beliefs and norms a family adheres to in day-to-day activities influences, immensely, the structure and functioning of their family business (Davis & Taguiri, 1985; Litz, 1995; Maruyama, 1984; McCollom, 1988; Poza, 2007; Redding, 1992; 2008). Furthermore, the overlap between the institutions of business and family is one of the attributes that the family firm can utilize as a competitive advantage to ensure survival and success (Davis & Taguiri, 1985; Donnelley, 1988; James, 1999; Maruyama, 1984). We propose to take this view one step further and assert that Confucianism is one of the traits which have exacerbated the marked bivalency in S.E. Asian family businesses.

Family Business Culture in Southeast Asia

The consensus among authors and practitioners in management and the business field is that the strong relationship and overlap between the family and the business system is one of the distinctive features of family business in S.E. Asia (Kirkbride & Tang, 1992; Limlingan, 1986, 1992b; Maruyama, 1984; Redding, 1992; Soemarjan, 1975; Whitley, 1990). In this section we will examine how the OCFB culture in S.E. Asia is closely linked with Confucian values and in turn giving rise to behaviors such as, submission to authority and harmony. Furthermore, it will analyze how the cultural values associated with collectivism and power-distance is linked to the family business culture in S.E. Asia, particularly, in Indonesia. Please see Figure 1.

The idea that Confucian values are influential in S.E. Asian business practices is not a novel one. Kahn (1979) asserted that certain key traits shared by a large number of successful organizations and business firms in East Asia were attributable to Confucian tradition. Kahn (1979) did not, however, elaborate on how the Confucian traditions affected the culture of these successful organizations, or elaborate on other possible alternatives for the success of organizations and business firms in East Asia.

In contrast, Clegg, Higgins & Spybey (1990), Limlingan (1986) and Redding (1992) asserted that Confucianism cannot be posed as the sole theory to explain the success of the OC businesses in S.E. Asia; these authors argued that this theory is neither a sufficient nor a necessary explanation. They do, however, agree on the premise that Confucian values provide one of the explanations for the invariants found among the family businesses in S.E. Asia.

We agree with Redding's (1992) assertion that Confucianism cannot be posed as the sole or sufficient theory to explain the success of OC businesses in S.E. Asia. Our argument does not question whether Confucianism is a necessary or unnecessary attribute by which to explain the success of OC businesses in S.E. Asia. Evidence suggests that Confucian values have influenced both the structure and culture of the family businesses in S.E. Asia (Hamilton, 2006; Limlingan, 1986; Redding, 1992; Silin, 1976; Tsui-Auch, 2005; Wijaya, 2008; Yan & Sorenson, 2006; Yoshihara, 1988). As such, we believe that Confucian philosophy exacerbates the bivalency characteristics found in family business, and represents a significant set of norms which perpetuates the autocratic-democracy structure of family businesses in S.E. Asia, as well its paternalistic business culture (Aycan, 2006; Dyer, 1988; Redding, 1992, 2008; Pellegrini & Scandura, 2008).

Paternalism as a Predominant Family Business Structure in Southeast Asia

Researchers have emphasized the fact that over sixty percent of businesses in S.E. Asia are owned by the OC (i.e. Chinese nationals who migrated from mainland China to other countries in S.E. Asia; Limlingan, 1986; Mackie, 1992; Peng, 2000; Redding, 1990; Yoshihara, 1988). Furthermore, many have also attributed the success of businesses in S.E. Asia during the 1980's and 1990's partially to the OC and the way they conduct their business. Redding (1992) and Silin (1976) asserted that paternalism is the predominant nature of family business in S.E. Asia. Similarly others have described the predominant culture of family business in the S.E. Asian region as possessing an *autocratic-democracy* structure (Hamilton, 1994; Kirkbride & Tang, 1992; Limlingan, 1986; Maruyama, 1984; Paramita, 1976; Redding, 1992; Yoshihara, 1988).

The above view is consistent with the findings that nearly 80 percent of all first generation family businesses possess or adopt a paternalistic culture (i.e. autocratic and benevolent in its characteristics, Dyer, 1988). Although Dyer (1988) made this claim concerning family businesses in general, his claim is substantiated

when applied to the S.E. Asian region due to the fact that a large percentage of family businesses in S.E. Asia are still first generation firms (Limlingan, 1992a; Mackie, 1992; Redding, 1990 & 1992; Robison, 1986; Yoshihara, 1988), or at least have maintained very similar structures in the process of transition (Tan & Fock, 2001). However, we offer a further explanation to the paternalistic culture found in the S.E. Asian family businesses.

