

**FAMILY BUSINESSES AND REFORMS
IN CORPORATE GOVERNANCE**

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Family controlled businesses dominate Southeast Asia's private sector. Even prominent, publicly listed firms are part of network of firms supervised by a family-owned holding company. Public investors in such companies are, in effect, minority shareholders in the family's business undertakings. In family owned companies and family dominated enterprise networks, a sense of privacy about the business and a possessive feeling of entitlement to unquestioned and unfettered discretion in decision-making naturally arise. Under these psychological conditions, changes in corporate governance are resisted.

However, the privileged nexus between some family firms and political authority, often called "crony capitalism", has such negative consequences for the quality of political life and economic development for citizens that suggestions should be tabled for change in the management of family firms in order to reduce these negative outcomes.

The Cultural Environment

Alignment with Power

For millennia, Southeast Asia cultures and polities have been multi-ethnic and pluralistic. Southeast Asia has been a fluid complex of multiple power centers, where local chiefs, principalities and kingdoms waxed and waned in influence and dignity. This fluidity in power relationships promoted skills of pragmatic adjustment, a certain self-restraint, dependency on more powerful leaders, yet simultaneous accommodation with other power centers, and an appreciation of real-politique. The harsh Athenian stance vis-à-vis the Melians recorded by Thucydides in his Peloponnesian War would not be foreign to Southeast Asian mores: "The strong do what they will and the weak what they must."

Those with power are not often challenged or called to account for their behavior.

This cultural environment, with long standing patterns of psycho-dynamic socializations to infused its values in individual behavior, does not welcome the open confrontation inherent in governance systems of adversarial checks and balances and full disclosure.

But, to take the edge off such dependency, Southeast Asian Cultures have promoted patron-client obligations of mutual regard. One seeking power needs to demonstrate care and concern for clients in order to attract submission from potential rivals. Thus, there are Southeast Asian value sets akin to the fiduciary duties enforced by Anglo-american corporate law.

Thailand, Laos and Cambodia

In these Theravada Buddhist cultures, leadership goes to those with *baramee* and *wasanaa*. These are charismatic qualities possessed by individuals. The more of each one possesses, the higher one can ascend in power and prestige. Inversely, a person in high position – of government or in a corporation – is presumed to have *baramee* and *wasanaa*, and therefore is granted discretionary authority and is sought after as a patron.

Baramee is good fortune arising from Karma. Most often it reflects being born to a family of status and means, or being chosen for many high positions without connivance or obvious self-promotion. *Wasanaa* is again a gift reflecting one's Karma, but in this case the gift is talent for rhetoric, high-energy, resolve, decisiveness, quickness of thought, in short, leadership skills.

In the Theravada society of Burma/Myanmar, the use of power to intimidate is less nuanced than it is in Thailand, Laos and Cambodia.

Vietnam

In Vietnam, the orientation towards power is caught in the word *The*. *The* was by origin Chinese (shih) and referred to the power of circumstance, that which made things happen the way they happen. Vietnamese prefer often to wait upon development to see how they can benefit from the desires and ambitions of others. This is called *cho thoi* or *cho troi* – “waiting for time” or “waiting for heaven” The shrewd Vietnamese takes advantage of the *thoi co*, or the “opportune time”, in order to advance.

Since the government with its police powers, has the most *The* at ready hand, Vietnamese eagerly seek positions of government power and favoritism. *The* also comes with the acquisition of money since money has power over other people.

However, the value orientation of Vietnamese does not necessary prefer people equipped only with *The* to be leaders. They can abuse their *The* just as well as they can serve the common good. Those most qualified for leadership should possess *uy tin*, a quality of self-control and self-denial in the use of *The* that gives rise to trustworthiness.

Malaysia, Indonesia and the Philippines

The Malay cultures as well have a tradition of deference to power. In Indonesia especially, the possession of a special kris knife confers an aura of advantage on its owner. In Malaysia, seeking a title of Tan Sri, Dato or Datuk is an undertaking of no small significance.

Malay culture evinces a preference for finding comfort in a very hierarchical structure having very clearly defined roles.

In Indonesia, status is very important to people. Being “top dog” is very desired. Accordingly, deference is paid to those who have high status. They are not challenged directly or openly. The operational directive is often *asal bapak senang* or “keep the boss happy”.

