

5 Transitions and Traditions in Chinese Family Businesses: Evidence from Hong Kong and Thailand

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INTRODUCTION

Redding (1995) argues that the twentieth-century rise of the Asian economies has been largely engineered by ethnic Chinese capitalists (see also Clegg, Redding and Cartner, 1990; Liu and Faure, 1996; and Whitley, 1992). Much of this rise has been accomplished by the *hua ch'iao* (referred to in this chapter as 'Sojourners'), the ethnic Chinese living in two Southeast Asian sub-sets. One group resides within that crescent of countries bordering the South China Sea (*Nanyang*). Mostly these are the economies that form the ASEAN zone. The China Coast group includes those in the predominantly Chinese communities of Hong Kong, Macau and Taiwan (Wang, 1994). The resulting organizational forms are distinctly different from Western companies, or even other Asian organizations such as the Japanese *keiretsu* or the Korean *chaebol* (Hamilton, Chen and Wong, 1991).

The first, that is the traditional, Chinese family business (CFB), can be described as a *quan-xi* (relationships) form (in Cantonese; also known as *guanxi* in Mandarin). In its purest form, the *quan-xi* organization is based upon immediate (extended) family or derivatives based upon socialization. In practice, a linkage of business relationships (distinct from Japanese-style consensus) is through *quan-xi*. Sociologically, *quan-xi* can be defined as 'personalistic, particularistic, non-ideological ties between persons – based upon a commonality of shared identification' (Jacobs, 1985, p. 80). The second type comprises the *quan-xi-qiye* organizational form. The phrase is a combination of two Chinese words, *quan-xi* which means 'relationship' and *qiye* which means '(Western-type) enterprise' (Numazaki, 1991). [The standard translations of *quan-xi* and *quan-xi-qihe* are *guanxi* and *gunaxiqihe* respectively. We

recognise there are differences between Mandarin and Cantonese but, for the sake of consistency in this book, we will use the standard form: eds.] This type is especially noticeable within the Coastal Chinese diaspora in Taiwan. Further, Chinese entrepreneurship does not necessarily exclude the development of larger bureaucratic organizations, however. In this respect, we posit that the corporations that they form are hybrid structures similar to the type identified by Semkow (1992). The coda we have adopted in this chapter for these publicly listed corporations under majority family control is the 'Quasi-corporation'.

In this chapter therefore, we will describe the way that the Chinese organization has evolved in the *Nanyang* and China Coast into more modern and international organizational forms, more suited to the competitive global environment of the twenty-first century, and discuss the economic and human resource implication of this transformation.

The chapter comprises three parts. In the first part, we briefly describe the history of the Chinese Sojourners in the *Nanyang* and China Coast groups, define key terms, and outline how Chinese organizations have adapted to the modern world of business. In the second section, we discuss epistemological and methodological issues relating to the study of 'opaque' business networks in Asia, and present qualitative and quantitative data to illustrate how forms of organization have evolved in the *Nanyang* and China Coast groups, especially new forms based on more Western business norms and formal rules of operation, and their economic and human resource consequences. Finally, we discuss the implications for business in East Asia and the global economy of the emergence of these organizational forms.

THE EVOLUTION OF THE CHINESE FAMILY BUSINESS

The Chinese organizations that Redding (1995) identified as pivotal in the rise of Asian economy are not at all homogeneous. Although all are known to favour collaborative organizational forms in distinguishing ways, they differ in structure, societal culture, history and domain, both from each other and from the Western norm (Hamilton *et al.*, 1991). Further, interest in this region remains high despite the diminution of the high growth rates of the 1970s and 1980s (Patten, 1997). This is because of the strong linkages between the capitalist economies of this region and the West established during the Cold War years. These include Western exports to Asia of technology products, Eastern exports to the West of low-priced manufactured goods, and reciprocal East–West capital investments (see Henderson, 1998; Rohwer, 1998).

