No.99

Centripetal Authority, Differentiated Networks; The Social Organization of Chinese Firms in Singapore

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ISS 0129-8186

ISBN 9971-62-519-9

1989

1. INTRODUCTION

Recent studies have found that the family firm is the predominant form of Chinese business organization (Omohundro 1981; Wong 1985). Wong, in fact, argues that Chinese family firm is not restricted to a particular locale or a specialized line of economic endeavour (Wong 1985:60). This paper analyses the organizational dynamics of Chinese family firms in the context of a small export-oriented economy like Singapore. It focuses on their internal dynamics and organizational structure, looking into the ownership patterns, authority structures, division of labour, and the principles of inheritance.(1)

Tracing the life history of a Chinese family firm from its creation, development, to its eventual disintegration, the paper details the processes, mechanisms and changes in the organizational dynamics of the firm as well as to show how a Chinese firm grows from a small family business into a large business conglomerate. It has been argued that the viability of Chinese kinship principles in organizing a Chinese family firm is only applicable to small scale business. This paper, however, demonstrates that, in Singapore, very large scale business can continue to be organized along the same kinship principles.(2)

1.1 Singapore

Singapore is a small nation state situated at the southern tip of the Malayan Peninsula. Strategically situated on the trade route between the East and the West, and blessed with a natural deep harbour, the potential of Singapore was quickly recognized by Stamford Raffles, who acquired it as a trading post for the British East India Company in 1819. It quickly realized its potential and by the nineteenth century, Singapore was already an important trading station for the British. Coupled with the very fast economic growth in the region, particularly in the trade of tin and rubber commodities from Malaya, Singapore, by the turn of the nineteenth century, was a major entrepot port, re-exporting goods from the region to the rest of the world. Trading, to this day, remains a major source of capital for the Singapore economy (See Chew 1988).

The end of the Second World War saw the growth of the manufacturing sector. These early projects were mainly in the area of processing imported raw materials, such as rubber, tin, coconut, vegetable oils, and various consumer goods. By 1959, manufacturing activities became the third major source of employment in Singapore.

The third phase in the economic development of Singapore saw the rapid industrialization of the economy. The government felt that a dynamic manufacturing economy would lead to its developing into a prosperous country. The manufacturing sector developed very rapidly. Its contribution to the Singapore Gross Domestic Product (GDP) increased from 16% in 1967 to 22% in 1980 (see Chew 1988:8). Singapore's economy today relies on four major sectors: trade, manufacturing, transport and communication, and financial services.

1.2. Definition of a Family Firm

There has been some debate as to what constitutes a family firm. Most definitions tend to centre on 3 major concepts: the family, ownership, and control. Ward (1987) for example, defines the family firm as "a business that will be passed on for the family's next generation to manage and control." Emphasizing capital management, Miyamoto (1984:306) suggests that family firms are "firms in which the majority of capital is held by a single family or a few families, but which is managed by non-family members."

Berle and Means (1982) stress the importance of control over ownership of stocks. They suggest that 10% stock ownership is sufficient for a family to maintain control of a corporation. For a large corporation in particular, the wider distribution of stocks makes it more difficult for the other shareholders to dislodge a controlling minority. However, although a family can achieve a level of largely passive control over a corporation with a small minority of the stock and representation on the board of directors, active control can be assured only when the chief executive is also a member of the controlling family. In addition, families with only minority ownership cannot exercise absolute control, which comes only with majority ownership.

A family firm can take on various forms. The family may own a majority of stocks and is in active control of the company, that is, ownership of stocks becomes an instrument of control. On the other hand, a family may own a majority of the stocks in the company but exerts only passive control. In other cases, the family exercises effective control even though it owns only a minority of the stock in the company.

The concept of control is complex. It cannot be determined by simply assigning as absolute percentage of stock ownership to it. Lim Mah Hui (1981) states that control is a form of social relationship and is influenced by such factors as the relationship between the largest shareholders; composition and nature of the directors and management; and the social and kinship network between large owners, directors and officers.

What constitutes a family business cannot be surmised simply by majority ownership of a business by a group of relatives. Rather, I think it is a combination of effective control and ownership. A business may be considered a family enterprise if family exercise effective control over it. In Singapore, however, ownership almost always comes in as one of the instruments of control. Chinese businessmen in Singapore still feel more secure with assuming control through real possession of the business. Thus it is really the interplay of ownership and effective control that defines a Chinese family firm.

2. ORGANIZATIONAL DYNAMICS OF A CHINESE FAMILY FIRM

While it is true that the dynamics involved in running a business varies with the age of the business, its size and type of economic activity, my fieldwork reveals that there are several common characteristics of Chinese family firms. This section of the paper discusses the salient features of Chinese businesses in Singapore.

2.1 Centripetal Authority

When one thinks of a typical family firm, the picture that emerges is that of a head of household making all the decisions. This characteristic, termed as paternalism by many writers, is true of many small Chinese firms in Singapore. The founder of the business owns and manages the family business, and decision-making is highly centralized. One informant, the eldest son of a Chinese businessman, said:

> My father made all the decisions when he was alive. Later, when he formed a board to help run

> the business, this board made the decisions. But this was only in name. In actuality my father made all the decision himself still, especially in non-technical matters like investment, getting loans, negotiations with banks, finance companies, suppliers and so on. But, he consulted the rest in very technical things. Anyway, he has the last say. After all, the business is his. Even when we, his children, had any suggestions, we had to go through our father's friends first because my father felt that as head of the family, he was to be obeyed at all times.

Another informant, when asked whether his sons ever question his decisions, said:

> No, never. They wouldn't dare. Most of the time, I ask them for their opinion. I tell them roughly what to do. But honestly, my way of thinking is not wrong. I'm still alert and energetic. Though old, my way of seeing things is still sound. Most important in business is acute judgement. If I am clear about something, I tell them to go ahead, there's no need to discuss further.

