

CHAPTER 3

ENTREPRENEURIAL NETWORK ORGANISATIONS IN ACTION: A COMPARATIVE STUDY ACROSS REGIONS

This Chapter highlights the outstanding economic performance of several Asian countries. A comparison of entrepreneurial organisations between the Asian and Western countries is also being made in order to strengthen the argument that ENOs practically tend to be the Asian capitalist model of economic organisation and play the crucial roles in promoting economic development of the region.

As an extension to the analytical framework in Chapter 2, the later sections of this Chapter provides detailed evidences of the Asian ENO configuration and characteristics. This effort is made to prove that their existence is mostly a regional phenomenon. It also goes beyond the consideration of economic resources *per se*, because it is evident that social capital embedded in different societies of different regions shapes different forms of entrepreneurial organisations across them.

3.1 Regional Development and Distinctive Capitalism

Japan and its two colonial empires, Korea and Taiwan, were severely devastated by the Second World War (WW II). Japan was ruined by the Allied Forces which had bombed Hiroshima and Nagasaki. Korea added severity with its civil war in the early 1950s which led to the separation of the agricultural region of the South, and the industrial and resource-rich portion of the North (Hamilton and Biggart 1988). Taiwan was populously burdened by Chinese immigrants from Mainland China, as Chiang Kai-

shek and his armies fled there after being defeated by the Communists led by Mao Zedong.

A few decades later, these three economies turned out to be the centrepiece of the rapidly industrialised nations. Heavily driven by export growth, their achievement has even outperformed some other developed countries. The post-war economic growth of Japan and the four Newly Industrialised Economies (NIEs), namely Taiwan, Hong Kong, the South Korea and Singapore, have consistently outstripped the annual average growth rates of per capita Gross Domestic Product (GDP) of the Organisation for Economic Cooperation and Development (OECD) during the same period (Clegg, Higgins and Spybey 1990).

These five Asian economies grew at an annual rate of about 10 per cent over the entire period of the 1950s and 1960s (Chen and Hamilton 1991); 8.8 per cent between 1965-1980, higher than the U.S. which grew at 2.9 per cent (Biggart and Hamilton 1992). The NIEs have also performed well in other two important indicators of development; income distribution and quality of life (Lim 1994).

Joining the list in the 1980s and 1990s were Malaysia, Thailand, Indonesia, Philippines, China and Vietnam. All the East and Southeast Asian countries had sustained growth at even better growth rates than that of the European and American economies during the recessionary period in the 1980s. During 1980-1985, the growth rates were 3.8 per cent for Japan and 6.6 per cent for other NIEs; whereas, the growth rate of all industrial markets during the same period was only at 2.5 per cent (Biggart and Hamilton 1992).

Extraordinarily, the economic achievement of the non-resource-rich Asian nations has attracted many parties to explain the so-called “economic miracles” in some distinctive approaches. The most influential one is based on the three constructs: development theory, market imperfection theory and culture theory (Biggart and Hamilton 1992).

Development theory deals with factors that promote or impede growth of an economy in its efforts to achieving an advanced country. One country may follow a growth path (stages growth) model of capitalist countries, namely the United States of America and industrialised Europe, or may skip the path through imitation and adaptation. The success story of Japan and South Korea is perceived as their ability to imitate technology and organisation which were formulated by the West; and thus, contribute to their rapid economic performance. Other arguments have been much associated with the conventional economic analyses that emphasise the benefits reaped from the comparative advantages available to the region working through the international market mechanism (Koo 1987).

The market imperfection theory rests on the argument of the economic organisation which deviates from the optimal level of economic activities. Linking to the firm as an organisation, an optimal firm size according to the perfectly competitive market of the neoclassical theory is achieved when the output is produced at the lowest average cost. The market is determined by the autonomous actions of individual consumers and producers. On the contrary, when the market is much influenced by one actor or a few actors, probably due to imperfect information, the market is no longer perfect. Looking at the East, the perfect market theory is not much applicable. Distinct

from the West, economic actors of the East do not act independently and autonomously, but they instead act cooperatively and collectively, leading to the emergence of monopolistic and oligopolistic power in economic organisations and actions.

The culture theory is established on the basis of the influence of cultural variants, i.e. the beliefs, values and symbols, of a society on economic actions and institutions of the society. Economic organisations of different societies may produce equal results, i.e. the economic prosperity, but they may be coordinated and controlled differently in line with the cultural values endowed in each society. Redding (1991) argues that the Westerner's large bureaucracy is no longer the standard to follow, as it is no longer exclusively the most effective economic tool for world business. In other words individual-based success in economic organisations of the West is inappropriate to explain the miraculous economic success of the East due to different factors existing in these two societies.

Despite having difficulty for generalisation of measurement, cultural differences are seen as influential in forming different economic practices and organisations. As stressed by Biggart and Hamilton (1992: 477), cultural values of "communitarianism" in the East and "individualism" in the West in decision making have much influenced the performance of entrepreneurial organisations of the two regions. Hicks and Redding (as quoted in Bond and Hofstede 1990) accentuate, though Asian economic miracles which have been always associated with the Five Dragons (Japan, Taiwan, Hong Kong, Singapore and South Korea) that attracted a lot of economic analysts, the literature was less able to identify the economic mechanism that works.

When the economic mechanism fails to explain the successful story of the economic regions satisfactorily, the power of explanation may lie in the common cultural heritage of Confucianism (Kahn 1979, Redding 1988). Whatever the reasons, the key values associated to the recent economic growth of the Asian region must be orchestrated within a complex latticework of varying economic, legal, political and demographic factors (Bond and Hofstede 1990) as well as the societal context (Redding and Whitley 1990).

Of numerous past studies to explain the rapid growth of the East Asian economies, the following expression of Hamilton and Biggart (1988) may be representative and more relevant with the real world. Based on the three frameworks, i.e. a market approach, a cultural approach and a political economy or an authority approach, Hamilton and Biggart (1988: S53) state:

“ in explaining the industrial arrangements and strategies of three rapidly developing countries of the Pacific region - South Korea, Taiwan and Japan. We argue that, while market and culture explanations make important contributions to understanding, neither is alone sufficient. A market explanation correctly draws our attention to state industrial policies and entrepreneurial responses. But a market explanation cannot account for the distinctive and substantially different organizational arrangements that have appeared in the three countries. A cultural explanation, however, enables us to see correctly, organizational practices in Japan, South Korea and Taiwan as generalized expressions of beliefs in the relative importance of such social factors as belongingness, loyalty and submission to hierarchical authority. But looking at culture alone obscures the fact that business organizations, no matter how well they accord with cultural beliefs, are fundamental responses to market opportunities and conditions. Enterprise may be culturally informed, but it remains enterprise. Moreover, cultural variables are insufficiently distinguishable in the region to have clear explanatory force.”

Hamilton and Biggart (1988: S53) also argue that “the political economy approach with a Weberian emphasis produces the best

explanation of the three. This approach incorporates elements of the market and culture explanations but does so from the point of view of the historically developed authority relations that exist among individuals and institutions in each society” (p. S53).

Summing up all the theoretical approaches of numerous recent studies, there is a tendency towards a common recognition that the extraordinary economic development of the Asian nations is largely owed to their special institutional-technological constructs embedded in the cultural-rich society. Following Granovetter (1994), the Asian model of capitalism based on collective actions of firms is more efficient than the traditional model of individualistic actions of firms of Western market capitalism (or managerial capitalism in the modern version).

The source of new competition is central to entrepreneurial firms organised from top to bottom to pursue continuous improvement in the methods, products and processes. It redefines entrepreneurial activities from a traditional individualistic approach to a collective concept (Best 1990). Long belief in the traditional capitalism that would bring about modernity has been disturbed; the Asian capitalism is assumed in a new model of modernity and efficiency (Granovetter 1994).

The perception of many scholars about the best model of capitalism to follow changes, too.¹ Various terms of similar-type (non-individualistic) capitalism to refer to the Asian organisational-technological constructs are mushrooming. This region is dubbed, amongst others, as “Asian capitalism” (Biggart and Hamilton 1992), “organized capitalism” (Dore 1986) and “alliance capitalism” (Gerlach 1987). Some other researchers use more specific terms for specific cases, such as “family capitalism” for overseas Chinese (Redding 1991), “guided family capitalism” for Korea

(Kim 1976) and “enterprise group capitalism” for Japan (Yoshino, as quoted in Tam 1990). All these capitalist models furnish diverse choices for entrepreneurial actors to adopt in their economic actions.

3.2 Entrepreneurial Organisations in Contrasting Cultures

Some economists see that capital or labour turns out to be secondary in the enlargement of national income. The ability of entrepreneurial organisations to adjust to their environments is, in turn, the primary factor (Cole 1968). Based on his comparative study of 75 business enterprises over 10 diverse countries, namely England, France, Germany, Italy, Belgium, Holland, Egypt, Saudi Arabia, Peru and the United States, Harbison (1956) made a tentative proposition that entrepreneurial organisation contributes to economic development on the premise that large expenditures for equipment, machinery and processes are likely to be meaningless without a corresponding investment in organisation. Only through organisations can such modern technologies be carried out more efficiently and effectively by a team of trainable and specialised managerial resources as well as labour resources.

Moreover, in the case of constant technology, despite some other factors (education, condition, health, nutrition, general experience and attitudes toward work) influencing the productivity of labour; organisation may also add its contribution by providing pecuniary and non-pecuniary incentives, molding attitudes toward work and improving working skills through various levels of training, providing medical services and sufficient nutrition for employees; and, to an extent, providing facilities for general education to members of its labour force. But using the analogy of the internal

combustion motor, Cole (1968) clearly poses that business organisations, like a human resource, which featured less frictions - less fulfilling of noneconomic goals, less imperfect knowledge and less difficulties in communication - are only likely to be efficient; otherwise they may be surprisingly inefficient.

Entrepreneurial organisations of different countries and regions, however, take different configurations and functions. The most common entrepreneurial organisations found in the West are a mix of business or industrial groups. They are distinguished, either based on administrative efficiency, or contractual arrangements. While the first is basically identified by the existence of a central or corporate administrative office consisting of senior managers assisted by other managerial specialists which has administrative authority over the operating units within the group, the second is identified by the collaboration of group members merely enforced by law.² The functions of the administrative authority are to monitor and coordinate continuously the performance of the group's operating divisions and to plan and allocate resources for future production and distribution for the sake of the whole group.

Chandler (1982) observes that the development patterns of the United States, Britain, France and Germany in searching for market dominance after the WW II witnessing their large corporate mode of governance shifted from horizontal combination (contractual cooperation) to vertical integration (administrative authority). In other words, the later developmental challenges and opportunities have impelled the economic organisations of these countries to shift from inter-firm market networks to intra-firm organisational hierarchies.

Closer investigation into the structural forms of entrepreneurial organisations of Western countries will, again, exhibit some differences. In the United States, there are two outstanding forms of entrepreneurial organisations. One is what Chandler (1982) calls the M-form and the other is conglomerates. It is observed that the rapid adoption of the M-form in the U.S. is associated with the diversification strategy of the existing integrated large organisations (U-form) into related products.

The diversification process may occur through new investments (the creation of new production divisions) and through acquisitions and mergers of the existing firms which later can be convertible to new divisions. Rapid expansion in the managerial hierarchies resulted in the decrease of the merely favourite network relations in the U.S. big corporations - the interlocking directorates - as reported in Mizruchi (1982). This trend indicates the growing independence of the corporations from one another. Another inter-organisational network feasible in both Canada and the United States are in research and other intangibles as well as in mutually useable large-scale facilities (Caves 1987).

The U.S. conglomerates emerge to cater for the diversification strategy into unrelated products. These conglomerates are different from the ones that exist in the Republic of Korea or in Japan. The U.S. conglomerates resemble the Chandler's and Williamson's hierarchies because they seem structured into a multidivisional corporation (Williamson 1975, Chandler 1977, Hamilton and Biggart 1988). Economic activities of the U.S. conglomerates are carried out by integrated divisions rather than affiliated and independent firms as in the latter countries. Following Granovetter (1994), even though subsidiary firms in diverse industrial activities of the two regional

conglomerates (business groups) are both owned by parent companies; most of the American conglomerates are not suited to the characteristics of Asian business groups. This is because American conglomerates hardly allow personal and operational ties among their sister subsidiaries; whereas in Asian business groups (such as *Chaebol*), network ties among personnel and affiliated companies are considered as a normal practice. Affiliated firms in the Asian business groups are kept with some separate identity.