The Chinese Sojourners

The Chinese in Southeast Asia, in essence, are an example of a 'Global Tribe'. The term was coined by Kotkin (1992) to describe a modern version of the Jewish Diaspora. Unlike their historical counterparts, however, contemporary tribes are connected by global communications with each other and the homeland, in 'the age of acoustic space' (McLuhan and McLuhan, 1989, p. 84). What characterizes the Chinese in particular is their highly entrepreneurial behaviour. In this respect, Wickberg (1965) has noted that there is general agreement in the literature that Chinese entrepreneurial behaviour is a mix of acute management of cash and finance, with informal vertically integrated networks to control a total market process. When coupled with *pang*,¹ this entrepreneurship has, over time, become associated with cohesion based upon social norms, especially within clans, lineage-groups, and dialect-groups. These cohesions serve to reduce uncertainty and transaction costs further. They also serve to generate economic growth, to integrate imperfect markets, to act as a means of internal credit control, and to obtain political cooperation (Leff, in Mackie, 1992a; Kao, 1993; Redding, 1990).

Culturally, however, Southeast Asian countries differ in their host religion and ethnic makeup. The Chinese in each country differ in their mix of dialect-groups (*pang*), although most groups originate from South China. Their political histories differ, and these histories offer important additional insights into the business behaviour of the Sojourners not considered in this chapter. Yet, at the same time, the Sojourners' overall 'Chineseness' is essentially the same, and institutions and business methods apply equally to both the China Coast set of Sojourners and the ASEAN block sub-set. The Thailand and Hong Kong ethnic Chinese discussed in this chapter operate in different cultural environments, and these countries also differ in their geographical proximity to mainland China, their current stage of economic development, levels and composition of imports and exports (trade), currency volatility, and rates of social, economic and technological development.

Hard economic and business expediency, in addition to ethnic loyalties, are reasons for much of the collaborative behaviour characteristic of the Sojourners (Redding, 1990). Social coordination allows the limitations of the traditional Chinese form of organizational behaviour to be transcended. In particular, Chinese family firms are noteworthy for their weak hierarchical organization structures, and distinguishing management practices which characterize and discern them from the Japanese *keiretsu*, the Korean *chaebol*, or the Western norm (Redding, 1991; Whitley, 1992; Chen, 1995). These limitations include the danger of factions and cliques, stifling of initiative,

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(Cauley de la Sierra, 1995) and the rise of regional economies is associated with collaborations beyond the nation state (Ohmae, 1995).

Researchers of the new paradigm (e.g., Easton and Araujo, 1993) consider that a significant, and major, method of contemporary business investigation is the use of comparative segmentation. Thorelli (1986) argues that network studies need to be holistic, and cannot be hindered by the tools associated with the more traditional, reductionist research traditions (see also Redding, 1990). Thus, inter-organizational relationships are better understood by a network approach rather than a transaction cost approach (Johanson and Mattsson, 1987). Further, since the basis for collaborating must also be investigated (Bleeke and Ernst, 1993), macro-organizational theories, rather than economic or political theories, are more likely to explain networks in specific environmental contexts (Hamilton, Zeile and Kim, 1990).

Other observers, such as Wilson and Mummalaneni (1986), have also emphasized the need for inter-organizational relationships to be studied in non-European settings and from a cultural perspective (Boisot, 1987). Ouchi (1980) has gone so far as to state that the organic solidarity of Asian entrepreneurial clans is a necessary subject for scholarly attention. This is in contrast with the conventional analysis at the macro-policy level, in that it is deemed necessary to consider how Southeast Asian and East Asian managers actually organize their own business activities (Hamilton *et al.*, 1990) and how they respond to social values (Donleavy, 1995). In this instance, more analysis of business systems in different Asian economic and cultural contexts is clearly an imperative (Whitley, 1992).