Overseas Chinese

Most simply put, the flexibility of the overseas Chinese to accommodate themselves to the power structures of the societies in which they live arises from pragmatic considerations. Business opportunity can be secured through official and unofficial “licensing” arrangements with government. And, the Chinese cultural tradition of filial piety, “*hsiao*”, encourages personal submission before elders and officials. Chinese culture in certain aspects (Mohism, Legalism, and the neo-Confucian orthodoxy advocating Imperial Rule) puts a premium on social order out of mistrust of individual proclivities.

Building Relationships

Southeast Asian cultures place emphasis on relationships, on personal ties, as the basis of working together for a common end. Such cultures place less emphasis on achievement of the end or on mastery of function and task. These cultures are more *gemeinschaft* than *geschellschaft*. In such environments, checks and balances and open critiques of others within a group have weak supports in the psycho-dynamics of social actors. Loyalty to others, especially to one’s patron, and silence in public (offset by rampant gossip) are dominant behavior orientations.

Thailand, Laos and Cambodia

The dynamics of patron-client politics produces groups – *khana* in Thai politics – for mutual advancement. One rises along with the group, until one can astutely switch from one group to a more influential one. Building relationships and keeping them warm, being *grenchai* (having a humble heart) at all times, satisfies personal needs for self-improvement.

Philippines

The ability to establish “*pakikisama*” ties defines the successful Filipino man or woman. Accepting god-mother or god-father status, sponsoring someone’s wedding, or just being a jolly good person, convivial and emotive and always there for friends – all these bring about reliability and social prominence.

Vietnam

The Vietnamese attitude towards building relationship is complex in its own way. Vietnamese do not assume the best about each other as a normal rule, even within families, so they are often wary of long-term relationships and shy away from dependency on others. They act as if what

counts in life is your own possession of *The*, not the reliability of others. As a result, Vietnamese focus intensely on other individuals, seeking in the other person's desires, needs, and vulnerabilities opportunities to assert *The* and so to gain advantage.

Malaysia and Indonesia

The ability to be smooth with others is highly desired. Malays in Malaysia are expected to show *budi*, or respect and courtesy. This permits easy group orientation in life and finding one's way with harmony. A capacity for companionship paves the way for success.

In Indonesia, an important ethical imperative is to uphold the network or grouping in which you find your most reliable connections. Decision-making is by consensus and communication is most often indirect and accomplished through intermediaries. These requirements uphold the power of relationships in social action.

Overseas Chinese

Again, a cultural tradition of filial piety socializes people to act from circumspection in the context of a group and to restrain enthusiasm for self-assertion.

The Special Case of Overseas Chinese

The cultural context for many family firms in Southeast Asia, especially the largest and most successful ones, is the Chinese family, the *jia*. Governance of the firm reflects governance of the multi-generational, patrilineal family. Traditionally in China such families worked property in common under the direction of the oldest living male, the patriach. Sons and grandsons lived, not on their own, but in a family compound. Wives were "married in" to serve the needs of the patrilineage. All priority was placed on success of the family as an enterprise. Few, if any, obligations ran to those outside the family.

A second circumstance peculiar to overseas Chinese businesses is the ancient tradition of the guild, or cartel organization for a line of business. In China, businesses in the same line would form associations to regulate – and limit – competition. Markets would be divided up so that monopoly profits could be created and then divided among participants. The arrangement had the further benefit of making each participant a good credit risk, having an assured income stream against which to borrow.

In the Southeast Asian context, the different communities of overseas Chinese – Quangdong, Quangzhou, Ch'iuzhou, Fukien, Hakka, Hokien, Hainanese – each took one sphere of market activity and specialized in that – rice milling, bus and truck transportation, restaurants, banking, dry goods retail, vegetables, etc. There was a paucity of inter-communal business competition. The different communal associations supervised the trades, found opportunities for deserving younger businessmen, provided social services for widows, orphans and the elderly, and resolved disputes.

Overseas Chinese family businesses have become successful under these conditions of managed competition. Fixing the market among a small clique of insiders is not just a way of life, it is the mother's milk of success.

The Close Corporation and Corporate Governance

Improving governance in close corporations like family businesses is always a challenge. The checks and balances of a market for shares is absent. There is no need for directors to supervise management in favor of distant investors since the principal investors are available to run the show themselves. Corporate boards are really only along for the ride.

The great need to impact the dynamics of crony capitalism is disclosure of relationships and terms of engagement between the company and others. From the family's perspective, the need for such disclosure is hard to see.