Corporate groups are also a common phenomenon in Europe, Canada, Japan, Korea and Taiwan. A number of industrial companies with legally autonomous entities act under common control, slightly resembling the U.S. conglomerates. Each of the national entrepreneurial organisations consists of a parent or head company as a controlling agency and its controlled companies (separate legal entities) as subsidiaries or affiliates (Pineau and Jacquemin 1982). Again, careful examination of those entrepreneurial organisations exhibits some differences.

The British and French entrepreneurial organisations are much closer to the U.S. conglomerates rather than to the M-form due to the long tradition of pre-war family firms. The group integrated firms are more autonomous (Chandler 1982), but they are still under the coordination of a smaller general office with fewer experienced executives. The United Kingdom (U.K.) emulated the U.S. M-form prior to the World War II and remained significant until recently. According to Hannah (1980), industrial concentration in Great Britain is higher than the U.S. and other European countries: the share of the top 100 largest British firms in manufacturing value added was 43 per cent in the early 1970s, as compared with 33 per cent in the U.S.

Most large French groups are owned by families in which their members often control the administrative board of the parent company (Encaoua and Jacquemin 1982). The parent company, while permitting its subsidiaries to have some autonomy in managerial decisions, has the right to carry out strategic planning, coordinate, allocate resources and monitor the performance of each subsidiary. Given such a limited function of affiliated firms, Levy-Leboyer (1980) and Caves (1987) consider such a structure as hierarchical M-form as evident in other major industrial countries.

The number of such entrepreneurial organisations has reportedly increased over the years. They represent well over 50 per cent of the French organisations;³ involved in diverse related and unrelated industrial activities (Levy-Leboyer 1980), particularly in intermediate and capital-good industries (Caves 1987); and have large shares in manufacturing value added, work force, net domestic capital formation and exports (Levy-Leboyer 1980).

The German industrial groups have closer characteristics to the the U.S. M-form, because their general offices impose tighter control over the group's operating firms. The process of diversification and vertical integration of German entrepreneurial organisations has taken effect since the nineteenth century and accelerated in the twentieth century, particularly in capital intensive, technologically-advanced industries - iron, steel, other metals, machinery, instruments and transport equipment (Kocka 1980). Banks as capital provider have significant influence on establishing networks between enterprises (Chandler 1982). By owning 36 per cent of total equity shares of the top 100 industrial companies, it enables German banks to consolidate their control substantially in the entrepreneurial organisations (Caves 1987).

By and large, the Western entrepreneurial organisations tend to integrate internally their sub-actors into sub-divisions under one roof centralised in a large head office. Only since the last few decades,⁴ it has been observed that the ENO conceptual framework was adopted by industrial firms in some regions of European countries and the United States. Perrow (1992), for example, observes the emergence of European small firm networks (SFN) in various industries: food and light to medium durable goods industries - clothing, light machinery, metal working, electronics, ceramics, furniture, auto components, motorcycles, small engines, machine tools, robots, textile and packaging machinery, mining equipment, industrial filters and agricultural machinery.

Prato and Modena in Northern Italy are the two classic examples of industrial districts which have such networks. Few cases are observed in Germany, Denmark, Sweden and France and the Silicon Valley of the United States, but no evidence of the SFNs in Britain and Ireland (Perrow 1992). The literature on specific cases of such ENO can also be found in among others as follows: Silicon Valley (Saxenian 1994), the Third Italy (Lazerson 1988, Best 1990, Courault and Romani 1994), France (Ganne 1994, Saglio 1994).

The emergence of these industrial districts is much to pursue economic requirements, rather than to meet social obligations. According to Lorenz (1994), such network organisations are established due to the existence of a high level of trust among entrepreneurial actors within the community; but the commonly held beliefs in the same community is a relatively narrow presence. The beliefs available to the

community are heavily contingent upon rational economic pursuits, especially entrepreneurial skills and technical knowledge shareable among the entrepreneurial organisations.

The presence of network organisations in economic development is increasingly significant (Redding and Whitley 1990), more pervasive and a widespread phenomenon (Chen and Hamilton 1991, Granovetter 1994) in the Eastern region of the world than the Western region. It is "an institutional feature of Asian capitalism" and even "precedes the modern era" (Biggart and Hamilton 1992: 486). Hence, the rest of this Chapter is devoted to the case of the Eastern region, namely the more advanced East Asian countries. The focal points of the next sections are on the contribution, configuration and characteristics of the ENOs as well as the influential forces shaping them. These points thus expound the rationale for their significant contribution and pervasive existence in the region.

3.3 Entrepreneurial Network Organisations and Asian Economic Development

Industrial or business groups and independent firms differ from one country to another in number, size and authority. Different levels of the three indicators (number, size and authority) would reflect the tendency of an economy, whether it organises its activities collectively or individually. They would also influence the patterns of economic development of a country: either less or more concentrated economy.

The average number of firms per business group in Japan is 62.6 (based on 1982 figures), 11.04 in Korea (1983) and 7.76 in Taiwan (1983). Japanese business groups

employed 2.8 million workers, Korean *Chaebol* hired 0.8 million workers and Taiwanese business groups had 0.3 million workers during the same period. Their percentage shares in total workforce was 9.5 per cent, 5.5 per cent and 4.7 per cent respectively. By aggregation, the total number of employment by each firm of all groups is considerably large. The average proportion of workers per firm varied from 2,838 in Japan, 1,440 in Korea and 444 in Taiwan (Hamilton, Zeile and Kim 1990).

Therefore, in terms of size, Japanese business groups were the largest - followed by South Korea and Taiwan. Korea experiences increasing number and dominance of its business groups over the years. There were only 26 *Chaebol* controlling 456 firms in 1980-81, but they increased to 50 with 552 firms in 1985 (Hamilton and Biggart 1988). Their dominance in the economy is significant and increasing over time: the top five *Chaebol* controlled 8.8 per cent of Gross National Product (GNP) in 1972; the top 50 *Chaebol* accounted for about 80 per cent of the GNP in 1984. In 1985, the top four *Chaebol* alone contributed to 45 per cent of the GNP.

Until the recent crisis period in 1997, *Chaebol* was still the backbone of Korea's economy: the top 30 *Chaebol* accounted for 40 per cent of total domestic assets, 45 per cent of domestic revenues and 13 per cent of the aggregate value added; and employed 900,000 workers (Business Korea, December 1999). Despite the severe impact of the recent Asian crisis on *Chaebol* financial positions⁵ and the cry for *Chaebol* reform since then, the presently weak foundation of small and medium local firms (Business Korea, December 1999) would enable the *Chaebol* to continuously dominate the economy in the future. The Big Four - Hyundai, Samsung, LG and SK - have consolidated their

position by experiencing an increase in their asset values from 47.8 per cent in 1996 to 57.6 per cent in 1999 and their sales revenues from 57.3 per cent to 68.2 per cent in the same period (Business Korea, May 2000). These figures were calculated based on percentage share of assets and sales revenues of the top 30 Korean Chaebol.

Table 3.1, Table 3.2, Table 3.3 and Table 3.4 clearly display the large concentration of industrial and financial activities in the hands of a few large ENOs of the economies. Among the three East Asian economies, Japan and Korea are the most concentrated economies. Their business groups' shares in GDP (Table 3.1) and almost all economic sectors (Table 3.2), including manufacturing sector (Table 3.1 to Table 3.4) are substantial.

Due to the different sources of data, Table 3.2 shows the incomparable contribution of business groups across the economies, but it does within a particular economy. The data show the degree of concentration of business groups' activities in various economic sectors. All the three economies are characterised by the significant concentration of manufacturing activities in the hands of large business groups. In other sectors, only Japan and South Korea display the significant presence of the business groups.

Table 3.4 reveals that business groups have a significant contribution to total manufacturing sales across countries and sectors within an economy. Japan and Korea are more concentrated economies compared to Taiwan. Based on the figures in Table 3.4, Japanese and Korean business groups' shares in total sales of manufactured products were higher than that of the Taiwanese in almost all manufacturing sectors.

Table 3.1
Business Group Concentration Ratio (Percentages)

Indicators	Japan (1982)		Korea (1983)		Taiwan (1983)	
	6 intermarket groups	16 major groups	Top 20 groups	Top 50 groups	Top 20 groups	Top 96 groups
Proportion of total paid-up capital (non-financial enterprises)	18.4	25.9	-	-	-	-
Ratio: Total non-financial sales to GDP	61.7*	81.2*	73.6*	84.3	17.6	27.3
Value-added to GDP	-	-	-	19.1	-	-
Manufacturing sales ratio	20.3	33.2	36.0	45.4	14.1	19.0
Manufacturing employment ratio	12.6	20.4	15.3	22.9	8.3	13.0

Note: * Ratio of total sales (including finance and insurance) to GDP.
Source: Hamilton, Zeile and Kim 1990; Table 3, p.114 (adapted).

Table 3.2
Business Group Shares by Economic Sectors (Percentages)

Sector	Japan (1)	Korea (2)	Taiwan (3)
Mining	17.6	4.1	0.0
Manufacturing	33.2	28.3	19.0
Construction	14.7	31.9	5.6
Transport and Storage	22.1	19.7	1.8
Banking and Financial Services	84.6	-	5.8
Trading and Commerce	24.2	17.0	4.1

Notes: (1) Sales share of 16 major groups, fiscal year 1982. The share of Banking and Financial services is based on total loans.

(2) 1986 value added share of top 50 *Chaebol*

(3) 1983 sales share of 96 largest groups.

Source: Hamilton, Zeile and Kim 1990; Table 4, p.115 (adapted).

Table 3.3
Aggregate Concentration Ratios for Top 100 Non-financial Enterprises
(NFE) and Manufacturing Enterprises (Percentages)

Indicators	Japan (1980)	South Korea (1980)	Taiwan (1981)	United States (1976)
Share of assets (NFE)	24.1	-	-	30.6
Share of assets (manufacturing)	33.8	-	21.2	45.5
Share of sales (manufacturing)	27.3	46.3	19.7	34.0
Share of employment (manufacturing)	-	19.4	8.9	24.0
Number of group member firms among top 100 enterprises	65	53	40	-

Note: See the source for the details of the clarification for some figures.

Source: Hamilton, Zeile and Kim 1990; Table 2, p.113 (adapted).

Table 3.4
Group Shares in Sales by Manufacturing Sector (Percentages)

Manufacturing Sub-Sectors	Japan (1)	Korea (2)	Taiwan (3)
Food Products	18.2	33.7	26.3
Beverage and Tobacco	-	27.6	3.8
Textiles	28.2	38.4	50.7
Garments and Apparel	-	12.6	12.0
Leather Products	-	15.2	9.1
Lumber and Wood Products	-	31.5	4.0
Pulp and Paper Products; Printing and Publishing	17.7	6.5	20.1
Chemical Materials	40.0	54.3	42.4
Chemical Products	-	24.0	8.4
Petroleum and Coal Products	40.2	91.9	0.0
Rubber Products	37.5	76.8	13.0
Plastic Products	n.a.	0.1	5.4
Non-Metallic Mineral Products	29.0	44.6	47.6
Basic Metal	58.1	28.0	7.8
Metal Products	4.0	26.7	6.0
Machinery	19.5	34.9	3.6
Electrical and Electronic Products	55.4	50.9	22.7
Transportation Equipment	80.7	79.0	23.6
Precision Machinery	12.3	14.0	0.0
Miscellaneous Industrial Products	3.0	5.2	10.7

Notes: (1) Sales share of 16 major enterprise groups, fiscal year 1982.

(2) 1983 sales share of top 50 *Chaebol*

(3) 1983 sales share of 96 largest groups.

Source: Hamilton, Zeile and Kim 1990; Table 5, p.116 (adapted).

High concentration was obvious in the manufacturing of end products which required various parts and components, namely electrical and electronics, and transport equipment industries.

A less concentrated contribution of business groups in Taiwan is due to the fact that this economy is characterised by the remarkable presence of small and medium firms. Small and medium family firms alone contributed to 60 per cent of the Taiwanese employment, 46 per cent to the GNP and 65 per cent to the total exports (Hamilton and Biggart 1988).

Hong Kong has a similar pattern of economic concentration. Based on market capitalisation and business group centrality, Wong (1991) found that the nine tight business groups' percentage shares in market capitalisation were each ranging from about 0.2 to 15.6 per cent in 1986, while the number of companies connected to each group was up to 38 affiliated companies. In Singapore, economic concentration is also apparent in the hands of a few ENOs. But because Singapore is a open economy, most of its ENOs are owned by multinational corporations (MNC's) which established networks confined to their internal and external subsidiary firms (Tan Hock 1991). Local Chinese ENOs have no alternative, but to establish networks among their ethnic group.