Finally, we note that values play an important coordination role within global tribes that sustain trust. In their intra-regional, economic study, Lim and Gosling (1983) identified cultural traditions, clannish and networked links, human resource policies, and language as factors underlying success across the 'Chinese zone'. Wong (1997) identified in addition the ability of ethnic Chinese networks to spread globally, and noted transnational commercial networks sustained by family-oriented trusting behaviour and autonomy. Thus, we conclude that, although cooperation is an important issue in Chinese business (Redding, 1995), research to date has yet to examine the boundaries of trust and the nature of relational contract architectures in the Sojourners' context.

Trust and Social Contracts

We have already noted that the central concept of the study we describe in this chapter is the notion of networks of relational contracts, or architecture (Kay, 1993). We expand on this notion in this section with a deeper look at

the role of trust. Thorelli (1986, p. 37) has pointed out that, especially in oriental cultures, trust is such a vital supplement to contractual arrangements that it 'may even take their place'. In this sense, the firm is seen as a collection of contracts (see Alchian and Demsetz, 1972). The idea was extended by Klein (1983), and applied to inter-organizational relationships by Johanson and Mattsson (1987). From a legal perspective, relational contracts are associated with the work of Macneil (1980). In sociology, Macaulay (1963) is the seminal writer, and in economics these are referred to as implicit or incomplete contracts. Kay (1993) made an attempt to fit the relational contracts perspective within transaction-cost economics.

The specific concept of trust relationships in the management literature is associated with Fox (1974). The interaction between trust and management structures is discussed in the writings of Granovetter (1985) and Zucker (1986). Further, in social contracting, trust has been examined as a form of governance (Calton and Lad, 1995), and as a moral authority (Conry, 1995). Mutual interests generate trust and behaviour based upon standards which no one individual can determine alone. Trust reduces complex realities far more quickly and economically than prediction, authority, or bargaining (Powell, 1990).

Wong (1997) classified four forms of trust in ethnic Chinese society that relate to the economic performance of Chinese family firms: personal trust, network trust, systems trust, and moral trust. Where these qualities are practised, they shape human resource policies, add substantially to social capital, and thus underpin economic performance (Redding, 1990). In these contexts, we argue that it is *relational contracts*, and not classical contracts, which are common. From this, it follows that mutual trust is a form of relational contract. This behaviour acts as an external barrier of entry to competing networks (Dannhaeuser, 1981), and is therefore a powerful sanction against contract defaulters (Mackie, 1992b).

Finally, and for the purposes of the present study, we have refined our definition of trust into the concepts of *forbearance* and *reciprocity*. This is derived from the remarks of Buckley and Casson (1988, p. 32) where they state: 'that the essence of voluntary inter-firm cooperation lies in "coordination effected through mutual forbearance". Forbearance becomes possible only when there is reciprocal behaviour and mutual trust, which in turn only come about given an absence of opportunism.' This strongly suggests that trust is one dependent variable of forbearance, and the other is reciprocity. We note further that the opposite of forbearance is opportunism. As such, trust is developed over time as a series of mutually successful reciprocal exchanges, where each party can rely on the other not to take advantage of opportunities for unilateral advancement at the expense of the other.

SOJOURNERS IN HONG KONG AND THAILAND

In our research, we examine Sojourners in two locations: Hong Kong and Thailand. As we noted earlier, these Sojourners share different cultural backgrounds, but also have an essential 'Chineseness'. Hong Kong and Thailand offer examples of clear differences, and thus constitute a natural laboratory for studying CFBs and the role of trust, forbearance, and reciprocity.

Hong Kong has traditionally been closely aligned with Mainland China, and has therefore retained its extensive Chinese culture. Hong Kong is chosen for our study, however, as an example of an advanced economy of the China Coast diaspora. It is an immigrant community, built from Mainland Chinese who moved to the British colony from the 1830s to the close of the Second World War, or escaped the People's Revolution of 1949. There are also substantial numbers of non-Chinese expatriate workers from the West and the Philippines (6.6 per cent). The major Chinese dialect-groups are Cantonese (90 per cent of total), Hakka (1.6 per cent), Chiu-chow (1.4 per cent), Fukienese, and Shanghainese (*Asia Inc.*, 1996). Enright *et al.* (1997), for example, emphasizes that Hong Kong lies at the centre of the overseas Chinese business network.