In the United States, disclosure by managers of public corporations is also resented, but it is accomplished under the threat of litigation for violation of the securities laws. And, for close corporations in the United States, sales of their securities also trigger the securities laws at the hands of private litigants, so there could be serious consequences for failure to disclose material information involving these companies as well.

The Values Approach to Corporate Governance

Short of importing the American scheme of Section 10b(5) disclosure requirements enforced by self-seeking plaintiffs lawyers, what can be done in Southeast Asia?

The CRT proposes a values centered approach.

This is a management-based approach to corporate social responsibility. It begins with a set of values or aspirations, usually derived from religion or culture. The aspirations are then made more specific in a set of principles. The principles then are translated into standards and the standards into goals and objectives.

Employees are rewarded for reaching the goals and objectives.

An example of how a values/management process works is provided by Demming's work on quality – an aspiration – and the improvement in quality reached by many American companies using the Malcolm Baldrige Award assessment report process.

At the CRT we proposed Principles for Business in 1994. These Principles for Business are consistent with the ethical ideals of Islam, Theravada Buddhism, Chinese Confucian moral teachings and Christianity – all the great religious traditions of Southeast Asia.

The, to bring the Principles for Business down to the level of a management process, we are developing under the trade-mark Arcturus a self-assessment and improvement process.

Both our Principles and the Arcturus process can be used by family businesses – given a decision by the family to so manage their company.

Next, the CRT has proposed 12 anti-corruption measures for companies to use.

The Maxims of Tao Zhu-gong

Many traditional overseas Chinese businesses posted for guidance the 12 business principles of Tao Zhu-gong. This may indicate the relevance of a values/management approach in the Chinese cultural context. Tao Zhu-gong, also known as Fan Li, reputedly was the right hand man to the Yueh Emperor in 500 B.C. After a career as political/military advisor, he went into business. The 12 maxims are commonly attributed to him.

Tao Zhu-gong's maxims are: 1] ability to know people; 2] ability to handle people; 3] ability to focus on the business; 4] ability to be organized; 5] ability to be agile and flexible; 6] ability to demand payment; 7] ability to use and deploy people; 8] ability to articulate; 9] ability to excel in purchasing; 10] ability to diagnose and seize opportunities and combat threats; 11] ability to initiate and lead by example; 12] ability to be far-sighted.

These maxims do indeed focus internally on the quality of business decision-making. They do not advocate fraud, manipulation, or rent-seeking through political connections.

For Chinese family businesses, they could be combined with the CRT Principles and then collapsed into the Arcturus self-assessment process.

A Council of Advisors

Boards of directors, or councils of advisors, can be as helpful to family businesses as they can be in publicly traded corporations. A values and management process to insure integrity of the business can be supervised for better results by a board or council of persons with prestige and status.

Here is where the relationship culture of Southeast Asia could be put to work on behalf of greater probity in business. Senior people to whom deference is owed would be asked to serve on supervisory boards to monitor the Arcturus process implemented by management and company employees.

These people would bring their values to the company. Individual leadership builds corporate culture and they would be tasked to cascade their values down the implementation hierarchy.

Two examples of the efficacy of such value orientation can be taken from Thailand. Both Siam Cement and Siam Commercial Bank are considered Thai companies of integrity and survived the financial crisis of 1997-1998 in better shape than did the "crony capitalist" banks, finance companies and relationship-based property and industrial firms. Siam Cement and Siam Commercial Bank came out of the Crown Property Bureau. Directors and managers of Siam Cement and Siam Commercial Bank are most solicitous to maintain the honor and integrity of

their Royal patronage and so they rise above what Justice Cardozo once called "the morals of the marketplace".

Training

Training programs and licensure requirements for participation in family business advisory councils might well be considered. Persons of high status and probity would be trained in the use of Arcturus and provided with knowledge of the relevant values of corporate social responsibility. Selection for licensure would be an honor reserved for persons of quality and known reputation. Participation in the licensure would be equivalent to membership in an elite order, a Knights of the Garter roster for the Southeast Asian business world. Members would have a certificate of course, but perhaps a sash, a medal, a rosette for the lapel, a medallion for the front grill of an automobile, a special passport, etc. would also be appropriate indicia of their status.

Conclusion

Meaningful reform of business practices in Southeast Asia must embrace cultural perspectives. The CRT perspective of principled based business leadership opens the door to such an attempt. Value maxims of Southeast Asian cultures can be taken as the directive for management systems of social responsibility.

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