There is a low degree of delegation of authority and responsibility because Chinese businessmen are reluctant to share information with subordinates. This forces the employees to go back to their superiors for instructions, even for minor decisions. This enables the Chinese manager to retain power in his hands. An employee of a building construction firm said:

> My boss had his fingers in all the operations. Everything is extremely centralised. There is an absence of horizontal links. All of us are linked only through him (boss). He personally controls everything. We don't understand his spread sheets. We always say that he hides a lot of things from us this way. We don't know what to do next. We have to rely on him to tell us what the next step is. Now he wants us to compete with one another ... so that we will not be united at the middle level. He's afraid that if we are united, we will not feed him with information. Then he will not know what is going on.

The authority of the Chinese father extends beyond the family unit into the business because the business is also considered as a family activity. This linkage between the family and the business is important. The role of the founder does not end with his retirement. He continues to influence the decision-making process. For example, an informant who inherited his father's rubber business said that his father's resignation from the board was just a formality. As the business was a family activity, his father kept an eye on it. He continued to go to the office daily and his opinions on business policies were still heeded.

This continual involvement is important because of the credit standing and personal relationships built over the years with bankers and financiers. As one informant noted, "When the son made a mistake, all the old man had to do was to make a phone call to the bank Chairman. It was still possible for him to plead for leniency because ganqing or sentiments are still involved."

2.2 Xinyong or Interpersonal Networks

Chinese businessmen believe in Xinyong, a gentlemen's agreement (cf. Cheng 1985). Verbal contracts and the reputation of a person are vital for business transactions:

> During my father's time, there was very little need for signing of contracts. Only with the government was there signing. Amongst the business associates, just a man's word was good enough. When my father said that he would do something, he would never go back on his word. It is dishonorable and shameful. If word goes round, his reputation will be ruined and no one will want to do business with him. If a man says 'one' it must be 'one' and not 'two'. An agreement is an agreement.

Since interpersonal trustworthiness is of utmost importance, Chinese businessmen usually only deal with those that they are familiar with. As it is the reputation of the proprietor that is crucial, he has to personally deal with business associates. This increases the indispensability of the proprietor. Ganqing established over the years extends to the children because of previous good relations.

The value of trustworthiness also applies to recruitment. Chinese businessmen prefer to employ relatives and clansmen because they are supposedly more trustworthy. As one informant said of his father, "He prefers to hire people from his village. He trusted these people and believed all these people were hardworking like him." Another informant said that qualifications were not as important as diligence and loyalty, which could be expected from one's kinsmen and clansmen.

In Chinese business transactions, there is a lack of formal rules and regulations. This lack of formal structure can become the basis of later conflicts within the company and can result in its eventual disintegration. Positions of trust are specifically given to close relatives. Jobs which require the handling of money are assigned to close kin. One lady summarizes the attitude of Chinese businessmen: "You know, Chinese don't really trust other people. My dad feels that it's better to have our own family people to handle money. So my brother and sisters (we were still in school then) would take turns to sit at the counter to watch the cash." Coupled with trustworthiness is a moral obligation to support one's relatives. In early Singapore, being given a job also meant that one had the problems of food and lodging solved, since employers provided such necessities. The emphasis on kin relations results in relatives being appointed to positions of power. Ownership of the business is effectively passed on to family members, restricting the entry of outsiders into the inner circle.

A capable and diligent employee may rise to a top level position. Some of today's tycoons, for example, Goh Tjoei Kok, Kwek Hong Png, Lee Kong Chian, to name a few, started off this way. In most cases, however, important positions are reserved for close kin, especially members of the immediate family. It is a Chinese businessman's dream to pass on his business to his children. Thus as soon as they are able to work, they are initiated into the firm, first by helping out in simple things, such as watching the cash-counter, getting out inventory lists, serving customers and so on. One informant recalled that he would sit with his father everyday after school and listen to his comments about a wide range of business-related matters. One informant noted:

> Nobody sits down to teach you. We just learn from the staff there, learn from my father, my uncle, learn from mistakes. We don't know anything about management, so we solve problems through our own feeling, when problems are too big, we ring our father or uncle to consult them.

Before the children are ready to assume the mantle, the founder's relatives or trusted old friends occupy those positions till the next generation can ably fill them. Thus, when the Chairman of ER Bank retired, he asked a few of the directors in the company to step down and make way for his children.

2.4 Chinese Business and Kinship Networks

Chinese immigrants who came to Southeast Asia relied heavily on family and kin network for identification and support:

> The employees in our company are mostly people from the same village. When they first started work, their board, food, clothes, and even haircuts were provided for. The company is more like a household than a business place. Although our staff are being paid pittance, we can count on their being loyal to the company. Since they have been provided for in the early days, they will continue to stick around even if we are facing hard times and cannot pay them much.

The kin networking extends to the way the Chinese do business. Kin groups and associations forge networks of information, credit and business contacts. Networks also give Chinese migrants access to market outlets. Since Chinese businessmen operate on the credit-worthiness of prospective associates, and this type of capital takes time to build up, the helping hand of an established merchant is important.

> When my father started out in the building construction business, Mr. Chai, the owner of one of the leading construction companies helped my father a lot. He channelled quite a lot of business to my father and helped our company to take off the ground. This was very important because my father was new to the industry.