It is our view that the autocratic-democracy business structure found in the S.E. Asian region is a complementary product of Confucian philosophy as well as collectivist, high-power distance orientation (Pellegrini & Scandura, 2008; Smith & Bond, 1994; Tan & Fock, 2001; Triandis, McCusker, Betancourt, Iwao, Leung, Salazar, Setiadi, Sinha, Touzard & Zaleski, 1995; Yan & Sorenson, 2004; Yan & Sorenson, 2006). In other words, these factors contribute and complement the paternalistic business culture (Aycan, 2006; Redding, 1992; Pellegrini & Scandura, 2008). This view is supported by Whitley's (1990) observation that the business cultures of a firm reflect the structures of the given society (i.e., the notion of isomorphism between society and business cultures, Clegg & Redding, 1990). In relation to East Asian businesses, Whitley (1990) asserted that in most society that has no coherent model (i.e., absence of a formal pattern); to govern the interpersonal relationship within that group the authoritative culture appears to emerge. Recent work by Biggart and Delbridge (2004) as well as d'Iribane (2003) confirm that an organization's culture and management are influenced by surrounding culture. Although, Redding (2008, p. 282, italics added) was referring to institutions in Mainland China, he concluded that, "*Paternalism* lies at the centre of the set of Confucian-derived institutions". The point being that there is a positive link between paternalism and Confucianism.

Paternalism as a Complementary Product of Confucian Philosophy and Collectivism

We contend that the paternalistic nature of OCFB cultures in S.E. Asia is partly derived from, as well as perpetuated by Confucian philosophy, which was described as espousing values such as submission to authority and collectivism (Bond & Hwang, 1986; Hofstede, 1980; Limlingan, 1992b). Amongst others, these values give rise to the following behaviors in Confucian societies. *Submission to authority* (i.e., parents, elders and superiors) *rather than a concern for equality* (e.g., Westerners speak of rights, Asians speak of responsibility). *Primacy of group harmony* (i.e., smooth interpersonal relationships) *rather than individual preferences and objective reality* (e.g. An Asian person hesitates to contradict a superior's statement even if it is patently false). *Esteem for the force of example over the validity of ideas. Primacy of broad moral values over specialized competence. The strict*

observance of social rules among different members of society including: between parent and child (respect and gratitude); between brother and brother (respect and harmony); between husband and wife (wifely virtue and husbandly concern); within the clan (mutual support and cordiality).

The above behavior patterns are synonymous with the behavior patterns first proposed by Kahn (1979), coined the Post-Confucianism hypothesis. The crucial point was that these key traits, as outlined above were shared by a large number of businesses in East and S.E. Asia, furthermore, that their success can partly be attributed to behaviors linked to Confucian tradition. Although there was minimal empirical data to support Kahn's (1979) theory, later studies (Bond & Hofstede, 1990) have given support to his Post-Confucianism hypothesis.

Bond & Hofstede (1990) found a positive relationship between the traits found in Confucian tradition (i.e., collectivistic, harmony/integration, the need for high achievement) and the steady rise of the growth national products of countries in S.E. Asia that were inhabited by Confucian societies, such as the OC. This relationship provide some support for the theory that Confucianism is one explanation that accounts for the success OC businesses in S.E. Asia (Bond & Hofstede, 1990; Clegg et al., 1990; Hofstede, 1980; Kahn, 1979; Kirkbride & Tang, 1992; Limlingan, 1986, 1992b; Redding, 1990; Whitley, 1990).

Dyer (1988) viewed the first generation family businesses as being biased towards adopting a paternalistic culture. This particular bias can logically be attributed to the bivalent nature of the family firm since the firm's founder generally owns the firm. The simultaneous role of being an owner-manager or manager-relative (Davis & Taguiri, 1985) naturally creates a situation where control of the business is initially centralized and autocratic in its function (Tan & Fock, 2001; Yan & Sorenson, 2004; 2006). This is the case in S.E. Asia and in regions where the paternalistic culture is adhered to (Aycan, 2006; Greenhalgh, 1994; Pellegrini & Scandura, 2008; Silin, 1976; Whitley, 1990). The owner-manager-relative attribute, therefore, complements the Confucian philosophy of *submission to authority* which, in turn, facilitates and perpetuates a highly centralized structure (Carney & Gedajlovic, 2002; Redding, 1992; Tan & Fock, 2001). For example, centralized control would be maintained through the observance of submission to authority and *primacy of group harmony*. This control phenomenon supports the descriptions of the decision-making processes found in many of the S.E. Asian businesses, namely, that of acceptance rather than shared intentions or 'goal congruence' (Bond & Hwang, 1986; James, 1999;

Maruyama, 1982), or the notion of unity based on denial (Miller & Rice, 1988). Furthermore, the adherence to the ethic of submission to authority also ensures that the 'formal learning pattern' occurs within the firm.