3.4 The Asian ENO Configuration and Characteristics

There are some similarities and differences among ENOs of the East Asian nations. All the East Asian countries are characterised by the remarkable existence of ENOs in the form of business groups. Configuration of the groups across countries, however, differs from one to another. Table 3.5 and Table 3.6 demonstrate briefly the

Table 3.5
Structure and Characteristics of ENOs Across Nations:
Some Dimensions of Comparison

Dimensions	Keiretsu	Kaisha
Ownership	Member firms' joint or mutual ownership	Mutual ownership with large firms owning a significant portion of shares
Coordination and Control	Less-centrally coordinated; Horizontal networks	Relatively autonomous but vertically coordinated; vertical networks
Market Power/Economic Concentration	Greater Control	Greater Control
Sources of Finance	Group's loans (city bank/central bank), trading companies and open market	City banks, independent banks, self-financing shareholders, long-term credit bank, foreign-affiliated financial institutions
Decision making	Collective	Collective
Strategic Making	Self governing but open to government guidance, support and protection	Self governing but open to government guidance, support and protection
Organizational Scale	Large conglomerates of all large member firms	A large firm group with smaller affiliated firms
Organisational Atmosphere	Cross-shareholding	Mutual shareholding with greater shares in large core firm
Operational Focus	In diverse business sectors; general trading	Specialised in manufacturing activities
Networking to Environments	Horizontal interfirms of intragroup networks; some inter-firms of intergroup networks	Vertically extensive networks of large firms and their sub-contractors
Resources in Exchange/Transaction	Finance, goods and services, information, directorships, shares	Technology, information, components and parts
Networking Methods	Horizontal; interlocking directorates	Vertical; sub-contracting
Others	Highly sensitive to competitiveness	High level of workers commitment via long working hours, low absentee and dispute rates, high division of labour, intensive workforce training

Table 3.5 (continued)

Dimensions	Chaebol	Taiwan Business Group	Chinese Family Business (1)
Ownership	A single individual, family/a set of families holding companies	Single family-based	Individual/family
Coordination and Control	Kin-based centrally-vertical coordinated and controlled	A single family less vertical or kin-based coordination and control	Kin-based coordination and control
Market Power/Economic Concentration	Monopolistic and oligopolistic central to GTCs	Relative absence of oligarchic concentration	Relative absence of oligarchic concentration
Sources of Finance	State-sponsored loans, state banks, state-controlled trading companies, own groups-insurance and other non-commer. fin. Institutions	Own savings, relatives, friends, partners, group firms	Own savings, relatives, friends, partners, group firms
Decision Making	Dominated by founding families	Dominated by a family head/ founder; Centralised in one dominant executive	Dominated by a family head/ founder; Centralised in one dominant executive
Strategic Making	Dominated by government-appointed chairman	Dominated by a family head/ founder, but may be influen. by state policies	Dominated by a family head/ founder, but may be influen. by state policies
Organizational Scale	Large conglomerates	Modest in size; Small and simple	Modest in size; Small and simple
Organisational Atmosphere	Paternalistic but with strong discipline	Paternalistic	Paternalistic
Operational Focus	Diverse businesses, but on regional basis	Diverse unrelated business activities	One product/market (2), Diverse unrelated business activities (3)
Networking to Environments	Interfirm or intragroup networks; rarely joint manufact. with foreign firms for export market	Interfirms of intra groups and interfirms of intergroups	Interfirms of intra groups and interfirms of intergroups
Resources in Exchange/ Transaction	Capital, technology, information, personnel, parts and components	Capital, shares, logos, directors, parts and components, expertise	Capital, shares, logos, directors, parts and components, expertise
Networking Methods	Sub-contracting	Informal, verbal contracts, interlocking directorates	Informal, verbal contracts, interlocking directorates
Others	Extensive welfare provision but no permanent employment, long working hours, low wages	Untraceable	Cost and financially sensitive, highly adaptable, less focus on brands

Note: (1) Applicable to Taiwan, Hong Kong and Singapore's small and medium as well as large entrepreneurial organisations and ENOs as available in Redding and Whitley 1990.

(2) Applicable to Hong Kong according to Wong 1991, Redding and Whitley 1990.

(3) Applicable to Taiwan and Singapore, as among others, in Hamilton, Zeile, and Kim 1990 and Kiong 1991 respectively.

Source: Tabulated and adapted from the texts of Kiyonari and Nakamura 1980, Hamilton & Biggart 1988, Redding and Whitley 1990, Hamilton, Zeile and Kim 1990, Goto 1982, Kim 1991, Lincoln, Gerlach and Takahashi 1992, Numazaki 1991, Kiong 1991, Wong 1991; adapted from Tam 1990, Table 2, p. 180

Table 3.6
Organisational Structures Across Regions by Low to High Ranks

Organisational Variants	Japanese Business Groups	Korean <i>Chaebol</i>	Chinese Family Business*	U.S. Diversified Corporation
Coordination				
Horizontal Coordination	High	Low	Medium	Low
Vertical Coordination	High	High	Low	Low
Authority and Labour Position				
Personal Authority	Low	High	High	Low
Loyalty to Organisation	High	Medium	Medium	Low
Role Individuation	Low	Low	Low	High
Specialisation and Development				
Business Specialisation	High	Low	High	Low
Relational Contracting	High	Low	Medium	Low
Evolutionary Strategies	High	Medium	Medium	Low

Note: It applies to Taiwan, Hong Kong and Singapore.

Source: Rearranged and adapted from Redding (1991), Table 1, p. 33.

structural patterns and characteristics of Japanese *Keiretsu* and *Kaisha*, Korean *Chaebol*, Taiwanese business groups and Chinese family business.

Japan has a special form of ENO that has become a central focus to many studies since the last few decades. Although there are quite distinctive forms of business groups and referred to by different names by different authors, they share comparable characteristics and patterns. Following Kazuji Nagasu (quoted in Kiyonari and Nakura 1980), there are two main groups of Japanese industry; one is a key industrial sector controlled by a few large oligopolies with advanced technology and the other is a secondary processing sector taking a role as small and tiny enterprises with underdeveloped technology.

Nonetheless, recent development proves that small high-tech businesses in Japan are no longer lagging behind in technological races, particularly in micro-electronics, computers and peripheral equipment, software, industrial robots, precision machinery, office and medical equipment, and new materials industries and biotechnology (Turpin 1988). Yet, such a dichotomy is still, more often than not, maintaining their distinctive roles; the first is the core industrial sector, the buyer, the contractor, or the assembler; whilst the later is the periphery, the supplier, the sub-contractor, or the sub-assembler.

Yoshino (as quoted in Tam 1990) identifies two distinctive types of business groupings. Type one is the corporate groups of large independent firms which can be generally classified further into two other forms; 1) corporate groupings based on former *Zaibatsu*⁶ ties (including Mitsubishi, Mitsui and Sumitomo); and 2) corporate groupings formed around major city banks (including Fuji or Fuyo, Mitsubishi, Sumitomo, Mitsui, Sanwa and Daiichi-Kangin).

The big six companies - Mitsui, Mitsubishi, Sumitomo, Fuji (Fuyo), Sanwa and Daiichi-Kangin – are often referred to as the six major groups (Goto 1982), the six intermarket groups (Hamilton, Zeile and Kim 1990), or the big six groups (Lincoln, Gerlach and Takahashi 1992). Each of the intermarket groups according to Lincoln, Gerlach and Takahashi is participated by a number of firms on social grounds; the major participating firms in each group are normally equal and dubbed “president’s club firms” because their top managers meet regularly to decide the focus and direction of the group as a whole.

Type two are loose, but vertically coordinated small and medium industries around a single giant firm. Hitachi, Matsushita, Toyota, Toyo Rayon, Yamata Iron and Steel are among the large corporations that have a network of intricately related auxiliaries, subsidiaries, affiliated firms and/or sub-contractors. It was found that about 60 per cent of the Japanese small manufacturing firms belong to groups associated with large corporations (Tam 1990).

Hamilton and Biggart (1988) also observe two interrelated networks of the Japanese firms on the basis of two enterprise groups. The first type is the enterprise group that comprises networks among large firms which are loosely, horizontally connected among a range of large affiliated firms by central banks or general trading companies (*Sogo Shosha*), which is known as intermarket groups (*Kigyo Shudan*) and involved in a wide variety of unrelated industrial and business sectors. Overlapping networks may occur when the network of firms are linked by general trading companies which also have their own banks to support financial needs of their affiliated firms.

The second type is the enterprise group consisting of a vertical network between a large core manufacturing firm (*Kaisha*) and its small and medium size subsidiary firms, linkages that perform a dual structure in the economy of Japan. Many major firms of whether associated or unassociated with *Keiretsu* are directly linked to a range of smaller independent firms to perform specific functions of manufacturing production.

Hamilton, Zeile and Kim (1990) distinguish business groups into two simpler forms; they are intermarket groups (*Kigyo Shudan*) and *Keiretsu*. According to them, all major firms (also known as president's club firms) in the six business groups specialising in manufacturing and another set of large independent firms are responsible for forming the second type of business groups (called *Keiretsu*) with their subsidiary firms in dealing with manufacturing production. The ten independent business groups are Tokai Bank, IBI, Nippon Steel, Hitachi, Nissan, Toyota, Matsushita, Toshiba-III, Tokyu and Seibu (Hamilton, Zeile and Kim 1990). Each independent business group has, in turn, had a group of its own affiliated firms with which it has a substantial portion of shares (Oru 1991).

Simpler forms of business groups are also suggested by Miyazaki (1980a) and Lincoln, Gerlach and Takahashi (1992). Instead of referring to different names, they group two structural patterns of business networks (the large horizontally organized big six intermarket groups located on the top of the Japanese economy and the smaller independent vertically organised manufacturing and distribution groups) into one type only - the *Keiretsu*. What defines the term *Keiretsu* is the network of cross-shareholdings superimposed on financial and commercial transactions (Futatsugi 1982).

The structure indicates a closely tied complex of industrial and financial corporations (Miyazaki 1980a).

Viewing the evolutionary development from *Zaibatsu* to *Keiretsu*, Miyazaki (1980a) finds two characteristics. First, the network links of the pre-war *Zaibatsu* were centred around the commercial sectors with which they were involved; whilst the post-war *Keiretsu* are centred around the heavy and chemical industrial sectors. Second, the pre-war *Zaibatsu* took the form of the family holding company which topped the vertically linked groups, whilst the post-war *Keiretsu* take the form of holding companies which link horizontally among their group firms. Newly formed business groups unassociated with pre-war *Zaibatsu* are also considered as *Keiretsu*.

The more detailed breakdown of Japanese business groups are offered only by Redding and Whitley (1990); they distinguish the groups into the dissolved *Zaibatsu*, *Sogo Shosha*,⁷ *Keiretsu* and *Kaisha*. According to them, the term *Keiretsu* itself means business group which refers to the modern version of the dissolved *Zaibatsu* and is less centrally-coordinated than the former. Its concept seems to overlap with *Sogo Shosha*, but it allows for the inclusion of many other bank-centred groups whose main role is other than trading (Redding and Whitley 1990). Hence, this resembles the meaningful terms suggested by Futatsugi (1982). In similar connection, *Kaisha* refers to core manufacturing companies and their associated sub-contractors,⁸ or a new type of industrial groups that centres around large non-*Zaibatsu* firms and develops in heavy and chemical industries (Kiyonari and Nakamura 1980).

Actually, *Keiretsu* and *Kaisha* are not mutually exclusive because there are certain cases in which *Keiretsu* establish their own *Kaisha* that bind themselves together

with their subsidiaries to intensify their involvement in the manufacturing sector. When the *Kaisha* become large enough they would resemble *Keiretsu*. As argued by Lincoln, Gerlach and Takahashi (1992), the existing powerful *Kaisha* like Sony, Honda, or Kyocera independents are often subordinate to and dependent upon the big-six affiliated *Keiretsu* member firms. The final assembly firms that organise *Kaisha* are often big-six member firms and their satellite suppliers (sub-contractors) are independent. They extend control from the core manufacturing firms to the periphery of Japanese economy.

Figure 3.1 depicts the dense network relationship between the horizontal *Keiretsu* and the vertical *Keiretsu* (*Kaisha* in my context), the special case to ever exist in the world. As shown the Figure and as also found in numerous literature, one obvious feature of the Japanese business groups is the dense intra-group networks, namely the cross-shareholdings in the *Keiretsu* and mutual shareholdings in the *Kaisha*. There are also inter-group networks among the big six companies, particularly in pursuing large national projects and crucial R & D. The inter-group networks may be in the form of cross-stockholding and cross-financing, but they are kept at a low level (Oru 1991). For an extension to and example of the dense of the intragroup networks, Table 3.7 and Table 3.8 show examples of the dense and intricate inter-firm-intra-group networks.