Business networking can be in the form of ownership links, economic links of mutual cooperation, links formed through the sharing of common directors, or marital links. Business networking extends beyond national borders. Many large Chinese family firms have become transnational. For example, the Overseas Union Bank, the United Overseas Bank, Tat Lee Bank, and the OCBC Bank groups, all family-owned, have built up strong bases in Malaysia. The Hong Leong group in Malaysia, an offshoot of the Singapore group, had developed into a semi-independent group, such that links between the Singapore and Malaysia group may be regarded as inter-group rather than intra-group in nature. Business ties are also forged with companies in Hong Kong, Taiwan, China, Japan, Indonesia, the Philippines, Thailand, the United Kingdom, the United States of America, Australia and New Zealand. By and large, these other associations are created via joint ventures with foreign conglomerates.

3. STAGES IN THE DEVELOPMENT OF A CHINESE FAMILY FIRM

Although the majority of Chinese firms are small-scale family concerns, in Singapore, it is no longer valid to study family business from the perspective of a single firm. Many Chinese family businesses have developed into large scale business groupings. This section documents the structural development and organizational style of Chinese family firms as they develop from a small sole-proprietorship to a large conglomerate. It will show that even when these companies become very large, many of the principles used in the running of a small Chinese family firm still apply.

3.1. Structural Development

The majority of Chinese immigrants in Singapore came as labourers to find work to support families back home in China. The story of Mr Kwek, now leading local tycoon, reflects the life histories of thousands who came.

> In the year 1928, at the age of sixteen, I left my native country China to seek my fortune in Singapore.... I had a brother-in-law in Singapore who was managing a hardware business, and I joined him as an apprentice.... From apprentice, I rose to the position of clerk, then manager and eventually general manager. Although I had done well in my job, I felt I could perform better if I were on my own.

After saving enough and gaining sufficient experience, many started their own businesses. The laissez-faire economy during colonial times made the entry into petty trade easy. Small trading businesses in the form of wholesale or retail paved the way for higher forms of business enterprise. Sole proprietorships and partnerships characterised Chinese business in 19th Singapore society. The capital of a small entrepreneur often came from personal savings or were borrowed from relatives.

As more capital is accumulated (through profitable businesses and reinvesting surplus into the business), branches may be set up. The case of the Lee family is illustrative. From a single shop, Mr. Lee began setting up branches in various parts of Singapore. To raise capital for expansion, he invited his brother to form a partnership dealing in furniture and other household items. With more capital, the company began to diversify into other businesses, such as opening a jewellery shop. As the business expanded, Mr. Lee converted the business into a private limited company in order to take the advantage of a corporate tax break. This change in the status of the business, however, had little effect on the way the business is run. When the business continued to expand, Mr. Lee decided that the various branches of the company should be registered as separate companies.

The expansion in the business resulted in relatives being invited to become shareholders. For example, Mr. Lee invited his brother to join his fast expanding business: "I knew that expanding the business meant expanding the staff strength. Mindful of the old Chinese proverb that when tackling a tiger, one needs the help of one's brothers, I invited my brother to join my firm." Thus, even when a Chinese firm expands, holdings of the parent company are largely personal ones. Often, the founder or founding members will hold the majority of the shares.

Chinese businesses, when they continue to grow, will expand into areas unrelated to the original line of business. According to an informant, "This is done in order to reduce risks." This process of segmentation is exemplified by the Kwek family business. The Kweks began as traders in the hardware line. They expanded into paint and cement manufacturing, shipchandling, and construction. They also bought rubber plantations and ventured into the real estate and property development. In the mid 60s, the family started Hong Leong Finance Ltd. The business group continued to grow through the creation of new companies as independent establishments; joint ventures with other conglomerates; as well as the purchase of established businesses.

The sheer size of the business network increases the ability of individual companies to undermine competitors through the practice of cross-subsidization whereby profits are shifted from one product line to subsidize another, thus underpricing their competitors (cf. Lim and Teoh, 1986:346). In these huge groups, the family ceases to possess just personal holdings. Instead, nominee and trustee companies are set up to hold the family's interests in the various sectors of the business. The family business takes on an increasingly complicated structure, with cross-holdings, 'double-back' holdings between subsidiaries, subsidiaries and associated companies. Subsidiaries begin to form sub-subsidiaries, resulting in a large segmented structure [See Table 1]. For example, in the Kwek family, the finance company was the first of its listed company. Through the years, the number of listed companies has increased to six. Usually, the parent company does not go public but remains as a flagship of the family, while subsidiary companies are publicly listed.

Hong Leong Group has under its wings several groups: for example, the Hong Leong Finance group, the City Development group. In these companies, however, the majority of the share are still controlled by family members. In fact, the family may set up holding companies which will own shares in these publicly-listed companies. Thus, going public will raise capital for the business but does not undermine the control of the family.

Control of the business still rests solely with a small group of family members who handle business associates and clients. Although more outsiders are employed, family members and kin are put in charge of subsidiary companies. While the head of the family may delegate some responsibilities to these relatives, decision-making, especially on financial matters, remains centralized. One informant said, "My father just says 'go there', and we go. He will decide who to transfer, who to go where. He is the head of the family. Though I am given charge of an outlet, I still refer to my father and uncle for direction and instructions. My father and uncle visit each of the branches once or twice every week. At the end of every month, the family meets to report on sales and other matters."

When the family firm becomes a private limited company, some rules and regulations which are required by the Registrar of Companies, such as a Memorandum of Association and Articles of Association, annual accounts, and the declaration of dividends, must be submitted. However, the management structure remains family-centred. The Board of Directors is generally small in size, and made up of largely owner-directors, with the founder as Chairman. The Chairman may also take on multiple positions. For example, in one company, the Chairman was the Managing Director, Personnel Manager as well as the Project Manager. In theory, the Board of Directors have voting rights according to the number of shares held. In practice, the Chairman makes the decision and inform the rest of the board. A company director noted:

> The Board of Directors made decisions only in name. My father (owner and Chairman) made most of the decisions; he only consulted the directors over technical matters. We seldom have management or other meetings. For company policies, we sometimes meet, and sometimes don't. So far, there has been no crisis, so just the head of the company makes the decisions. It is slightly dictatorial; and even if he asks you, you may say something, but he will still go ahead with what he wants anyway.