The maintenance of a centralized structure may also be perpetuated by the tendency for family businesses to replace business structures with family systems (McCullom, 1988). McCullom (1988) proposed that as an open system, the family firm uses a unified structure as a mechanism by which to specify and facilitate actions and goal achievement. From a behavioral perspective businesses need to *integrate* the family's norms and values to be able to function and co-ordinate the businesses objectives, namely, that of family unity and financial independence. McCullom (1988) has observed this integration process via the unification of the family's norms and values. Bond and Hofstede (1990) have also suggested that the need for family unity or integration was a salient attribute of the OC family that resulted from their Confucian values.

A further example of the practice of Confucian philosophy is the loyalty exhibited by employees in the family firm who are not a relative of the owner or founder (Dyer, 1988; Kantor & Lehr, 1975; Rosenblatt, et al., 1985). It is our view that these persons are, in effect, practicing the Confucian philosophy of *mutual support and cordiality* towards the clan they are associated with; that is, family firm by whom they are employed.

Paternalism as a Complementary Product of Collective and Power Distance Behavior in Indonesia

Research in social psychology suggests that socialization processes found in collectivistic cultures emphasize the values of obedience, duty, sacrifice for the group, co-operation, nurturing and interdependence, favoritism toward the in-group, and acceptance of in-group authorities (Markus & Kitayama, 1991; Triandis et al., 1993). We argued that the collective orientation embraced by societies in the S.E. Asian region further complements and serves as an alternative explanation for the paternalistic business culture found in this region, since Hofstede (1980) and Gupta, Surie, Javidan, and Chhokar, (2002), as well as Dorfman, Hanges and Brodbeck, (2004) have identified cultures in the S.E. Asian region as being collectivistic and high in power distance.

Research (Markus & Kitayama, 1991; Rademakers, 1998; Smith & Bond, 1994; Triandis et al., 1993) confirm that collective behavior accounts and provide the alternative explanation for family businesses in S.E. Asia that possess paternalistic culture (Aycan, 2006; Pellegrini & Scandura, 2008) but do not embrace and/or practice Confucian values (e.g. Javanese Pribumi in Indonesia; see Rademakers, 1998; also Kartodirdjo, 1972; Schwarz,

1994). The values of obedience, duty, sacrifice for the group, co-operation, nurturing and interdependence, favoritism toward the in-group, and acceptance of in-group authorities, embraced by collective and high power distance cultures to some extent have described the core characteristics of the family business cultures in the S.E. Asian region (Chakrabarty, 2009). For example, it is our view that the tight coupling between control and ownership is caused and exacerbated by the fact that there is a tendency for family businesses to delegate control to other family members or favor their 'in-group'. The delegation of control to other family members in family businesses can also be viewed as behavior that stems from collective behavior due to their distrust towards people who are not part of their 'in-group' (Braadbaart, 1995; Chakrabarty, 2009; Fukuyama, 1995; Granovetter, 1985; Luo & Chung, 2005; Tan & Fock, 2001).

A number of other factors contribute to the emergence of a close-knit network amongst the OC. First, collective behavior can be described as behavior which is directed to or favors a specific group, such as the immediate family and within the society (Mulder, 1978; Markus & Kitayama, 1991; Rademakers, 1998; Triandis et al., 1993). We believe that certain behaviors exhibited by family businesses are collective in nature and are, therefore, a factor which facilitates the paternalistic business cultures identified in the S.E. Asian region. The behavior of delegating control of the business to family members only, can be attributed to the manifestation of collective behavior (Bond & Hwang, 1986; Braadbaart, 1995; Granovetter, 1985; Hofstede, 1980; Triandis, 1986). Hall (1976) and Triandis (1986) agree that people from collectivistic cultures emphasize or make a greater in-group-out-group distinction. We suggest that the idea of immediate family provides a sound example of what the OC would consider as an in-group. The distinction between in-group and out-group is developed by a number of factors: The family history itself which, in turn, creates a natural *lifelong common history* (Davis & Stern, 1988; Dyer, 1988) and a strong bond between the relatives because of the *time shared* growing up (Donckels & Frohlich, 1991; McCollom, 1988), as well as *shared identities* (Donnelley, 1988; McCollom, 1988). Based on the idea that collective values leads to the tendency to favor in-groups, we propose the following proposition.