As displayed in Table 3.7, the Sumitomo group (one of the big six market groups) has a cross-stockholding over its affiliated firms. Such a phenomenon is common in large business groups of Japan, indicating a horizontal network among

Figure 3.1
Network Model of Horizontal and Vertical *Keiretsu*

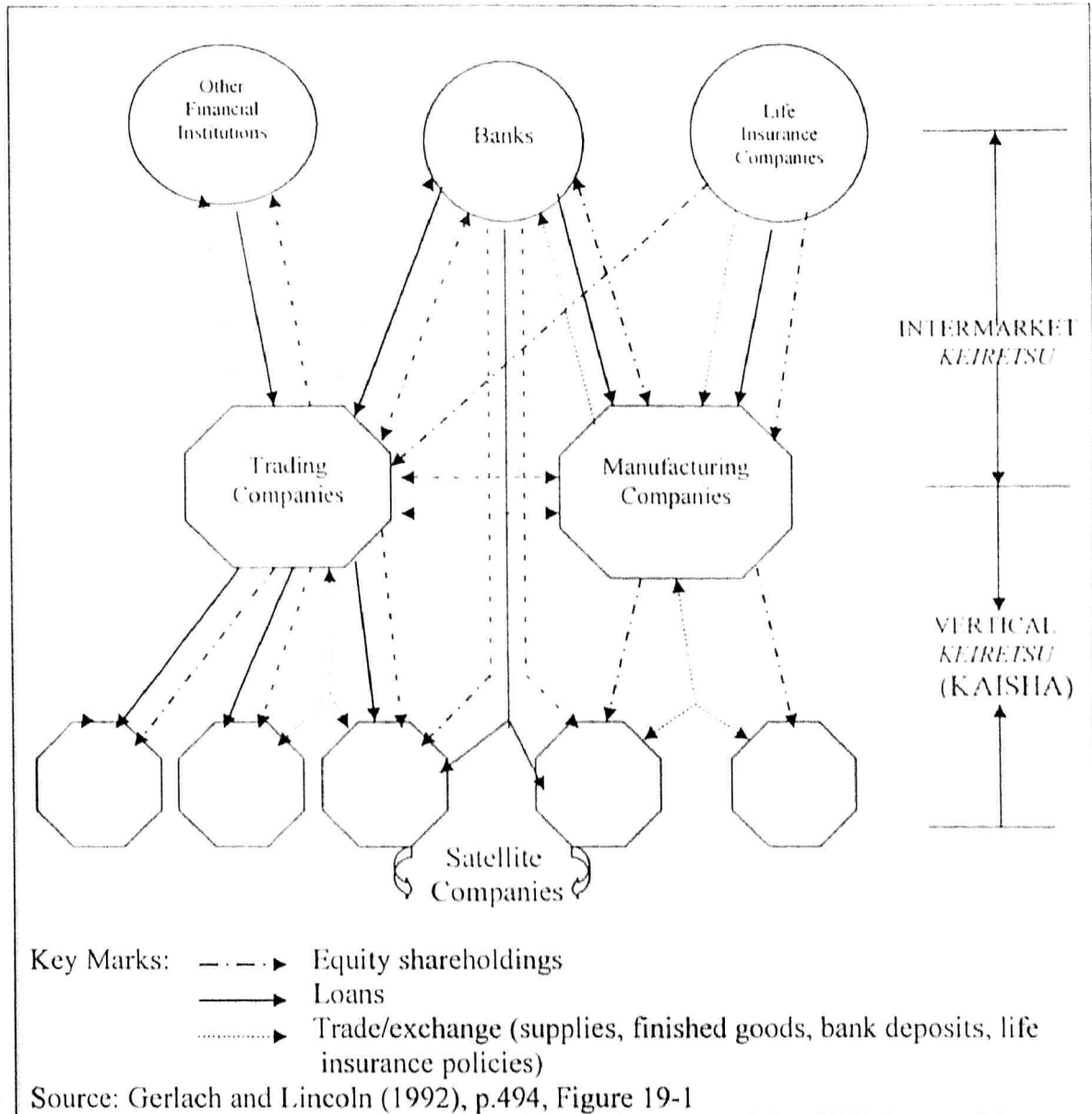


Table 3.7
Cross-shareholdings in Sumitomo: Group Selected Firms, 1984 (Percentage)

Owned by Owner	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1. Sumitomo Bank	****	3.44	****	4.49	4.75	4.17	3.88	4.93	5.94	5.11
2. Sumi. Trust & Banking	1.91	****	****	2.89	4.27	3.75	5.46	3.90	3.80	2.50
3. Sumi. Life Insurance	6.28	4.26	****	5.04	4.52	8.37	4.47	5.18	9.17	7.22
4. Sumi. Marine & Fire	1.89	1.56	****	****	3.24	1.20	0.92	1.82	2.72	2.92
5. Sumi. Corporation	1.77	3.50	****	2.23	****	1.30	1.78	3.14	3.49	2.41
6. Sumi. Chemical	1.43	1.63	****	1.15	2.30	****	****	****	****	0.47
7. Sumi. Metal Industries	1.94	3.12	****	1.17	4.13	****	****	0.93	0.71	0.90
8. Sumi. Metal Mining	0.38	1.29	****	1.30	2.18	0.25	0.26	****	0.82	1.15
9. Sumi. Heavy Industries	0.33	1.51	****	0.88	1.62	0.17	****	****	****	0.06
10. Nihon Electric	1.21	3.05	****	2.00	4.91	0.53	0.81	3.00	****	****

Source: Reproduced from Orru (1991), Table 2, p.248.

Table 3.8
Kaisha Affiliated Firms of Matsushita Electric and Mitsubishi Chemical*

Matsushita Electric Industrial			Mitsubishi Chemical Industries		
Affiliated Firms	% Owned	# Dirs	Affiliated Firms	% Owned	# Dirs
Matsushita Communication	61.3	4	Nippon Kasei Chemical	37.4	6
Kyushu Matsushita Electric	50.1	4	Taiyo Sanso	36.3	3
Matsushita Kotobuki	56.9	3	Teikoku Kako	25.0	3
Victor Company of Japan	50.9	2	Mitsubishi Plastics	48.1	13
Matsushita Refrigeration	50.5	5	Kawasaki Kasei Chemicals	36.2	6
Matsushita Seiko	50.4	4	Nippon Synthetic Chemical	49.1	4
Matsushita Electric Works	28.3	2	Kodama Chemical Industry	9.2	3
Asahi National Lighting	21.9	0	Nitto Kako	44.6	3
National House Industrial	26.5	2	Toyo Carbon	47.2	6
Wakayama Machine Tools	47.0	0			
Miyata Industry	42.9	4			
Matsushita Electric Trading	50.3	12			
Average	44.7	3.5	Average	37.0	5.2

Note: *Based on the percentage shares owned and number of directors dispatched by the core companies, 1985.

Source: Rearranged from Dodwell in Orru (1991).

affiliated firms belonging to each group. Orru (1991) observes, while the shares owned by each individual firm might seem minimal, the group firms ownership as a collective in any individual firm is around 20-30 per cent. Normally, the percentage shares exceed 50 per cent when a calculation is made based on the top ten shareholders.

Table 3.8, on the other hand, demonstrates the shares in the two *Kaisha*. Both Matsushita Electric Industrial and Mitsubishi Chemical Industries have substantial portions of shares and a few dispatched directors in their own affiliated firms. The remaining shares are owned by the respective affiliated firms themselves and, in some cases, by their upper-tier contractors.

Following Abegglen and Stalk (1985) and Redding and Whitley (1990), the *Keiretsu* are the traditional general trading company-based industrial groups whose role has declined in the Japanese economy since the last two decades; whilst the independent *Kaisha* - the grouping of sub-contractors around a dominant manufacturer - have in turn shown their increasing dominance since then. The present study attempts to follow the grouping suggested by Redding and Whitley (1990), whichever possible, but it should be borne in mind that *Kaisha* are sometimes the origin and a part of *Keiretsu* because some major president's club firms (and some other independent groups) are also involved in the manufacturing production processes by collaborating with a set of auxiliary and subsidiary firms. This is normally realised through the control of between 20-50 per cent of the shares of subsidiary firms by the large groups (Hamilton, Zeile and Kim 1990).

In contrast to the Japanese *Keiretsu* and *Kaisha*, the South Korean *Chaebol*⁹ resemble the characteristics of pre-world-war-II Japanese *Zaibatsu* in size and

organisational structure (Hamilton and Biggart 1988, Kim 1991) which often contain a trading company at the centre (Kim 1991). The group ownership and control (management) in the latter case are dominated by a single individual, family, or a set of families in the holding company, instead of a mutual arrangement in the first case. In other words, affiliated firms in *Chaebol* are vertically-centrally controlled by central holding companies which are owned by an individual or a family, whereas this arrangement is prohibited in the post-war Japan. More often than not, *Chaebol* have enjoyed monopolistic and oligopolistic advantages in sectors such as chemicals, electronics and transportation equipment.

Following Chang and Choi (1988), larger business groups in Korea are more diversified than the smaller ones. The diversification strategy into related and unrelated areas take different forms with respect to the point of organisational reference. Vertical diversification (integration) into unrelated activities is undertaken by establishing new firms or by acquiring existing firms to accomplish their production goals, whilst diversification into related areas is conducted by adding production lines within affiliated firms.

Citing the case of Hyundai, Chang and Choi point out that Korean business groups have two relational structures. First, the vertically integrated grouping is to perform upstream activities. In this context, affiliated firms supplying raw material and intermediate goods and services are linked vertically with the core manufacturing firms. In the downstream integration, finished products from the core firms are channeled to the general trading companies of the same group for internal and external distributions.

The trading companies also act as the importer of external raw materials in a smaller scale.

Second, the horizontally integrated grouping exhibits the conglomerate feature of the business group as they avoid establishing stable sub-contracting relations with other firms outside the group. They instead diversify into a wide range of businesses, such as insurance, stocks, retailing (department stores) and other financial-services companies for cash-flow flexibility but not into the commercial banks as this is prohibited by the state (Chang and Choi 1988, Kim 1991). As a consequence of this self-sufficiency move, *Chaebol* are relatively larger than those of *Keiretsu* in Japan and much larger than those business groups in Taiwan (Zeile 1991).

There is an intense competition among a few *Chaebol* that is exercised even in the daily life of their group members. Affiliated firms of one group are not allowed to buy products from other groups even though at a lowest price. Anyone from an automobile company is not even allowed to drive another car make into its parking lot (Biggart, as quoted in Granovetter 1994). They prefer to collaborate with foreign firms to domestic firms. In certain cases, they form joint manufacturing projects with foreign multinational firms to procure some components outside and later assemble domestically. For instance, Hyundai has collaborative manufacturing with Japanese Mitsubishi for sourcing car engines. These engines are fixed to Hyundai's Excel, the automobile project for export markets (Hamilton, Zeile and Kim 1990).

Taiwanese entrepreneurial organisations are more unique because they emerge in business groups and in family business. Of significance are the small and medium family firms¹⁰ which accounted for 97.3 per cent of the 68,898 registered firms in 1976

(Pao-an 1991). Most firms have network relations with other firms in production, assembly and distribution, typically through informal contract (Hamilton and Biggart 1988) and sub-contracting arrangements.

Ownership and control of entrepreneurial organisations in Taiwan are generally quite similar to the case of Korea in which they are in the hands of private individuals. According to I-Ching (1991), family or father-figure form of leadership has been widely adopted by the Taiwanese entrepreneurial organisations because it incorporates both the Western type of legalistic governance and Eastern type of human-feeling governance. In contrast to Western entrepreneurial organisations, however, most of the Taiwanese family entrepreneurial organisations do not separate ownership from management. The overlapping function of ownership and management occurs because the founding family heads are also involved in managerial functions; ownership typically controls management.

Taiwanese business groups are composed of a network of firms of various sizes controlled by the conglomerate holdings of a single family. They are less vertically integrated compared with firms in Korea, modest in size and involved in unrelated business activities. According to Hamilton, Zeile and Kim (1990), from the top 96 Taiwanese business groups, there is an average of seven firms per business group and they spread across an average of four industrial sectors. Network relations are not confined to member firms of a group only, but it always transcends the designated boundary, or what Numazaki (1991) calls "cross-group networks." It is a common case in which the output of non-member firms is exchanged and used as inputs for a group member firm and *vice versa*.

More importantly, Taiwanese business group firms establish a satellite production system (*weixing gongchang*) with other non-business group firms in the production line. This distinctly differs from the Korean *Chaebol*, because while each independent firm (members and non-members) produces specified parts, they also jointly manufacture a specific finished product. Non-member firms also supply produced parts to other manufacturers. In the clothing and plastic industries, for instance, some large business groups produce cloth and raw plastic but most of their products are sold to other independent firms which in turn transform the inputs into finished products for domestic and export markets.