Thus, even as the organizational structure becomes larger, decision-making still reflects a paternalistic-centripetal structure. For family businesses with more than one company, the general rule is for the founder or the core group (e.g. father, older sons) to be represented on all the boards. Hence, the delegation of responsibilities does not dilute the control of the Chairman. When the family cannot provide sufficient manpower, the management of the family business may involve outsiders. However, strategic posts are always held by family members. The assignment of family members to sit on various boards is also a common phenomenon. The intensity of interlocking directorship determines the distribution of power.

When a Chinese family business becomes very large, the management structure becomes very formalized. In an increasingly competitive business environment, where Chinese firms have to compete with multi-national companies, efficiency and long-term planning are extremely important. Rational decision-making based on research rather than pure instinct is paramount. Large scale Chinese family businesses, such as the Hong Leong Group, Lee Kim Tah Group, United Overseas Bank Group, to cite some examples, are run very professionally. Hundreds of top and middle level staff are employed to perform operational and technical work. A key feature in large scale Chinese firms is the rise of a professional class. In this competitive business environment, qualifications and expertise are crucial to the success of a business. In order for immediate family members to take over and run the business effectively, many Chinese businessmen make an effort to educate their children in fields relevant to the family business. Others who are already involved in the business are sent to upgrade themselves. At the same time, persons who have no relations to the family are hired at executive and managerial positions to run the company as a rational business organization. In fact, outsiders are sometimes invited to join the Board of Directors.

In the Industrial and Commercial Bank group of companies, for example, professionals like Y.K. Hwang are invited to join the Board to contribute their expertise in the development of the business. Prominent leaders such as Ong Pang Boon and Lim Kee Ming sit on the Hong Leong Finance Board. However, the emphasis on rational business and economic practices and the rise of a professional class do not alter the basic principles by which the Chinese run their company. A case study of a specific family business, the Hong Leong Group of Companies, illustrates this principle.

Mr. Kwek Hong Png came to Singapore in the late 1920's from China. He began by working as an apprentice in his brother-in-law's hardware trade. In 1941, Mr. Kwek established Hong Leong Company, which supplied equipment to rubber plantations and traded in building materials. The business began with an initial capital of $7000, which was drawn from Mr. Kwek's personal savings. As business grew, the founder invited his three younger brothers to join the firm. Within two years, Hong Leong ventured into investments in properties, and purchased many lots of vacant land. An the end of the World War Two, Hong Leong also started buying rubber plantations. Hong Leong Company became Hong Leong Company Private Limited in 1948, with a paid-up capital of $300,000. The Kwek brothers chose to keep their loans from the bank to a minimum, relying on their own resources instead.

Anticipating growth in the property sector, Hong Realty Pte Ltd, Garden Estates Pte Ltd, Hong Leong Holdings Ltd, and Union Investment Holdings Pte Ltd were incorporated in the 1960's. These four companies jointly developed vacant land acquired in earlier years. In 1971, Hong Leong obtained a substantial interest in City Developments Ltd, which has since become one of the largest real estate and property development companies in Singapore.

The Kweks not only invested in property, they also saw the benefit of financing property developers. In 1966, Hong Leong Finance Ltd, now one of the top finance companies in Singapore, opened its doors for business. Just 3 years after its inception, Hong Leong Finance shares were listed in the Stock Exchange of Singapore and Malaysia. In 1979, Hong Leong Finance acquired a hundred per cent equity in Singapore Finance Ltd.

With this purchase, Hong Leong stepped into a period of vigorous acquisition of established enterprises. In previous years, expansion was through starting new businesses. In the 1970's and 1980's, the group expanded through takeovers and acquisition of companies, thus accumulating a wide range of businesses. For example, in 1981, Hong Leong Group acquired Hume (Far East) Ltd. (now known as Hillside Investments Limited), a public company which manufactured concrete pipes, beams and steel products; Hume Gas Cylinders Pte Ltd. (renamed Hong Leong Gas Cylinders), which turns out containers for Liquified Petroleum Gas. Hume Industries (S) Ltd. (now Hong Leong Industries) and Rheem (Far East) Pte. Ltd. were purchased in 1982 and 1985 respectively. Property development and manufacturing companies, as well as hotels were also acquired.

The philosophy behind the expansion is not to continuously enlarge one company. Rather than concentrate all the activities within one huge company, a pyramid of subsidiaries was created to handle these acquisitions. In this way, while the business expands, risks are limited to the individual private companies. Economies of scale is not lost either as these companies function in mutual support.

The Kweks have not restricted their empire to Singapore. In 1946, Hong Bee Hardware Company Sendirian Berhad was formed. Hong Leong Co. Pte. Ltd. also set up a branch office in Malaysia. By 1968, a separate company, Hong Leong Co. (Malaysia), was established as an investment holding company of the family's Malaysian interests. The Malaysian Group also established similar lines of businesses as its Singapore affiliate, venturing into manufacturing, property development, as well as finance and banking (see chart 2). Hong Leong Malaysia, under Mr Quek Leng Chan, the nephew of Mr Kwek Hong Png, has evolved a separate identity of its own, operating quite independently of the Singapore Group. In the 1980s, Hong Leong Malaysia acquired Hume Industries (M), Carsem, Wesmalek, Far Eastern Industries and Dao Heng.

Both Hong Leong Malaysia and Hong Kong Singapore have expanded overseas into Hong Kong, Taiwan, the Philippines, China and the United Kingdom. Hong Leong International Ltd. and Hong Leong Company (HK) have been set up to spearhead trading, property development and banking. The Malaysian Group is also beginning to develop business activities in the Philippines, under the umbrella of the Hong Kong Group.