Proposition 1. *Collective values are cultural foundations for strong ties, such that network members that ascribe to stronger collective values have stronger ties than members that ascribe to weaker collective values within a network.*

A second but related factor that contributes to the formation of an in-group circle in the business context is the societal group that a person comes from. For example, strong networks are formed depending on whether a person can speak a certain dialect (i.e., Hokkien), as well as lineage or village ties (Brown, 1995; Gungwu, 1988, 2004; Peng, 2000; Redding, 1990; Tsui-Auch, 2005; Yoshihara, 1988). We believe that the networks which are formed, based on the Chinese dialects are variations of the same theme proposed by Davis and Taguiri's (1985), namely, the bivalent attributes of a private language. Similar networks also exist among the Javanese Pribumi on the basis of the Javanese dialect (Soemardjan, 1975). Based on the idea that the OC have a tendency to favor kinship relations and develop strong networks based on ethnically based relations such as language and/or place of origin we offer the following propositions.

***Proposition 2.** Kinship and ethnically based affiliations (such as, place of origin, village ties and dialect/language) are institutional foundations for strong ties, such that racial and ethnically based networks have stronger ties than non-racial and non-ethnically based networks.*

The third factor that contributes to the close-knit network amongst the OC is the lack of trust the OC show toward to their subordinates, and to a certain extent, their offspring. Research suggests that these factors contribute to the paternalistic delegation of control to other family members (Barry, 1989; Braadbaart, 1995; Chakrabarty, 2009; Davis & Taguiri, 1985; Fukuyama, 1995; Luo & Chung, 2005; Miller & Rice, 1988; Pekerti, 1987; Redding, 1992; Tan & Fock, 2001; Whitley, 1990; Yoshihara, 1988). For example, Silin (1976) have actually observed that the OC dissociate themselves with people outside of their own group due to the lack of trust. Rademaker's (1998) work also confirms that, in Indonesia, institution-based trust is virtually absent (Also see Carney, 2004; 2007; Carney & Gedajlovic, 2002; Chakrabarty, 2009; Lim, 2000), with a very weak banking system (Nasution, 1993). There is evidence to indicate that in environments where institution-based trust is absent, then other forms of trust, such as character-based trust based on reputation or family is used (Chakrabarty, 2009; Rademakers, 1998).

Research in family business indicate that it is difficult to become integrated into such networks and a person must exhibit some degree of worth before he or she is accepted in the network. It is possible, however, to be an honorary member of a network. Davis & Taguiri (1985) have identified that the family name is an identity for

family members and has meaning for people inside and outside the family. To the OC, the family name is associated with reputation as a person on both a personal and business level (Brown, 1995; Gungwu, 1988, 2004; Hamilton, 1994; Peng, 2000; Rademakers, 1998; Silin, 1976; Yoshihara, 1988). An individual must continue to show his or her worth and loyalty to the network in order to remain within the network. For example, it is common practice for the businessman to accept a business deal which results in a loss, rather than profiting from the deal in order to become a member of the network (Limlingan, 1992a; 1992b).

A related factor which we believe led to paternalistic delegation of control to other family members is the difficulties the OC have faced in this region, in general, and relation to business successful (e.g., racist attitude, building contacts with government officials; Braadbaart, 1995; Carney & Gedajlovic, 2002; Clegg et al., 1990; Hamilton, 1994; Gungwu, 1988; Limlingan, 1986; Mackie, 1992; Paramita, 1976; Pekerti, 2008; Rademakers, 1998; Redding, 1990; Robison, 1986; Yoshihara, 1988). It is our view that the difficulties faced by the OC have in part led to the OC lack of trust towards out-groups, which perpetuates the paternalistic delegation of control to other family members. Based on the above evidence we propose the following proposition.

***Proposition 3.** Reputation moderates the strength of network ties, such that strength of ties between members with strong reputation is stronger than between members with weaker reputations within a network.*

***Proposition 3a.** Strength of reputation can function as a proxy for kinship and ethnically based affiliations, such that a strong reputation can be the foundation for strong ties between network members with non-kinship and non-ethically relations.*