Numazaki (1991) proposes a broader perspective of business groups in Taiwan. To him, *quanxiqiye* (business groups) are a cluster of enterprises owned and controlled by a group of people bound by a network of various *quanxi* (or relationships). He uses different terms to refer to different forms of network patterns of the ENO. Firstly, brother- or sister-type relationship exists when the same person owns stocks in two separate companies. Secondly, parent-subsidiary- or mother-child-type relationship exists when one corporation holds some shares of another corporation. Finally, marriage-type relationship prevails when an X (person or organisation) owns company A, whilst a Y (person or organisation) owns company B, but at the same time they jointly own company C.

As in Taiwan, entrepreneurial organisations in Hong Kong and Singapore are kin-based ownership and control central to a single family. Hong Kong business groups based on 1976 data were dominated by non-Chinese (namely British) family

organisations. But, Wong (1991) argues the 1970s development in industrial and urban sectors of the Island opened up avenues for Chinese entrepreneurial actors to mitigate foreign domination. With high demand in manufacturing products and property market together with a strong bank support, some Chinese entrepreneurs successfully took over a set of large foreign-owned business groups.

Based on a sample of 93 large successful public listed companies in Hong Kong, Redding (1991) found that all the companies have their own group member firms. These groups are owned and managed by Chinese families and mostly involved (79 per cent) in related business activities (one main field) with a strong level of economic exchange. Though a company's shares are offered to the public, with a loose regulation, the founding entrepreneur of the company does not lose their control over his founded company. Redding (1991), therefore, concludes that the Chinese conglomerates (Western-type) are uncommon, *what is more common is ENO* (my italics).

In Singapore, Kiong (1991) argues that family-based entrepreneurial organisations apply to both small and large scale businesses. According to him, Singaporean organisations are featured by a centripetal authority or paternalism in which the head of a family makes all decisions in an organisation. The founding head always owns the majority of shares and hence gains control over the company. Similar to the case of Taiwan, Singaporean ENOs establish their networks both intra-group and inter-group, and to a certain extent transcend the national boundaries (transnational corporations).

As an example, the Hong Leong Group is a conglomerate dominated by the Kwek family. It involves in a wide variety of business activities from finance to

insurance, property development and real estate, other services and manufacturing in Singapore and in other developing and developed countries.

Some Singaporean ENOs form joint ventures with foreign ENOs to expand their business wings overseas. To maintain the family control, the business groups do not list their parent companies. They, instead, list their subsidiaries publicly. In many cases, even though subsidiary firms are public listed, the group of companies establish their own holding companies to buy shares; thus the family power remains intact.

Tan Hock (1991) derives a conclusion that entrepreneurial organisations in Singapore are dominated by the state and foreign MNCs. While the state has engaged in the provision of basic infrastructure and public utilities (telecommunications, broadcasting, housing and port services), the MNCs have gained monopoly in the manufacturing sector. The involvement of MNCs in the services sector, such as in domestic retailing, general trading and commercial banking, is also significantly evident. He stresses that there are no linkages between local Chinese entrepreneurial organisations and the state enterprises.

Network relations between the local organisations and MNCs, on the other hand, are kept at a minimal level. This is purely because of the fact that the functions of foreign MNCs in Singaporean manufacturing sector is confined to assemble parts and components derived from other segments of the world (Tan Hock 1991). Their functions in the services sector are also limited, either to serve their affiliated companies, or to sell their products directly to local customers. What is exposed by Tan Hock (1991) indicates that network relations among the Chinese ENOs are largely

confined to their own ethnic firms. Their presence is to fulfill the market gap unfilled by the state and the MNC's.

In his words, "weak organizations and strong linkages," Redding (1991) presents a conclusive picture of the Overseas Chinese family business organisations, notably in the three NIEs - Taiwan, Hong Kong and Singapore and some other ASEAN countries. According to him, weak organisations exist because the Chinese firms are, either small with limited capacity, or large and relatively unstable. On the contrary, strong linkages occur because network ties among their firms are deep and long lasting. This means that the Chinese entrepreneurial firms tend to work in the environmental framework of ENOs. Regarding the strong linkages, Wong (1991) also finds that there is a tendency for directors to hold multiple executive positions in several affiliated companies. These interlocking directorates enable the family owners to strengthen their ownership-control on the ENOs.

3.5 Explanation for the Distinctive Asian ENOs

There are some explanations associated with the configuration and characteristics of ENOs across regions from economic and social capital perspectives. Granovetter (1994) points out that business groups have a wide variety of types depending on some dimension of variations, namely ownership and control, principles of solidarity, authority structure, moral economy, financial availability and the state role; *they all are embedded in social structure as proposed by Granovetter himself in his 1985 article* (my italics). The first four dimensions are related to internal structure of the group, whilst the last two dimensions see the relationship of the ENO and its

external environment. Efforts at analysing those dimensions are indeed a testament to the earlier proposition that economic activities are much influenced and shaped by social capital. Some social capital may present itself most regularly in shaping the economic activities regardless of what dimensions are looked upon.

3.5.1 An Economic Perspective: The Resource Dependence

Quite surprisingly though much has been written about ENOs, there has been little argument on the resource dependence approach. Most reviews regarding the need for resource exchanges and transactions are done indirectly. No explanation is offered to solve the questions of why different countries prefer to resort to different ENOs within this approach. It is therefore the task of the present sub-section to bring the issue to the proper line of argument. This can only be done by collecting and then assembling all the scattered information from diverse studies in the past.

Japanese ENOs, regardless of *Keiretsu* or *Kaisha*, prefer maintaining their firm's activities in a group to an independent integrated firm as commonly accepted in the West. Such a preference obviously lies in the resources available to them. Miyazaki (1980a) argues that financial backing becomes a key factor that has persuaded or forced unaffiliated firms to associate themselves with the big groups during the postwar period. He finds that in comparison to other enterprises in the Western countries, like the United States, England and the West Germany that are highly dependent upon internal funds; Japanese corporations have to depend upon a substantial portion of their fund raising on indirect financing.¹¹

A large proportion (over two-thirds) of loans of the large manufacturing organisations was from city banks (Miyazaki 1980a), since the banks belonged to their respective *Keiretsu*.¹² This shows the concentrated source of borrowings of the group firms. More strikingly, the big six had to form their own group financing, simply to finance a large portion (about 20 per cent of their respective main group banks to total loans) of their activities. Despite the high dependency, the group banks still had no power to restrict the group member firms to behave independently in economic activities (Kiyonari and Nakamura 1980).

Due to the financial needs, a centripetal process inevitably takes place, witnessing more and more formerly nonaffiliated firms affiliate with certain large financial groups (Tam 1990). The relationship is non unilateral because while affiliated firms borrow money from large financial group firms to finance their trade, they also save their money incomes in the lending banks (Lincoln, Gerlach and Takahashi 1992). In this connection, Kiyonari and Nakamura (1980) assert that *Kaisha* are not tied to special banking interests. They are independent to choose any bank they like and how much loans they need. Besides self-financing, long-term credit bank and foreign-affiliated financial institutions are their two typical main sources of fund raising.

Another important factor is for the preservation of stockholding interest. A normal practice of the American capital market is the publicly traded stocks of listed companies. One-half of the stocks is held by institutional investors (typically pension fund or insurance companies) seek early returns for their investment. They have little long-term allegiance to the business in which they bought the shares (Lincoln, Gerlach and Takahashi 1992).

On the contrary, although individual ownership is allowable through stocks or private holdings, Japanese stocks are least publicly traded; about three-fourths of the shares are mutually held by other firms in the same business group, normally through complicated joint agreements. This mutual shareholding makes Japanese business groups more dispersed in terms of ownership and control than those of the firms in other countries like South Korea. It binds the group member firms into cohesive, horizontal communities.

According to Goto (1982) this "cross-stockholding" was the result of the 1965 crash in the stock market. The event led to the creation of two institutions - Shoken Hoyu Kumiai (Securities Holding Union) and Kyodo Shoken (Cooperative Securities) - to stabilise the stock market through buying and freezing of a certain amount of stocks. Concurrently, with the Japanese move to liberalise investments, most firms were fearful of being taken over by foreign interest firms.

To avoid such a takeover, the management of Japanese private firms requested other firms to buy their stocks. This stockholder stabilisation operation witnessed group-affiliated firms buying over stocks from other member firms of the same group. Investigating the interlocking shareholding percentage (the percentages of shares held by firms in each group in the total shares issued by the group as a whole) of each of the big six intermarket groups over the year, the increasing trend in the cross-shareholding is so obvious (Miyazaki 1980b).

The president's club firms consolidate their social relations by ensuring that they hold only a small proportion of shares in the whole group. Hamilton, Zeile and Kim (1990) found that the club firms individual share holdings were less than 5 per cent of each other's share; but they hold between 14 and 28 per cent of all shares of the group

firms and between 38 and 72 per cent of the shares are owned by the top 10 shareholders. Thus, the group is still controlled by itself, not by any other member firms.

Given the ownership network, the group firms maintain significant transactions and sometimes loan relationships among them results in uncompetitive behaviour in different industrial, commercial and financial sectors; but, it does not occur in production relationships. In other words, the group firms have a common duty, instead of competing among themselves, they work in a group as a whole to compete with other intermarket groups for a larger share of the total economy of Japan.

In the case of *Kaisha*, core manufacturers may purchase shares of peripheral firms to increase their control over pricing and production (Asanuma 1989). In some cases, smaller sub-contractors request their first-tier contractors to buy their shares to consolidate the bond between the two parties through mutual agreements.

Pertinent to intermediate and finished-goods transactions, the buying and selling activities are limited to intra-group arrangements that become a sensitive issue for Japanese international trading partners (Lincoln, Gerlach and Takahashi 1992). More uniquely, as against the practice of U.S corporations, Japanese industrial business groups rarely have bilateral trade between their member firms. A few firms are simultaneously supplier and customer to one another. Most relationships are focused on a long-term supply chain centred around a particular final assembler.

Those networks are used to produce for end-user markets: industrial firms buy inputs upstream (from other affiliated firms) and sell downstream (to the large assembler). In the case of the Japanese ENOs that link affiliated firms to general

trading companies, the division of organisational work is obvious: the affiliated firms produce goods, whilst the trading companies market and distribute the products. Some of them have handled as many as 10,000 items through their offices in over 100 locations outside Japan (Hamilton and Biggart 1988).

What can be understood from the analysis of Nakamura (as quoted in Hamilton and Biggart 1988) is that in the context of *Kaisha* networks, with the exception of the case of some assembly industries such as automobiles, bilateral network is much clearer. Large firms supply raw materials, while smaller firms transform the materials into manufactured goods. Hamilton, Zeile and Kim (1990) explain in greater detail that *Keiretsu* (*Kaisha* in the context of the present study) groups play an intermediary role. *Kaisha* supply materials to subsidiary firms for upstream production activities. These subsidiary firms manufacture some parts and components of which they have competitive advantages. The production of those parts and components in which they have no such competitive advantage is subcontracted out to small and medium-sized independent firms outside the group. The large firms then undertake the final assembly process of the various parts and components.

Lincoln, Gerlach and Takahashi (1992: 569) observe “banking relationships, cross-shareholding and director exchanges are denser within the big-six group,” but in terms of trade or commercial relations, there is less internalisation of trade within the big-six groups, and there is no longer preferential commercial relations within them. This means that a dense network relation in product markets is more prevalent in *Kaisha*, rather than in *Keiretsu*.

Exchanging information, technology and managerial as well as labour resources are another dimension for Japanese firms to keep them in grouping ENOs. In a rare case, a main bank or a parent manufacturing firm dispatches its full-time director to become a long-term manager in their affiliated firms. This is only an exercise when the affiliated firms are required to reorganise their entities (Lincoln, Gerlach and Takahashi 1992). This practice is common in the corporate sector of the United States. It has been common for directors of large companies and financial banks to be on the board of directors of affiliated firms typically for controlling purposes.

Interlocking directorates are also a common phenomenon in Western economies (North America and Europe). Deliberate exchange of directors among financial institutions as a central role and their corporate clients is a means to monitor one another. The transfer of employees from one firm to another is also a general phenomenon and forms a dense and multitied network of labour flows that facilitates information exchange, training, learning and to a certain extent, control.