The Hong Leong Group, like many other large Chinese family business groups in Singapore, shows vast diversification of trade, including financing, manufacturing, property development and the service industries. Despite the large number of firms and the presence of several public companies, however, control of Hong Leong is still in the hands of the Kwek family. This is done through ownership and dense interlocking of directorships across the business group (see Chart 1 & 2). The public records show that the number of outsiders with a stake in the family business is large. However, the percentage of shares held by these individuals is small. For example, 10.4% of the shareholders in City Development hold 96.6% of the shareholdings. Similarly for the other public company, Hong Leong Finance, 11.7% of the shareholders own 94.79% of the stocks [see Registrar of Companies].

The majority of the shareholders in the public companies are financial and non-financial institutions, and corporate firms. A number of these corporations themselves are family owned businesses or investment holding companies. The 1987 Annual Report of City Developments Ltd. for example, shows that 61.79% of the stocks were held by 100% family owned companies. Similarly, 57.66% of Hong Leong Finance is owned by the Kwek family. Hence, going public raises capital for the family business but does not undermine the control of the family.

Most of the Kwek family's stocks in all the subsidiaries are held through Hong Leong Investment Holdings Pte. Ltd., of which all shareholders are family members. As chart 1 shows, these holdings are held both directly and indirectly through the major subsidiaries. In 1984, three companies were registered to supplant Hong Leong Investment Holdings as the ultimate holding company for the Kwek family interests in Singapore. The apparent intention of these companies is to consolidate ownership of the Singapore Hong Leong Group into tighter blocks controlled by immediate family members. This makes Hong Leong Investment Holdings less vulnerable to any outsiders who might attempt to buy out a family member. A provision in the articles of one of the companies states that only people "entitled or permitted" to be shareholders or directors of Hong Leong Investment Holdings may become shareholders of the new investment company. Another clause states that if, despite this provision, any non-member of Hong Leong Investment Holdings does succeed in becoming a member of the company, then the company must sell any shares which it owns in Hong Leong Investment Holdings (Far East Economic Review, 5 December 1985).

Control of the family business is not diluted by the presence of professionals occupying top positions. These professional managers/executives do not exercise control comparable to core family members because their control is limited to only one section of the group business. In addition, these managers are not included in the formal management structure beyond the firm(s) that they are in charge of. Only the core family members belong to this group. We can identify members of the core group through an examination of the concentration of directorships across the business group. Chart 3 illustrates the interlocking directorships that exist in the Hong Leong Group.

In a huge business concern like this, the founder Kwek Hong Png still holds the Chairmanship for the holding companies and all the subsidiaries. His son and chosen successor, Leng Beng, sits on all the boards as an Executive Director. He is also the Managing Director of most of these companies. With his father's retirement from Hong Leong Finance Ltd. in 1984, Leng Beng has stepped in as Chairman. His younger brother, Leng Joo, has also gradually been appointed into the various boards. Hong Png's brother used to sit on most of the boards too. Now, their sons have stepped into their places. It is interesting to note that even though Hong Leong has grown into a business conglomerate, the "hands-on" style of management of a Chinese "towkay" is still evident. For example, one executive of Hong Leong Credit commented:

> My Chairman sits on the 14th floor of the Hong Leong building, just one floor above the secretaries and registered offices of most of the group's companies, the busiest level where all the information is processed. He monitors day-to-day activities very closely. Take the approval of loans, for instance. Around the late 1970s and early 1980s, loans as small as $50,000 had to be personally approved by him. Now, the amount has been raised to $300,000. This is still a very small sum for a Chairman to be involved.

Thus Chinese business management, even in large business groups, is based on tight personal control. The idea of an absent master and lackadaisical governance is not favoured. An executive in Hong Leong said this of his Chairman: "He controls everything tightly, very tightly. For example, to prevent control from slipping through his hands, Leng Chan made sure that when he sent his brother, Leng Hai, to look after the company's interests in Hong Kong. Even so, Leng Chan makes regular personal visits to Hong Kong."

The basis of the Chairman's power rests not only in his control of shares in the company, but also because of personal hold as the head of the family. For example, in the case of the Industrial and Commercial Bank, the Chairman, Tan Kim Chong, had retired and handed over the business to his elder son. Although he had no legal authority over the family business at all, to the day of his death, he remained in control. According to a former manager with the bank, the managers would visit him daily at his residence to give him reports of various happenings: "All the sons were afraid of him."

Thus, the centripetal authority of the patriach is not just characteristic of small Chinese business firms, but is also applicable to large conglomerates. This authority is based on his control of the company and the family. Indeed, it is often his continuous presence that holds the family and thence the business together. The moment he relaxes his control, without the proper transfer of power, the family business inevitably divides.

IV CONCLUSION

This paper provides an indepth analysis of the internal dynamics and organizational structure of Chinese family firms in Singapore through tracing the life histories of these firms from a small sole proprietorship to transnational conglomerates.

A central theme is the centripetal authority structure that characterizes Chinese firms. Decision making processes are centered on the founder and core-family members. The informal organizational structure of Chinese firms and the importance of guanxi relationships in business transactions contribute to the low level of delegation of authority and responsibility. The notion of a centralized authority structure and the importance of guanxi relationships have also been documented in studies in Hong Kong and Taiwan.

The paper also deals with the question of the applicability of kinship principles in the organization of large scale Chinese family firms. The data collected clearly demonstrates that even when a Chinese firm becomes very large, the authority structure remains highly centralized, even when there are modifications in the organizational structure of the firm. The changing economic environment in Singapore, with increasing competition from multinational companies, has resulted in Chinese firms having to adopt more "rational" methods of management in order to remain competitive. As the Chinese firms grow larger, they take on the organizational structure of "western" companies. The basic rules of ownership and control, however, remain essentially a centralized structure with control given to a small core of family members.