A final contributory but not exhaustive factor to the paternalistic business culture of the OCFB in S.E. Asia is the high power distance value that cultures in S.E. Asia ascribed to (Dorfman, et al., 2004; Gupta et al., 2002; Hofstede, 1980), including cultures that are rooted in Confucianism (Pellegrini & Scandura, 2008). Gupta, et al. (2002) contended that within the S.E. Asian cluster high power distance is related to how leaders within organizations are perceived, in particular, leaders are perceived as patriarchs who nurture the team members to aspire towards higher goals. Gupta, et al.'s (2002) description is congruent with a paternalistic style that combines both authority and control from the leader with individualized concern for the subordinate's well-being (Aycan, 2006; Pellegrini & Scandura, 2008). In particular, it is a paternalistic style that is benevolent as opposed to exploitative. As

such, the superior, at times, is like a father, a close friend, or a brother who is involved in employees' personal lives and has the right to expect personal favors from them (Aycan, 2006). In short, this is a type of relationship that is based on a power inequality between a leader and his or her subordinates, which is accepted in high-power-distance societies (Aycan, 2006; Greenhalgh, 1994; Hamilton, 1994; 2006b Pellegrini & Scandura, 2008). Based on the paternalistic style of management and structure of organizations in S.E. Asia we offer the following proposition.

Proposition 4. Network ties between stronger and weaker members of the network are paternalistic.

We have discussed how the paternalistic nature of family business cultures in S.E. Asia and its highly centralized structure is derived from, as well as perpetuated by Confucian philosophy. The literature also indicates that the culture and structure of family firms are fostered and perpetuated as a function of collective and high power distance values ascribed in the region. Therefore, the bivalent attributes of the family firm, paternalism, and behaviors that stem from the cultures found in the S. E. Asian region including those that do not ascribe to Confucianism have provided us with some idea of how organizational culture and structure of the family firm is formed and perpetuated in the region.

Criticisms of the Overseas Chinese Family Businesses

We have discussed how Confucian philosophy, collective and high power distance values have fostered a highly paternalistic and centralized structure of family businesses in S.E. Asia. Recent analyses the Chinese Family Business (CFB) structure, however, have critiqued the CFB's structure and practices with many suggesting that it is dated and a limitation to its growth (Peng, 2000; Wijaya, 2008; Yeung, 2000, 2006). The most obvious criticism of the OCFB is the fact the familism is at the root of the business organization (Braadbaart, 1995; Hamilton, 2006; Lim, 2000; Wijaya, 2008), thus its ownership and management structure (structural familism), as well as its values (normative familism).

Interpersonally, familism has been found to cause tension between professional managers and those who are members of the owner's family (Wijaya, 2008). Furthermore, James (1999) argued that any type of instability within the family can become a source of weakness for the family business. As such, there is a tendency for the family to desire and prioritize family harmony, which in turn often leads to a restriction of competition within the family thus limiting the growth of skills for survival (James, 1999).

The paternalistic-autocratic structure is also viewed as limiting a number of crucial areas in business, such as creativity, and new vision (Wijaya, 2008). For example, Carney (1998; p. 145; italics added) pointed out that “many family enterprises (*in Britain*) were initially successful in periods of rapid industrialization but later became uncompetitive because they were unable to incorporate technological advances and cope with competition outside their protected market”. Similarly, Carney (1998) argued that a personally and/or family managed firm lacks the capacity to manage and monitor geographically distant units, as such it limits the growth of the firm (Also see Peng, 2000).

Peng (2000) further argued that the owner-managed and personal management practices of family businesses in S.E. Asia often leads to lack of transparency, that is “it is not clearly known to the public what and how they are doing. This can lead to bribery or corruption or what is generally called crony capitalism (p. 242).

A final important point to summarize the criticisms offered above and provide insight to the future of ethnic Chinese family business was made by Yeung (2000; 2006), specifically, the current global economy has created a situation where the S. E. Asian ethnic Chinese businesses has to change with the key to success being “less dependent on the four highly stereotyped principles of paternalism, nepotism, personalism and fragmentation” (Yeung, 2006; p. 214).

Future of the Overseas Chinese Family Business in Southeast Asia

Numerous scholars have argued that Chinese family businesses have developed in terms of its managerial and ownership structure in S. E. Asia namely due to the institutional weaknesses that are prevalent in the environment (Brown, 1995, 2006; Carney, 2004, 2007; Carney & Gedajlovic, 2002; Chakrabarty, 2009; Khanna & Palepu, 1997; Lim, 2000; Nasution, 1993; Rademakers, 1998). We argue that despite recent changes in the S.E. Asian political and economic environment, there is evidence to suggest that the environment which has fostered the OCFB in the past still exist, in particular the influence of *culture*, *discrimination* and *weak institutions* (Carney & Gedajlovic, 2002; Chakrabarty, 2009; Lim, 2000; Rademakers, 1998; Yeung 2000; 2006).