While many factors can be associated to the Japanese ENOs in the resource dependence framework, they are less applicable to the Korean *Chaebol* and to the business groups in Taiwan, Hong Kong and Singapore. Pursuing a self-sufficiency of resources is probably the most appropriate explanation for the existence of such kin-based, centrally vertical form of ENOs. In terms of ownership, there is no cross-shareholding as in Japan. All the group firms are owned and hence controlled by an individual with his immediate family located on the top of each business group.

Compared with the American conglomerates, the Korean *Chaebol* have some characteristics of ENO. In contrast to centrally coordinated resources of Western

conglomerates, the Korean *Chaebol* permit some independent resource mobility in their member firms. The affiliated firms have their flexibility in exchanging capital, technology, information and personnel among them. Exchanging products among the member firms is also common, particularly parts and components (Kim 1991). Against the case of Japanese business groups, *Chaebol* are much less dependent on firms outside the group for parts and assembly. In other words, their resource dependence is substantially on their own member firms.

Transferring top executives from one firm to another within the same group is a common practice in the Korean *Chaebol*, particularly managerial skills from strong firms to weak, troublesome, or even expanding firms. In technological-related exchange, most research and development are conducted together; financial allocation and even laboratory may be shared along. Immediate funds or loans can be arranged between firms through insurance companies and other financial-service firms, despite the separate ownerships of the member firms.

ENOs of Taiwan, Hong Kong and Singapore on the other hand, besides the need for fulfilling self-sufficient requirements, have to meet another agenda - to consolidate their kin-based economic organisations. Historical experiences of these countries were similar in which the influx of labourers from the Mainland China took place prior to their Independence (autonomy in the case of Taiwan). During their early arrival, the labourers sought protection and support from their kin of the same villages or regions who had resided longer in the host countries. This kin network has been extended to a larger context in the form of organisations and associations. Perhaps this kin-interdependent principle has led the Chinese to extend their business networks beyond their own group firms as can be observed in Taiwan and Singapore.

The governments do not provide soft loans to the entrepreneurs as in Korea. As an alternative, they source capital resources from other channels through personal networks of family, friends and regional fellow. Therefore, stock equity is quite uncommon in Taiwan and ownership is in certain cases owned through partnership. Hence, active owners and silent partners prevail side by side in certain business groups, but ultimately control of resources against fiscal ownership is concentrated in the hands of just a few of family-based individuals or an individual. This attribute shows that Taiwan is less concentrated than Korea in terms of ownership, but comparable in terms of control.

Business organisations in Singapore, according to Kiong (1991) use the kin-based network relations as a conduit to maintain shares and to gain access into credit, information, market outlets, business opportunities and managerial resources. For start-up companies, the available financial resources are from the owner's own savings, relatives and friends. Some relatives or friends are invited to join the companies as shareholders, just to build confidence among them. For established large companies, however, large amount of shares are mutually owned by financial and non-financial institutions, corporate firms and/or investment holding companies which are in turn owned by certain families. In the case of sub-subsidiary firms, their subsidiaries may also jointly own the shares.

From another angle, a common phenomenon for Singaporean ENOs is their link through common directors, or a dense interlocking directorates as well as by marital arrangements. Board of directors of all the group firms is normally represented by the founder or his sons; they are typically the chairman of the board. As the business groups grow larger in size and number of affiliated firms through a diversification process and

at the same time face stiffer competition from their competitors, more outside employees are employed. But the family members and kin are put at the top of the subsidiaries with some delegated power. In some cases, outside professional managers are also hired. Yet some strategic posts are held by and other crucial decisions, mainly on financial matters, are made by the head or the founder.

3.5.2 The Social Capital Perspective

The West and the East are the two regions endowed with different physical and social resources. Large differences exist even among the eastern regional societies. Although they are recognised for network relations in many ways since long time ago and although their values and beliefs interplay, some segments of their cultural heritage remain distinct and embodied in each society. This heritage, together with economic variables, influences the life style, behaviour, and to a narrower scope, their business and economic organisations. Irrespective of configuration and name of an ENO, it must, somehow or rather, be influenced by surrounding environments.

Fortunately, the literature on social capital (socio-cultural and power) influences are well developed and presented. Among the immense literature is shown in Table 3.9a and Table 3.9b. Therefore, not much effort is spent to understand the network relations among firms from this perspective.

3.5.2.1 The Socio-Cultural Explanation

As shown in Table 3.9a and Table 3.9b, religious values, paternalism, kinship, ethnicity, behavioural or social norms, language, region, patrimony (property inheritance) and trust are among socio-cultural factors that are frequently cited and

Table 3.9a
Literature on Social Capital Influence on ENO Configuration by Nations

Social Capital	Country/Region/Authors	No. Literature
Confucian values/ethics	Korea, Japan, China (Cho 1991); East Asia (Bond & Hofstede 1990), China, Japan and Korea (Hamilton & Biggart 1988), Korea (Kim 1991), Overseas Chinese (Redding 1991), Hong Kong (Siu-Lun 1991)	6
Paternalism	Overseas Chinese (Redding 1991), Taiwan (Numazaki 1991, I-Ching 1991)	3
Kinship	Taiwan, Korea and Southeast Asia (Redding & Whitley 1990); Taiwan, Korea, Japan (Hamilton & Biggart 1988), Overseas Chinese (Redding 1991), Hong Kong (Siu-Lun 1991), Taiwan (Numazaki 1991)	5
Language	Chinese Influence on Japan and Korea (Hamilton & Biggart 1988)	1
Ethnicity	Overseas Chinese (Redding 1991)	1
Regional	Overseas Chinese (Redding 1991), Hong Kong (Siu-Lun 1991), Taiwan (Numazaki 1991), Korea (Granovetter 1994)	4
Social/ Behavioural Norms/ Reciprocal Obligation	Overseas Chinese (Redding & Whitley 1990), Japan (Kiyonari & Nakamura 1980, Pegels 1984, Tam 1990, Lincoln <i>et al.</i> 1992, Hamilton and Biggart 1988), Overseas Chinese (Redding 1991)	7
Property Inheritance/ Patrimony	Taiwan (Hamilton, <i>et al.</i> 1990), Overseas Chinese (Redding 1991), Taiwan (Numazaki 1991)	3
Trust	Overseas Chinese (Redding & Whitley 1990); Japan (Lincoln <i>et al.</i> 1992), Overseas Chinese (Redding 1991), Hong Kong (Siu-Lun 1991), Taiwan (Cheng-shu 1991, I-Ching 1991, Pao-an 1991) Singapore (Kiong 1991)	8
Political Power/State/ Government	Korea, Japan & China (Cho 1991); Korea (Redding & Whitley 1990); Korea (Kim 1976); Japan (Goto 1982); Japan, Korea and Taiwan (Hamilton & Biggart 1988), Korea (Kim 1991), Taiwan (Numazaki 1991, Pao-an 1991), Hong Kong (Siu-lun 1991)	9

Note: Overseas Chinese apply to Taiwan, Hong Kong, Singapore and some other Southeast Asian Countries with Chinese minority.

Source: As in the author's column (the second column of Table 3.9a).

Table 3.9b
Literature on Social Capital Influence on ENO Configuration by Specific Forms

Social Capital	Organisational Forms/Authors	No. Literature
Confucian values/ethics	Family Business (Redding & Whitley 1990); Chinese Organisations (Hamilton & Biggart 1988), <i>Chaebol</i> (Kim 1991), Family Business (Redding 1991), Chinese Entrepreneurs (Siu-Lun 1991)	5
Paternalism	Family Business (Redding 1991), Taiwanese Business Groups (Numazaki 1991), Taiwanese family business (I-Ching 1991)	3
Kinship	Family Business, <i>Chaebol</i> (Redding & Whitley 1990), Family Firms (Hamilton & Biggart 1988), Family Business (Redding 1991), Chinese entrepreneurs (Siu-lun 1991), Taiwanese Business Groups (Numazaki 1991)	5
Language	Indirect	
Ethnicity	Family Business (Redding 1991)	1
Regional	Family Business (Redding 1991), Chinese entrepreneurs (Siu-lun 1991), Taiwanese Business Groups (Numazaki 1991), <i>Chaebol</i> (Granovetter 1994)	4
Social/Behavioural Norms/ Reciprocal Obligation	Family Business (Redding & Whitley 1990), Business Groups (Kiyonari & Nakamura 1980, Tam 1990), Family Business (Redding 1991)	4
Property Inheritance/ Patrimony	Business group-Taiwan (Hamilton, <i>et al.</i> 1990), Family Business (Redding 1991), Taiwanese Business Groups (Numazaki 1991)	3
Trust	Family Business (Redding & Whitley 1990); <i>Keiretsu</i> (Lincoln <i>et al.</i> 1992), Family Firms (Hamilton & Biggart 1988), Family Business (Redding 1991), Chinese Entrepreneurs (Siu-lun 1991), Taiwanese large business organisations (Cheng-shu 1991), Taiwanese family business (I-Ching 1991, Pao-an 1991), Singaporean family business/ business groups (Kiong 1991)	9
Political Power/State/ Government	<i>Chaebol</i> (Kim 1976, Redding & Whitley 1990, Hamilton & Biggart 1988), Business Group (Goto 1982), intermarket groups (Hamilton & Biggart 1988), family business-Taiwan (Hamilton & Biggart 1988), <i>Chaebol</i> (Kim 1991), Taiwanese Business Groups (Numazaki 1991), Taiwanese family business (Pao-an 1991), Hong Kong Business Groups (Wong 1991)	10

Source: As in the author's column (the second column of Table 3.9b).

highlighted by many scholars. Most of these factors intermingle and are subsumed to either religious teaching values, or local cultural heritage.

It should be borne in mind that the Asian societies share many common socio-cultural traits due to the long-term interaction among them; amongst others, through trade, political pressures and colonisation (Hamilton and Biggart 1988). The Japanese colony, for example, forced many other Asian countries, including Korea and Taiwan, to practise their cultural traditions (language and art). Japanese culture itself is in turn much influenced by the Chinese heritage. And even Chinese arts and scripts have permeated every part of the world due to its long historical civilised society. Export-import of cultural values and traditions and their intermixing is no longer a fact to hide. Any attempt to split these cultural beliefs, values and behaviours distinctively are a futile effort because the interplay and the intermixing of the variables are pervasive.

Direct influence of Confucianism on the Japanese ENOs is hardly discussed in the literature. Probably its influence on social and economic behaviours is less obvious than that of its influence on political structure which in turn shapes the action of the social and economic actors. Its influence on ENO's structures and actions of other countries is however well documented (Table 3.9a and Table 3.9b). According to Kim (1991), Confucian values of filial piety and loyalty toward the family form the basis of the *Chaebol*; thus despite the increasing Galbraithian professionalisation in the management of *Chaebol*, family members (sons, brothers, sons-in-law) still dominate the top management, besides their boards of directors.

Hamilton and Biggart (1988) also attributes the success of the Chinese entrepreneurial organisations to Confucian teaching values. He argues that the teaching values which promote individual self-control, dutiful conduct to one's superior (particularly to one's family) and trustworthiness among kinship members are influential on the conduct of the Chinese entrepreneurs. It makes the entrepreneurial factors act more honourably towards relatives. Hamilton and Biggart (1988: S73) reach a conclusion that "Confucianism has been described as a system that promotes strong bonds at the local level when face-to-face relations are paramount but that, in mediating broader relations, is a weak form of social control."

Redding (1990, 1991) stresses the strength of the overseas Chinese which is derived from the system of exchanges and networking among their firms. This networking is in turn contingent upon Confucian values such as paternalism, patrimony, personalism, the disciplined exchange of vertical obligations and the cultivation of specific horizontal bonds of obligation and friendship.

Related to patrimony, Hamilton, Zeile and Kim (1990) argue that the Taiwanese source to business groups because all the sons may split the assets of the family after the demise of their father. As a strategy to avoid the collapse of the business after their death, the parents tend to diversify their business during their lifetime. As such, the business can be divided later among their sons. This is also true for the case of family businesses in other Chinese dominated countries - Hong Kong and Singapore.

Paternalism in the Japanese case is not directly linked to Confucian teaching, but it is linked to social norms of the society. Mostly influenced by the Samurai spirit inherited since the feudal time, the Japanese society needs to have a cause to fight for.

During the feudal time, the warriors swore loyalty to their lord; but in the modern version the workers attribute their loyalty to the corporations that employ them in return for lifetime employment.

The paternalistic spirit has much influenced the mode of organisation adopted by Japanese industrialists. In Western society, the questions of what you do or what your title is in an organisation are a great concern for a worker. In the Japanese corporations (such as Nissan), the question of who is his or her employer is more important to Japanese workers (Pegels 1984). As an implication, Japanese society prefers to work collectively, rather than individually because they feel that they have mutual responsibility to their corporations and their soul centre to their employers. In this respect, Marsh and Mannari (as quoted in Tam 1990: 162) propose a "paternalism-lifetime commitment model" because there is an inherent tendency for an individual to submerge in a collectivity and deepen it over a passage of time.