Table 1: Network of Hong Leong Companies in Singapore

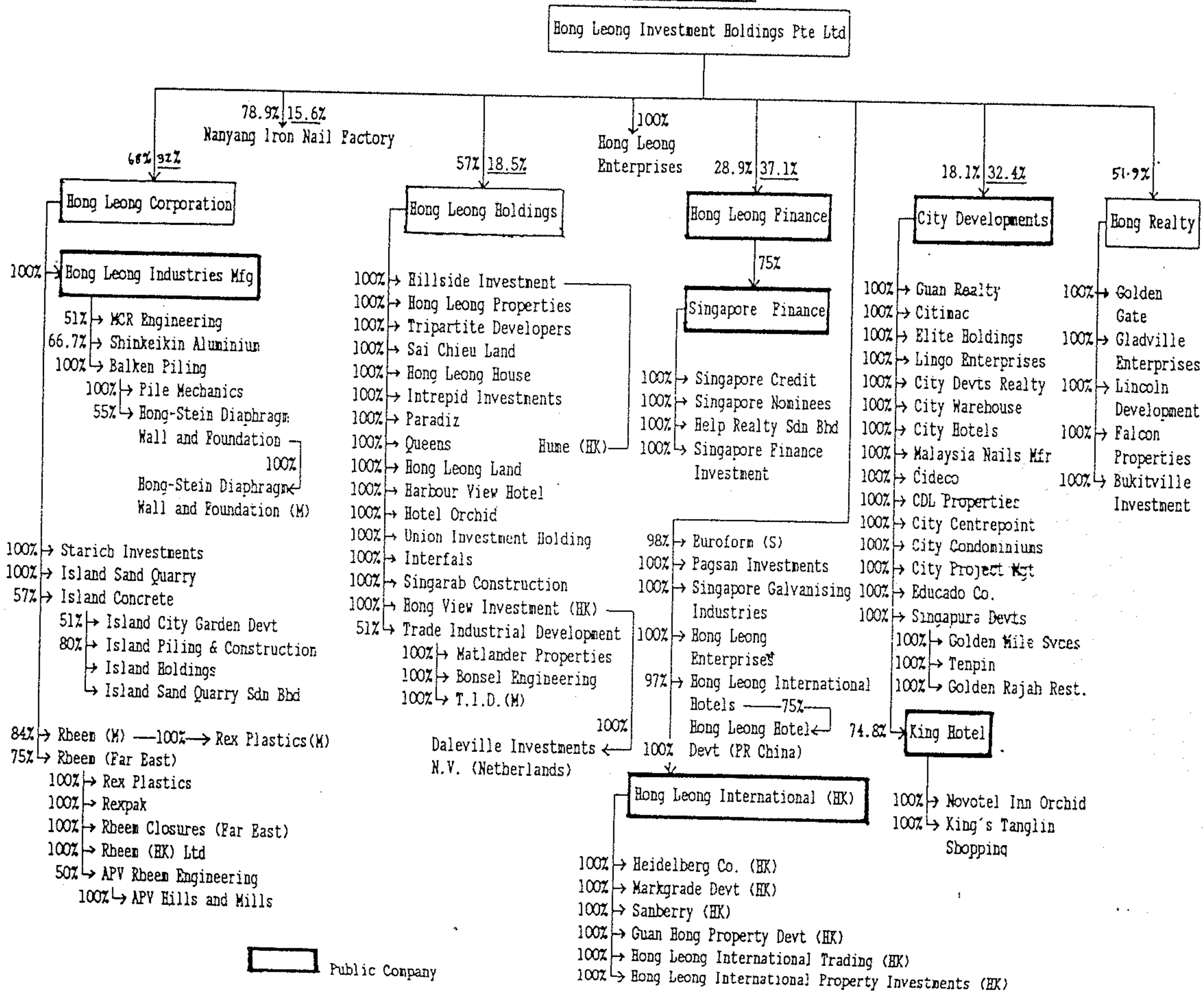

Table 2: Network of Hong Leong Companies in Malaysia

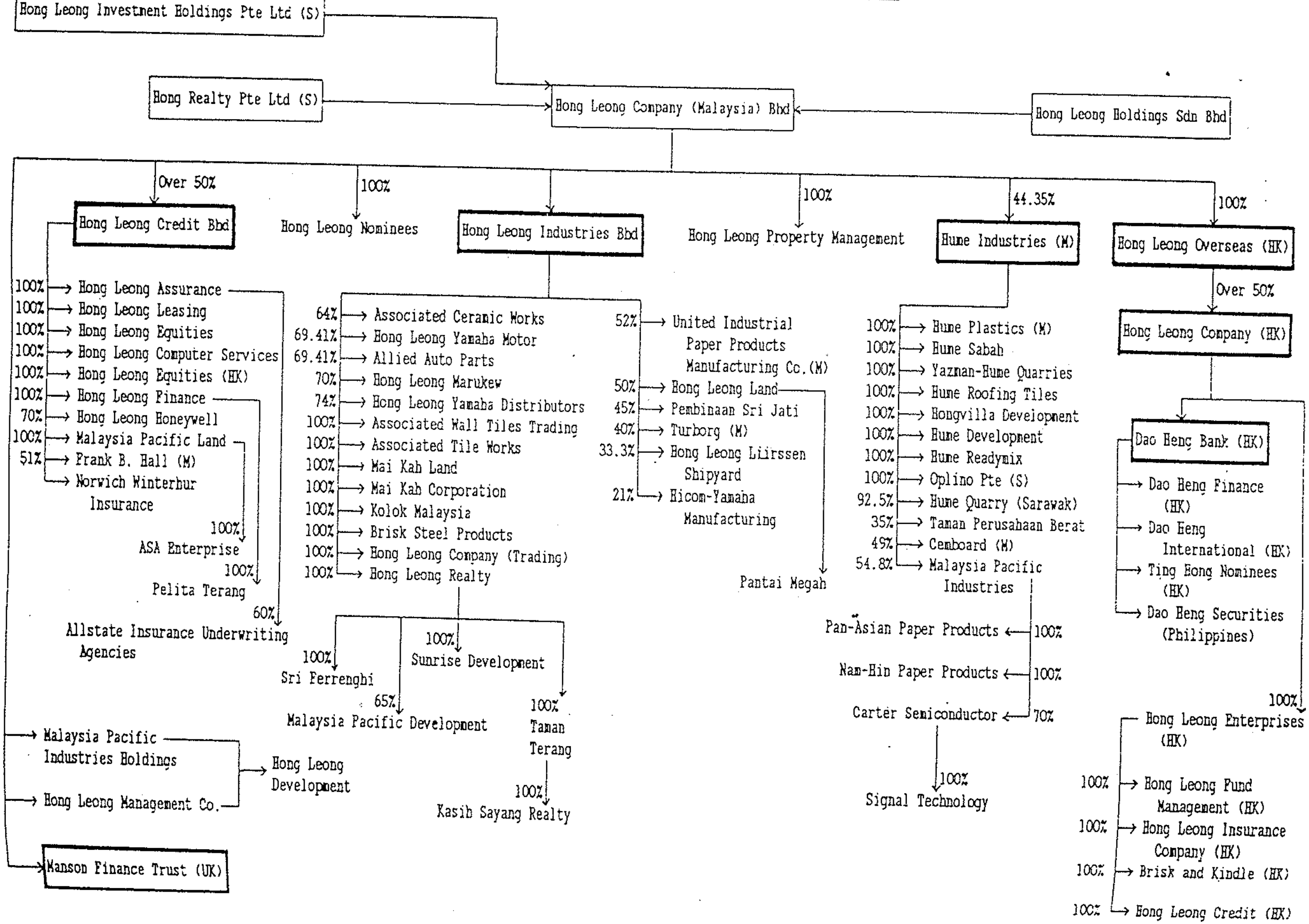

Table 3: Ownership patterns and Directorship of Hong Leong Companies

Kwek Hong Png

- City Developments Ltd Group
- Hillside Investment Ltd
- Hong Leong Corporation Ltd Group
- Hong Leong Foundation
- Hong Leong Holdings Ltd Group
- Hong Leong Industries Manufacturing Ltd
- Hong Leong Co. (M) Bhd
- Hong Leong Industries Bhd

  - **Kwek Leng Joo**
    - City Developments Ltd Group
    - Hong Leong Corporation Ltd Group
    - Hong Leong Finance Ltd Group
    - Hong Leong Holdings Limited Group
    - Hotel Orchid Ltd
    - King's Hotel Limited

  - **Kwek Leng Beng**
    - City Developments Ltd Group
    - Hong Leong Corporation Ltd Group
    - Hong Leong Finance Ltd Group
    - Hong Leong Foundation
    - Hong Leong Holdings Ltd Group
    - Hong Leong Industries Manufacturing Ltd
    - King's Hotel Ltd
    - Singapore Finance Ltd Group
    - Hong Leong Co. (M) Bhd
    - Hong Leong Credit Bhd

Kwek Hong Lye

- City Developments Ltd Group
- Hillside Investment Ltd
- Hong Leong Corporation Ltd Group
- Hong Leong Foundation