For example, Yeung (2000; p. 206) who has been one of the most prominent scholars to forecast changes in S. E. Asian business structures acknowledges that there are still some elements in the environment that have not changed significantly, which in turn will maintain certain practices for the OCFB. Yeung (2006, p. 246) observed

that there is “continual existence of hostility and discrimination against ethnic Chinese in Southeast Asia.” For the Chinese in Indonesia the hostile environment that has encouraged the development of business ties on a personal basis (Rademakers, 1998) still remains uncertain both politically and economically (Kuncoro, 2006).

Chinese Family Firms as Distinct Business Structures in S. E. Asia

It is our view that the OCFBs are likely to stay in term of its family management structure due to cultural and structuralist reasons (Tsui-Auch, 2005). Notwithstanding the calls and predictions that Chinese family firm should be changing towards becoming less reliant on political-economic alliances in the home country; developing professionals and bureaucratization; tapping into non-ethnic sources of capital; and reshaping the “Chinese” business networks (Young, 2006). Recent works (Carney, 2008; Yeung, 2006) suggests that relational contracting via business groups is still a prevalent business practice in S. E. Asia. In fact, Carney (2008) goes as far as to suggest that the ‘institutional voids’ hypothesis needs a revision to account for the fact that relational contracting may simply be a way of doing business in S. E. Asia (Also see Brown, 1995; Carney, 2007; Hamilton, 2006; Tsui-Auch, 2005). In other words, Asian business groups will not just disappear with the advent of market institutions, furthermore that familism in the Chinese context represents the way of organizing, thus a model of group formation (Hamilton, 2006). Hamilton (2006, p. 224) argues that:

Chinese family firms are not remnants of the past, but rather are active social constructions in the present, constructions having economic as well as social purposes. Viewed in this way, Chinese entrepreneurs knowingly draw on those institutional resources available to them, such as the organizing principles for the Chinese family, to create economically active groups that they can control on the basis of familial authority. In this sense, families and family firms are not concrete phenomena to be analyzed as objects, but rather are processes to be understood dynamically.

Braadbart (1995) argued that familism is an integral part of the Chinese management style of the OCFB in Indonesia, whereby, in Chinese families, the apprentice system seemed to groom one for a career in the family undertaking rather than for an independent career. Therefore, the family firm is viewed as a central element in organizing ethnic Chinese capitalism; and used as strategic deployment of “Chineseness” and Chinese identities; thus a strategic resource for business expansion.

Discrimination

Tsui-Auch (2005) warned that theorist should not exaggerate the unfavorable nature of the opportunity structure (environment) suggesting that impact of discrimination, the environment and cultural attributes only have a limited role in shaping the business and management structures of ethnic businesses. Although, we agree that we should be careful not to over simplify developments of business and management structures in certain contexts. We argue that Tsui-Auch (2005) has not addressed the reality that in some environments there are groups of people still institutionally discriminated.

For example, Winarta, (2004; p. 73) noted that in Indonesia, there are still vertical prescriptive discrimination practices, where "approximately 64 laws and regulations implemented by the Dutch colonial rulers and still valid today, contain ethnic/racial discrimination." The point is that as Pekerti (2008) suggests, for many OC Indonesians, discrimination, whether institutionalized and/or *perceived* is a barrier that limits their employment options (Also see Lindsey, 2005). Studies from other nations also show that *perceived discrimination* is sufficient to alter career choices of individuals (U.S.A. - Cook, Heppner, & O'Brien, 2002; Britain - Pang, 2003; Fouad & Bryars-Winston, 2005). Therefore, along with our interactionist account that structural and management practices of OCFB will persists. The fact OC Indonesians continually face discrimination (perceived or otherwise) as well as the threat of physical danger (Lindsey, 2005; Pekerti, 2008), we argue that the conditions that have engendered development of business ties on a personal basis in the absence of institutional trust still exists in Indonesia (Brown, 2006; Chakrabarty, 2009; Kuncoro, 2006; Rademakers, 1998) and many part of S. E. Asia. As such, relational contracting, business group alliances (Carney, 2004; 2007; 2008) based on lineage, kinship ties (Braadbart, 1995; Brown, 1995) and reputation (Chakrabarty, 2009; Rademakers, 1998) will continue to be a prevalent business practice in Indonesia and many parts of S. E. Asia.