The loyal spirit extends to affiliated and independent firms. They are loyal to the *Kereitsu* and *Kaisha* in return for long-term, stable contracts. As in the case of individuals, there is a tendency for a firm to affiliate itself into particular business groups (centripetal process) and deepen its interdependence over time. The big groups, on the other hand, tend to improve their aggrandizement, among others, by including more member firms and by drawing more firms into their orbits (Tam 1990). Some large independent groups, despite their ability for self-financing, still maintain a long and cordial relationship with their original big integrated unity among diverse parts of social actors which are the central factor that consolidates the Japanese intra- and inter-

organisational networks (Hamilton and Biggart 1988). This value makes not only individuals but also firms subordinate to certain groups in the hope for leading them.

Reciprocal obligation is often seen as a core cultural value and a key source of vertical cohesion of Japanese social groups, right from the shop floor team to the *Keiretsu* (Nakane 1970). Cross-shareholdings, besides consolidating social ties among the shareholders, are also a manifestation of deep trust among the firms and the significant influence of government on the network formation that is uncommon to the United States.

In the other Asian countries which are economically dominated by Chinese immigrants, socio-cultural forces play great functions for ENO configuration. Redding (1991) argues that despite the subdivision of Overseas Chinese entrepreneurs into regional sub-groups in Hong Kong, Singapore, Taiwan, Indonesia, Malaysia, Thailand and the Philippines; they share a great deal of common inherited set of norms and values. He summarises the cultural heritage that influences their ENO into three major classes. First, Confucian virtues as familism, filial piety, respect for authority and diligence; second, an experience as refugees felt directly by the present generation or indirectly via family tradition; and third, an experience of oppression (directly in Taiwan and indirectly in Hong Kong) from the continuing threat of China compelling them to work hard for success.

In the study of overseas entrepreneurial community with special reference to Hong Kong, Siu-lun (1991) sees the importance of trust in forming business networks among the Chinese entrepreneurs. Derived from the work of Weber, he perceives that trust is built on particularistic and universalistic grounds. The particularistic trust is

rooted in the community of blood which “rested upon purely personal, familial, or semi-familial relationships”, whilst the universalistic trust is “built on the superior community of faith” (Siu-lun 1991: 14-15) in which the trust system of community is the point of reference, rather than the individuals.

The solid existence of the universalistic or system trust as reflected in the legal system, the political system and the opportunity for improvement in Hong Kong has consolidated the entrepreneurial firms to network among them. Yet, particularistic and personal trust play its role, particularly through family and regional ties. While family ties help to foster inter-organisational networks within Hong Kong, regional ties based on common territorial origins supersede the networks among firms of inside and outside Hong Kong. The pervasiveness of trust makes the Chinese entrepreneurs resorting to smaller entrepreneurial firms, rather than to large integrated firms, as they can rely on sub-contracting arrangements.

In the analysis of business groups in Taiwan, Numazaki (1991) finds that personal networks have been a basis for the formation of the ENO since the 1920s. These personal networks are in turn developed on the ground of regional and kinship (common place of origin and common surname). Personal networks are a strong strategy to pool capital and to form new companies.

Cheng-shu (1991) observes that familial and interpersonal networks play a pivotal role in both small and medium firms as well as in large enterprises, such as Tatung, Far Eastern, Acer, Hsin Kwang, Rebar, Pacific, Tainan Textiles and President. His survey of the Taiwanese large business organisations shows that the key mechanism for hiring employees and forming networking and partnership is personal trust. This

mechanism is, to a certain extent, able to substitute formal contracts to govern networked parties as typically practised in the West. Formally defined contracts and rules are considered an insult for entrepreneurs who could be trusted.

Therefore, it is unsurprising that most of the Taiwanese large organisations do not have a legal division within their arm. Having a legal department is a wasteful and distrustful habit and unnecessary under the existence of trustworthiness among their members. This is reflected by the opinion of the general manager of a large computer company regarding the copyright, "Going to court not only cannot solve the problems, but also jeopardizes the relationships with other companies, since everybody knows each other" (quoted in Cheng-shu 1991: 74). A formal arrangement is made only when dealing with unfamiliar entrepreneurs, particularly foreign firms.

Cheng-shu (1991) identifies three reasons for entrepreneurial factors to resort to personal trust in doing transactions. First, the political structure of Taiwan allows only a handful of top officials involved in policy making. Frequent changes in industrial policies make them uncertain and unpredictable; ENOs have no choice to depend on, but on personal trust. Second, financial institutions, including banks are mostly controlled by the central and provincial governments. Instead of providing credit loans, the state-owned banks offer some mortgage loans.

Nonetheless before these loans are available to anyone, personal trust is the best collateral. This is the case because the bank managers are mostly civil servants. Under the civil service law, rendering loans to unrecognised entrepreneurs would jeopardise their careers. The only guaranteed source of capital is from the private sector - family

members, relatives, friends and business partners (I-Ching 1991). This means that the private sector is the back-up system of capital formation and investment in Taiwan. But it is once again contingent upon the basis of personal trust.

Finally, the Taiwanese legal system is considerably outdated and incapable of tackling the present business needs. Formal laws are so numerous and difficult to understand by the people and entrepreneurial factors. In making life simpler, the society prefers to resort to informally personal way to settle daily disputes (I-Ching 1991). Weak commercial laws have stimulated illegal investment companies to emerge. These institutions are registered as ordinary companies, but they function as commercial banks. People can deposit and borrow money from these institutions. But before they can do so, they must have someone who can be trusted due to the fact that saving and borrowing are risky in such informally financial institutions.

Singaporean ENOs are also developed based on the owners' personal trust. As described by Cheng (quoted in Kiong 1991), an agreement may be reached through verbal contracts among business associates who know one another. Once the agreement is concluded, they would never go back on their word because this action may jeopardise their own reputation. Close kin is more trusted than outsiders, hence all important positions in business organisations are assigned to trusted relatives, normally members of the immediate family. Besides ensuring the security of business, the practice is also perceived as a transitional platform and training ground for relatives to take over the organisations upon the retirement or the demise of their parents, the founder of the firms.

3.5.2.2 The Power Explanation

The East and Southeast Asian countries have experienced similar phases of industrialisation policies. They started with the import substitution policy immediately after Independence and extended to export promotion strategy in the later period. The industrial policies and strategies are, however, governed by different contexts of political power (Hamilton and Biggart 1988).

Huge literature has recognised that political power plays a dominant role in the explanation of business group in most East Asian countries, particularly in Korea, Japan and Taiwan (see Table 3.9). Following Cho (1991), Confucianism well prescribes that the role of government has been taken for granted in the societies of Japan, Korea and China. In contrast to Western society who respects public opinion, the public of these countries admire leaders with high intellectual ability who are then expected to play an important role in the policy-making process for the sake of their society. Therefore, administrative guidance (*gyosei shido*) and administrative instructions (*chungboo chishi*) in industrial activities are common and publicly accepted for so long in Japan and Korea respectively.

The two terms indicate the degree of state influences in which the intervention of the state power in Japan is not as aggressive and vigorous as that in Korea. Instead, the business-government relations are more benevolent in Japan, or what Hamilton and Biggart (1988) call “strong intermediate powers” in which each party attempts to maintain their considerable autonomy. The government only acts as a coordinator for economic activities containing national interests and a mediator of contrasting

interests.¹³ The government's administrative guidance may be imposed on the Japanese business groups, but with no statutory or legal basis; this guidance can sometimes be ignored. The effort of American Occupation authorities to legally dissolve the pre-war *Zaibatsu* monopoly feature linked closely with the imperial past and to replace it with the American model of market enterprises failed when the Occupation was over; instead, the emergence of some *Zaibatsu* successors were allowed by the Japanese government, but of course with new features with more deconcentration.

In Korea, the Japanese assimilative policy during its colonial period (1910-1945) suppressed the emergence of local industrial organisations. The Japanese subsidiaries or branches of *Zaibatsu* were instead imported from Japan and fully owned and managed by the Japanese. The American Occupation in a short period of time (only three years between 1945-1948) after the Japanese defeat in the WWII provided no opportunity for the military power to establish any company in Korea. The end of the colonial period in 1945 and the beginning of the Park Chung Hee regime in 1961 were also rather short for indigenous industrial organisations to develop independently and distinctively. Therefore, Kim (1991) argues that such factors have contributed to the emergence of *Chaebol* resembling the pre-war Japanese *Zaibatsu*.¹⁴

The economic devastation resulting from the Korean civil war in the 1950s justified the government to continuously intervene in the economy during Independence. The decade saw the spiralling increase in inflation rates and the upsurge of demand for consumer goods (Kim 1976), whereas the experienced entrepreneurial talents were in shortage (Redding and Whitley 1990). One immediate, available solution was to

promote the existing trusted entrepreneurial actors to expand their economic activities with the government monitoring leadership; but another problem arose - an acute shortage of capital. The situation was even more critical as the only source of capital for economic reconstruction and rehabilitation then was through foreign aid.

Kim (1976) argues that because the Korean entrepreneurial firms had acute shortages of private capital, they used political connections to gain access into such foreign funds. This was done through an arrangement in which the state acted "as acquirer and distributor of foreign capital" (Kim 1991: 277). Coincidentally, the politicians needed political funds for sponsoring their party, while high-ranking bureaucrats were becoming corrupt. Using the illicitly distributed capital obtained from the Syngman Rhee (the President) administration, a handful of entrepreneurial firms¹⁵ grew into large industrial organisations through speculation, price fixing, tax evasion and discrepancies in foreign exchange and inflation. The government also rendered them with other privileges, including domestic financial loan facilities in exchange for political contributions, protective tariffs and preferential contracts for large government's construction projects.

The military junta which took over power in May 1961 faced two challenges; one was to eradicate corrupt practices in the society and the other was to build Korea into a self-sufficient economy (Hamilton, Zeile and Kim 1990). Kim (1991) on the other hand argues that because President Park came into power through a military coup, he faced two major tasks: to gain legitimacy and people's support and to bring about economic development. With regard to economic development, the First-Five Year

Development Plan was announced in 1961, but it started in January 1962. This plan advocated an economic structural change from an agricultural-based production to an industrial-based economy, producing light manufactured goods for export. Political considerations changed everything; instead of executing entrepreneurs who accumulated wealth illicitly, the newly junta-backed administration requested those entrepreneurs to cooperate in building Korean economy for its own survival.

Since the launching of the Economic Development Plan in the 1960s, foreign and domestic loans with lower interest rates were offered by the Korean government to larger firms in specific sectors, particularly export industries and heavy and chemical industries (Chang and Choi 1988). Old and new entrepreneurial organisational elites, specially from large firms instead of small and medium firms, were promoted as a way to achieve rapid economic growth by manipulating the economies of scale necessary for export (Kim 1991). Therefore, the large firms benefited substantially from the series of five-year economic plans throughout the 1960s decade with their own contributed ideas (Hamilton, Zeile and Kim 1990).

Following Kim (1991), the state-*Chaebol* relationships became interdependent and symbiotic by the early 1970s. Unsurprisingly, the industrialisation programmes have accelerated the monopolistic-oligopolistic concentration of wealth and profitable activities in the hands of a limited number of *Chaebol* ¹⁶ since then.

The following decades have not changed the situation much. Political connections were the key determinant to the survival of *Chaebol*. The hiring of retired government officials and military officers was a common practice of *Chaebol* as

employing officials and officers in service was prohibited by the law. These employees typically had a close contact with the *Chaebol* during their tenure in the government. In the new office they were given new tasks to lobby the government (Kim 1991). Apart from maintaining close relationships between the government and *Chaebol*, such a move would ensure the fulfillment of policy requirements of the former.

Although the individual or family central holding companies own *Chaebol*, they have no independent actions as those of business groups in Japan (Kim 1991). The government has direct power to control them through planning agencies and financial controls. Incentives do apply only when firms respond favourably to the expectation, otherwise a compulsory command and even a pressure may be imposed. The government-controlled credit added by the regulation for the purchase of raw materials, and the price-setting policies for selected commodities have tethered further quite a number of medium and large firms.

The privileges offered by the government to selective entrepreneurial individuals or family firms make them prefer to consolidate network relations with the political power at the helm and within their own substantive groups that are typically regional in nature, rather than with other non-member firms or with other groups. With the generous capital grants or loans since the early selective move of industrialisation in the 1960s, individual entrepreneurs need no partners to form a set of firms to produce a wide range of industrial products. The support enables the individual entrepreneurs to expand their business networks through the formation of new firms that centred around large core firms situated on top of the relational flows. Networks with outside firms are merely formed when deemed necessary and profitable (Hamilton, Zeile and Kim 1990).