- Hong Leong Holdings Ltd Group
- Hong Leong Industries Manufacturing
- Singapore Finance Ltd Group
- Hong Leong Co. (M) Bhd

  - **Kwek Leng Hai**
    - Dao Heng Bank Group (HK)

  - **Kwek Leng Hoe**
    - Hong Leong Corporation Ltd Group
    - Hong Leong Industries Manufacturing
    - Hotel Orchid Limited
    - Harbour View Hotel Pte Ltd
    - Novotel Orchid Inn (Pte) Ltd

  - **Kwek Leng Chye**
    - Hong Leong Corporation Ltd Group
    - Hong Leong Holdings Ltd Group

  - **Kwek Leng Chan**
    - Hong Leong Finance Group
    - Hong Leong Holdings Ltd Group
    - Singapore Credit (Pte) Ltd
    - Singapore Nominees (Pte) Ltd
    - Hong Leong Co. (M) Bhd
    - Hong Leong Credit Bhd
    - Hong Leong Industries Bhd
    - Hume Industries Bhd
    - Hong Leong Overseas (HK)
    - Dao Heng Bank (HK)

Kwek Hong Khai (deceased)

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    - Hong Leong Finance Ltd
    - Hong Leong Holdings Ltd
    - Hong Leong Land Ltd

Kwek Hong Leong (deceased)

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    - Hong Leong Corporation Ltd Group
    - Hong Leong Holdings Ltd Group
    - Hong Leong Finance Ltd
    - Hong Leong Foundation
    - Hong Leong Industries Manufacturing Ltd Group