Weak institutions

Another account which points to the our prediction that the OCFB business systems in S. E. Asia will persist is the fact that S. E. Asia still have weak institutions. In short, Carney (2004) as well as Carney and Gedajlovic (2002) documented the restructuring of S.E. Asian corporations has not materialized after the 1997 financial crises as the International Monetary Fund (IMF) organization predicted. Therefore, some of the institutional

weaknesses that are prevalent in the region, such as weak banking systems (Nasution, 1993) are still present (Carney, 2004; Carney & Gedajlovic, 2002; Hamilton, 2006; Lim, 2000; Chakrabarty, 2009).

Although Yeung (2006) as well as Carney and Gedajlovic (2002) argues that S. E. Asia are likely to develop hybrid business systems in the future as a function of new globalizing context, new institutional context including the cultural conditions, they acknowledge that some practices will persist. For example, Yeung (2006) points that most ethnic Chinese businesses still rely on *ersatz capitalism*, it is only the larger ones that do not. Again, it confirms that the uncertainties which exist in the S. E. Asian region (Kuncoro, 2006) contributes to business practices based on character-based trust linked to, networks, reputation or family (Chakrabarty, 2009; Rademakers, 1998). Carney (2004; p. 181) suggested that, "factors such as sunk costs, multiple optima, externalities, and the valuation of control rights provide positive incentives for maintaining existing institutional arrangements". In short, for some that have success with relational contracting will not welcome formal-legal institutional developments, since relational contracting creates highly personalized and idiosyncratic credits and debits that are intangible (Redding, 1990). Therefore, significant changes that threaten these intangible assets will be met with resistance. Recent research does indicate that incumbent business groups in Asia possess both the means and the incentive to block reforms that threaten their interests (Haggard, 2001). Based on the arguments presented above we offer the following proposition.

Proposition 5. *OC businessmen in S. E. Asian region perceives the environment which has fostered business practices in the past still exist, therefore, will continue business practices such as, relational contracting, business groups alliances based on lineage and kinship ties in Indonesia and many parts of S. E. Asia.*

It is of interest to note that even if the changes forecasted by Yeung (2006) as well as Carney and Gedajlovic (2002) does occur, the new business system will not mirror those found in the West. Meanwhile, during this transition process firms that practice relational contracting within an OCFB network may actually outperform those who are outside. Luo and Chung (2005), as well as Khanna and Palepu (2000a, cited in Luo & Chung, 2005), found that group affiliates outperformed independent firms during transition. Although these works also suggest that the firms will need to conform to the new system in the long-term, in their immediate futures maintenance of previous practices appears to be more efficient. Therefore, in their immediate futures it is likely that for firms that

have trading routines and cognitive biases based upon relational contracting will tend to find it more efficient to transact with firms possessing similar cognitive biases (Carney, 2004).

Conclusions

The family business firm resembles the most elementary form of organization which encompasses both the family and business system. In S.E. Asia this bivalency appears to have been exacerbated by the cultural values that are ascribed to by societies in this region. For example, the cultural values prescribe the importance of harmony within the family system and paternalism. In the past, theorists and practitioners within the business field have attributed a high percentage of the business success exhibited by OCFB to Confucian values or behavior patterns. Recently, however, a more comprehensive hypothesis to explain the economic success of S.E. Asia and OC businessmen has emerged.

The hypothesis asserts that the success of OC businesses in S.E. Asia is due to the strategic fit between the socio-economic environment and the culture of OC businesses. In short, this is an interactionist account for the economic success of businesses in S.E. Asia. The idea of reciprocity between the socio-economic environment and the business climate accounts for the discrepancies among family businesses in S.E. Asia, thus the differences among the differing nations as well as non-OC businesses. However, in light of the fact the over sixty percent of the business and family businesses in the S.E. Asian region are owned by OC, Confucian philosophy cannot be dismissed as a contributing factor to the autocratic-democracy, centralized structure and paternalistic culture of family businesses in S.E. Asia. Other factors do offer alternative explanations.

Historically, the OC have exhibited the ability to manage money-related activities. As a result, the OC in S.E. Asia have enjoyed special privileges provided by the colonials, members of the ruling elite, and foreign investors, with regard to economic opportunities. In addition to these advantages, the OC in S.E. Asia possess an appropriate business framework and network, which facilitates economic success. The ability of the OC to learn from past economic successes and their ability to maintain this success has helped to create the business framework and network from which they operate. A direct result of this operational foundation is the ability to raise large sums of money within short time periods, which facilitates the deal-making process. In turn, their sound

financial structure combined with their networks and affiliation with the ruling elite has made them ideal partners for the Japanese and Western multinationals.