Given the nature of the government-business relationships in Korea, Kim (1976) characterises the economy as “guided family capitalism”; whilst Hamilton and Biggart (1988) call it the “strong state model” because the government, while promoting the free enterprise system, is involved in the provision of guidance and profound intervention. It controls project selection and designates entrepreneurial organisations to take up some specific industrial projects. It provides government backups for foreign loan repayment in case of default on the part of private organisations; provides domestic financial loans to the organisation from its controlled financial institutions; and determines price and income policies, taxation and the tariff policy.

Unlike Japanese business groups which are allowed to have their own banks, *Chaebol* are prohibited from controlling banks (Kim 1991). The nationalisation process of the banks was already initiated in 1961 by President Park. In the 1960s, the state used the capital strength to reward those *Chaebol* conforming to state policies, for instance, by offering low-interest-rate and no-strings-attached export loans to successful firms in the export market. In the early 1970s the same weapon was used to attract *Chaebol* into less profiteering and risky sectors, amongst others, by providing loans to firms involved in state-designated, heavy manufacturing industries - automobiles, shipbuilding, chemicals, iron and steel, nonferrous metal and electronics and electrical appliances.

The single source of finance from state banks and government-state companies as used by the government as a weapon to discipline firms to obey the government instructions and policy directions ushered entrepreneurial actors to establish similar structures, though they are never prescribed to take any specific forms of organisation. The state also approves and monitors flows of foreign loan capital as well as foreign

direct investment, making it easy to control the private sector and channel investments into a designated sector. By these financial measures, entrepreneurial firms tend to concentrate on government-recognised large *Chaebol* (Hamilton and Biggart 1988) and certain sectors (Kim 1991).

Nonetheless, *Chaebol* have some degree of financial dependency against their size. The larger *Chaebol* are more independent of government sources for finance as they can source the funds from their member insurance or other financial-service firms. In contrast, the smaller the *Chaebol* the more dependent they are on government sources of finance. Similar cases also apply to technology, marketing information and expertise.

In contrast to the strong state model of Korea and the strong intermediate model of Japan, business-state relations in Taiwan is present in the form of "strong society model" (Hamilton and Biggart 1988: S78). Although the Taiwanese government provides infrastructure and dominates some import-substitution industries (such as petroleum and steel making), political power is insignificant in explaining the success story of the economy.

The fast growth of the economy originates from the private sector. Its private entrepreneurial firms are less dependent on government institutions to finance their business. They establish stable relations with family members and friends to secure loans for investments. Numazaki (1991), based on personal network analysis, finds that political connections play their roles when the entrepreneurs personally know the politicians of the government. He categories two types of Taiwanese ENOs through political connections. One is networking from below and the other is networking from above, but both are workable within the domain of personal ties.

In the first case, citing the example of Formosa Plastic Group, Numazaki (1991) finds that the founder of the group used his political advantage to apply for the designated industries under the nationalist state's private industrialisation promotion strategy with the financial backing of American aid. In the second case, taking the example of the Chein Tai Cement Co., a member of the Nationalist Party approached private entrepreneurs, through their personal ties to expand the small state-owned cement plant. In the end, the industry was jointly owned by the Nationalist Party and the private Tuntex Group.

The state control of credit facility has also contributed to the special formation of Taiwanese business groups or family business. In Taiwan, most banks are government-operated (state-owned banks) and observe a strict policy. The bank officers are full-time government servants and always cautious about extending credit to customers. Providing credit to unknown entrepreneurs without completing supporting documents as well as collaterals are a high risk to his or her job. Thus, the entrepreneurs have no many alternatives, but to consolidate networks among themselves to gain access to credit. Hence, by establishing networks they can get loans from various informal sources, such as mortgage shops, relatives and friends (Pao-an 1991; I-Ching 1991). Under such a tight credit market, the "marriage type" of network is also deemed necessary for pooling scarce resources for new ventures in the economy (Numazaki 1991).

In Hong Kong, the negotiation about the British colony's future sovereignty in 1997 weakened the position of foreign business groups, but in turn consolidated the

Chinese business organisations in network arrangements. The crisis of confidence over Hong Kong's return to China developed and eventually led to a crash in the property market in the early 1980s (Wong 1991). Many foreign business groups went bankrupt, while the rest either lost heart or left the territory. This development was an opportunity for the local Chinese to take over the companies and consolidate their position by establishing networks among their component companies.

3.6 Conclusion

Non-family-based and family-based business groups in the Asian countries have contributed significantly to the economic development of the region. Structurally strong organisation of the groups indicates their domination in the economy will remain unchallenged most probably even in the future. Pervasive emergence and large contributions of these business groups in the Eastern region, rather than in the Western region of the world have produced new model of capitalism. This model is found to be more effective than the old, individual capitalism of the West. Based on collective actions of entrepreneurial firms, this Asian capitalism puts a new challenge to the West to compete globally. Therefore, the West has no alternative, but to imitate the Asian model since the mid-1980s. The model of capitalism which would bring about economic development seems to converge to the new capitalism led by the Japanese.

Indeed, most parts of the Asian region share common cultural beliefs, values and behaviours. Yet, they are less able to form the same pattern of ENOs due to slight differences in cultural practices and interpretations adaptable to different societies. The Japanese economy is characterised by a domination of large, powerful and relatively

stable ENOs. *Keiretsu* and *Kaisha* have been responsible for linking industrial, commercial and financial firms into a thick and complex skein of relations that cannot be met in other countries (Hamilton and Biggart 1988, adapted). The strength of a particular group lies in its linkages through cross- and mutual shareholdings among member firms which are cemented by Samurai spirit.

The Korean *Chaebol*, in contrast, are satisfactorily explained by social perspective (power explanation), rather than economic perspective. A comprehensively centralised economic planning, an earnest implementation procedure and, to a certain extent, a command, are extensively applied by the strong state power to push *Chaebol* to play a significant part in Korean economic development. The government's control over banking sectors, credit rationing and other financial institutions has strengthened the state's power to control the private ENOs more effectively. Private firms have no alternative, but respond fully to the state control by organising the vertical (integrated) and diversified huge ENOs that could better withstand changes in state policies.

It is a common practice for a *Chaebol* to involve itself in unrelated businesses ranging from the lightest to heaviest industries such as sugar, flour, textiles, toys, department stores, automobiles, shipbuilding, construction, insurance and computers (Kim 1991). By such established and diversified ENOs, it is presumed that they would become self-sufficient in resources and remain unscathed despite constant changes in government policy. Therefore for Kim (1991), the *Chaebol* are a unique combination of the remnants of the *Zaibatsu* and outstanding responses of the Korean entrepreneurial factors to the constraints and challenges in parts of the state and the international arena.

In the NIEs, the existence of family small-medium or large businesses is mixed in explanation. The Chinese economic activities that are highly embedded in their cultural traditions have complicated every effort to explain their organisational actions and decisions in any perspective. What can be concluded from their working mechanism in such ENOs is that only social capital has a significant influence on the way they organise their economic activities. Due to less developed capital markets and unfavourable government support in most Chinese-dominated economies, entrepreneurial firms seek social capital to establish their resource networks.

Endnotes

- ¹ Capitalism is generally defined "as an arrangement in which commodity producers combine the physical means of production and labour in order to bring forth sellable outputs which generate profits" (Scott and Storper (1992: 6).
- ² Their group members are normally homogenous seeking to set a common price for a product acceptable to all members. The type of cooperation is also known cartel, for example in the petroleum industry.
- ³ Others are functional, functional-holding company and pure-holding company.
- ⁴ It is not quite sure about the precise time of the change that takes place. But the United Nations (1993) attributes it to the 1974 oil crisis that impelled the restructuring of big corporations in Europe into small and medium scale industries; whilst Perrow (1992) mentions specifically the dramatic changes have been taking place in the past 15 years.
- ⁵ Debt-equity ratios of four Chaebol by the end of 1998 were 449.3 per cent for Hyundai, 275.7 per cent for Samsung, 341 per cent for LG and 354.9 per cent for SK (Business Korea, December 1999).
- ⁶ A *Zaibatsu* predecessor was a large conglomerate organisation in the prewar period which was mostly controlled by a family-holding company (Goto 1982, Redding and Whitley 1990) and typically comprised a bank, an insurance company, a trading company and many industrial companies (Yoshihara in Redding and Whitley 1990). During the pre-war period, the four largest *Zaibatsu*-Mitsui, Mitsubishi, Sumitomo and Yasuda controlled 544 companies, accounted for 25 per cent of all Japanese industrial capital (Redding and Whitley 1990). Although they were officially dissolved after the World War II (in 1946) by the Occupation Forces, some of them like the four successors are still in existence till today. But the big three, Mitsui, Mitsubishi and Sumitomo were reborn in the post WW II as a federation of major corporations instead of the union in the pre-War, financial institutions and general trading companies (Kiyonari and Nakamura 1980). Main banks, headed by the city banks were not designated as holding companies or companies subject to deconcentration (Miyazaki 1980a), thus they were not subject to the dissolution exercise by the Occupation authorities, a good ground for them to provide funds for affiliated firms in the post-war period.
- ⁷ A *Sogo Shosha* is a post-war general trading company which has to fulfill some criteria: that it deals with many products in export and import markets, has international offices, holds power in marketing and finance and most importantly derives a substantial proportion of its revenues from trading (Yoshihara in Redding and Whitley 1990). Despite the threat of their shrinking in number due to increasing revenues from manufacturing activities instead of from trading; recently there are nine business groups that fulfill those criteria. They are Mitsubishi Shoji, Mitsui Bussan, C. Itoh, Marubeni, Sumitomo Shoji, Nissho, Fuyo Menka, Kanematsu and Nichimen (Redding and Whitley 1990).
- ⁸ A few independent business groups that fall in this category are Toyota, Honda, Hino and Suzuki in vehicles; Kubota in farm machinery; Shiseido, Kao and Lion in personal products; Hitachi, Sharp, Sanyo, Matsushita and Sony in electronics; Shionogi and Fujisawa in pharmaceuticals; and Fuji Film, Canon, Ricoh and Seiko (Abegglen and Stalk 1985).
- ⁹ Zeile (1991) refers to *Chaebol* as financial cliques; Kim refers to it as business conglomerates. Outside the *Chaebol*, there are a few large independent firms and less sub-contracting small-large firms such as public sector enterprises and some other large trade and manufacturing associations (Hamilton and Biggart 1988) but they are not considered as ENO in the present study as they are accused of being merely the government administrative "donkey".
- ¹⁰ Defined as firms having fewer than 300 employees or total assets of less than USD20 million.
- ¹¹ He groups the method of fund rising for an enterprise into three: 1) Direct financing in which an enterprise obtains funds directly from the public by issuing debentures or shares; 2) Indirect financing in which an enterprise obtains funds indirectly from the general public that deposit their money in financial institutions. Financial institutions are the intermediary linking the fund providers, the general public and the fund client, the business organisations; and 3) Internal financing, the source of funds generated internally by an enterprising organisation such as depreciation funds and retained profits.
- ¹² In other words, in most cases city banks tend to provide loans to their own *Keiretsu* members: for example, the Mitsubishi Bank to the Mitsubishi *Keiretsu* firms, the Mitsui Bank to the Mitsui *Keiretsu* firms, the Sumitomo Bank to the Sumitomo *Keiretsu* firms and so forth. Thus affiliated firms which

belong to a *Keiretsu* with a strong group bank are in an advantageous position to obtain loans for pursuing their economic activities.

- ¹³ The Japanese government through the Ministry of International Trade and Industry (MITI) creates an environment in which public and private sectors are partners that should cooperate. Among cooperative mechanisms adopted are selective access to government-guaranteed financing, targeted tax breaks, government-supervised investment coordination, commercialisation and sale of products and government assistance during the time of economic downturn.
- ¹⁴ This process is called a "mimetic isomorphism" in the words of DiMaggio and Powell (1993) as the *Chaebol* mimic the structure and form of the Japanese *Zaibatsu* in their establishment.
- ¹⁵ In the summer 1952, Rhee government allotted more than three million dollars of foreign aid to 40 private firms. This money instead of being used for specific projects under the grant was used for importing grains and fertilizers that were needed in Korea. They made huge profits due to the discrepancy in foreign exchange rates and the monopoly power (Kim 1976).
- ¹⁶ There were 50 most influential *Chaebol* in 1974; 17 *Chaebol* had their origins in the 1950s of which the three largest groups were Samsung, Lakhee and Ssangyong (Kim 1976).