  - **Kwek Leng Keow**
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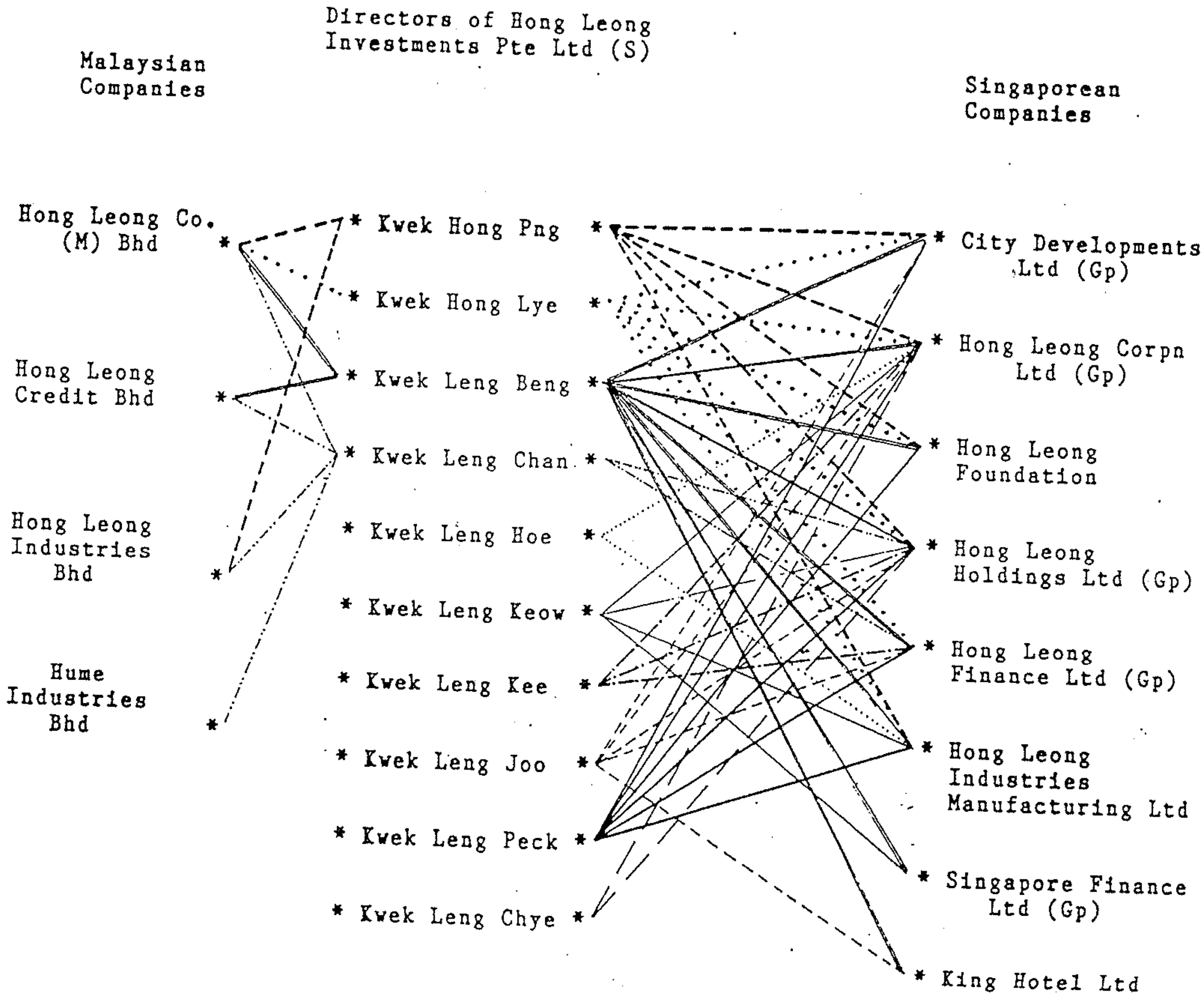
    - Hong Leong Corporation Ltd Group
    - Hong Leong Holdings Ltd Group
    - Hong Leong Industries Manufacturing
    - Hotel Orchid Ltd
    - Novotel Orchid Inn (Pte) Ltd
    - Singapore Finance Ltd Group

Table 4: Interlocking Directorship of Hong Leong Companies



Notes

1. Research for this project was supported by grants from the National University of Singapore and the Singapore Turf Club. Special thanks to Mr Yong Pit Kee, who was the research assistant for this project. I would also like to thank Prof Gary Hamilton, Kwok B. Chan, and Ho Kong Chong for their comments and suggestions for this paper.

2. The fieldwork for this project was carried out between July 1987 to April 1988. Using the life-history interview method, 15 Chinese family firms, primarily in the banking and financial sectors, were surveyed and interviewed. Other businesses, including retail businesses, manufacturing, and construction firms were also interviewed in the exploratory phase of data collection. The firms studied ranged from small sole-proprietorships with only a few workers and dealing with a single product to large scale multinationals, with thousands of workers and branch offices situated in various countries, and having a wide range of business interests.

Indepth focused interviews were conducted with various personnels in each of these firms, including owners, directors, senior management personnels as well as ordinary line workers. Interviews traced the development of each company from its inception to the present state. This allowed for data which show the dynamics of the firms and the mechanisms involved in each stage of growth and development. Interpersonal networks, conflicts and points of tensions, intra- and inter-firm relations were also gathered through these interviews. Secondary data, such as biographies, autobiographies, and materials from the archives of the Oral History Department seved to supplement the interview data collected. These secondary data also allowed for the cross-verification of data.

To trace the inter-firm networks and interlocking directorships, a central problem addressed in this paper, the records of the Registrar of Companies provided an invaluable source of data. Articles of Memorandum, Annual Reports, as well as press cuttings, allowed for the documentation of ownership patterns, Board of Directors, and share ownerships in each of the firms studied. As the larger conglomerates, such as Hong Leong Group of Companies, and United Overseas Group, have business interests that extended beyond Singapore, fieldwork was also conducted in Malaysia. Two fieldtrips were made, one to interview informants based in Kuala Lumpur, and another to collect data from the Registry of Companies situated in Kuala Lumpur, Malaysia.

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