Based on historical accounts and more recent evidence in the S. E. Asian region, we offered several propositions concerning the strength of network ties that are likely to exist between in OC and/or family businesses in this region. We also proposed that the environment which has fostered business practices in the past, still exist, in particular the influence of culture, discrimination and weak institutions. Therefore, we concluded that practices such as, deal-making relational contracting, business groups alliances based on lineage and kinship ties will persist, at least in Indonesia and in The S. E. Asian regions.

It is our conclusion that the combined effects of social and economic environment, culture, familism and network structure are factors that have contributed to the creation of the paternalistic culture and autocratic-democratic structure of family business in S.E. Asia. Further research is required to identify the effect of each factor we proposed in influencing the strength of network ties that are likely to exist between in OC and/or family businesses in this region.

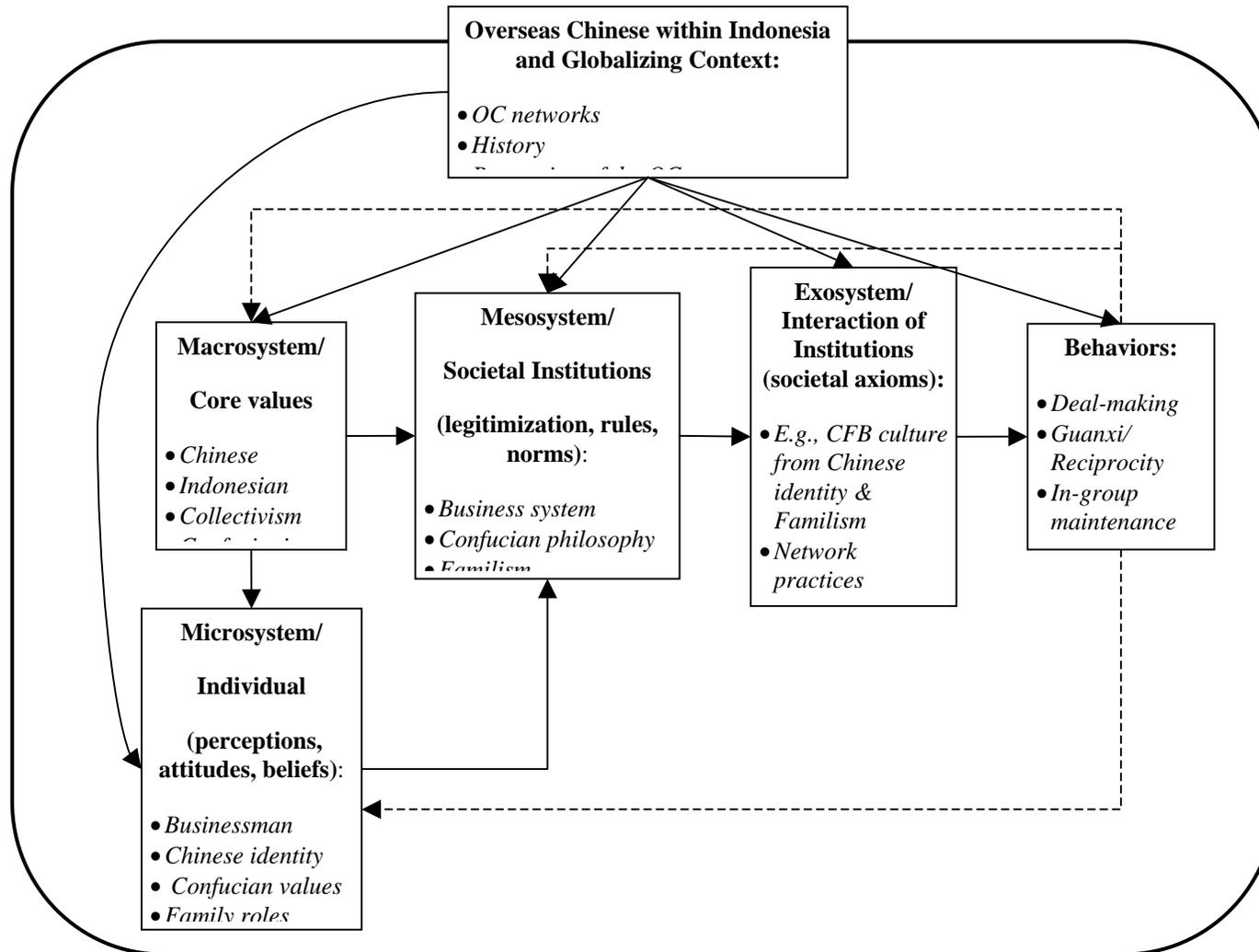


Figure 1. Influence of culture and institutions on Overseas Chinese family business in Indonesia.

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