Thailand is our second source of data. Thailand hosts the second largest intensive concentration of Chinese (after Malaysia) of the *Nanyang* diaspora, and is also a leading member of ASEAN. Thailand differs from Hong Kong because it is a developing economy with no dominant entrepreneurial clan. The Chinese in Thailand (8.3 million, or around 10 per cent of the population) are immigrants or their descendants. The major Chinese dialect-groups in Thailand are Chiu-chow (56 per cent of total), Hakka (16 per cent), and Hainanese (12 per cent). The remaining groups are mostly Hokkien/Fukien and Cantonese (*Asia Inc.*, 1996). We chose Thailand as an example of a developing economy of the *Nanyang* diaspora.

In summary, the Thailand and Hong Kong Sojourners that we studied operate in different geographic and cultural environments, and these countries also differ in their current stage of economic development, and make-up in imports and exports (trade), currency volatility, and rates of social economic and technological development. The particular research issue related to the relational contracts was to describe how distinguishable architectures have been developed in the Sojourner communities in each country, and to identify the stages involved in development of these architectures. Further, we expected to find that CFBs would differ in Thailand and Hong Kong. Since Hong Kong is a more advanced economy, and more subject to Western business influences, we expected to find that Hong Kong CFBs would be more aligned to Western business norms.

METHODOLOGICAL AND EPISTEMOLOGICAL ISSUES

Data for our study were collected from ethnic Chinese businesses in Hong Kong and Thailand. We employed a triangulated design (Jick, 1979) based on in-depth interviews with twenty Chinese garment-industry business leaders in each country, and an anonymous survey that involved 112 respondents in Hong Kong and 133 in Thailand, from whom 78 and 123 valid responses were received respectively. Our qualitative analysis of the interview data focuses on exposing and defining the relational networks, and expressions of reciprocity, trust, and forbearance in doing business with the four groups. The follow-up surveys attempted to expand the scope of the study by focusing on the 'telltale signs' of the networks discovered during the case interviews. The dependent measure from the survey reported in this chapter is the respondents' preference for doing business with four groups: local Chinese, local non-Chinese Asians, other Chinese, and Westerners. Full details of the study, the samples, and the methodology can be found in Pyatt (1999).

We noted earlier that research in this domain cannot rely on traditional approaches. In this section therefore, we focus on the epistemological and methodological issues underlying our study of the Sojourners, dealing in particular with the phenomenon of *opaqueness*, rather than presenting a detailed description of the methods *per se*, and justifying our triangulated approach. The notion of opaqueness is derived from Forsgren and Johanson (1992, p. 10), who noted: 'A feature of business networks is that they are opaque. This is a consequence of the invisibility of relationships.' In particular, we explicate the factors of opaqueness and relational contracts that underlie the development of our research methodology and the empirical process. The process of development aimed to study the telltale signs of networks, employing a series of case interviews.

Reviews of ethnic business studies by Aldrich and Waldinger (1990) and Braadbaart (1995), provide further guidelines for research in contemporary ethnicity and entrepreneurship. In the view of these authors, the foundation of such studies can be strengthened by careful use of ethnic labels and sensitivity to the interactions between ethnicity and entrepreneurship, and the adoption of an explicit research perspective that compares the samples taken of the phenomenon with the world at large. Aldrich and Waldinger also suggest that such studies should consider performance over time. Finally, Braadbaart has noted that cultural explanations for Chinese ethnic business are not free from methodological pitfalls and display some of the weaknesses noted in the review by Aldrich and Waldinger.

One flaw in culturally based research in East Asia that we have identified is that it largely rests on the questionable assumption that the Chinese Sojourners

are culturally homogeneous. Indeed, based upon the ship's log of Chinese Admiral Cheng Ho (c. 1350), Chinese traders were already dispersed in a diverse diaspora of well-established settlements across the *Nanyang* by that period. Bond (1991), however, has questioned the assumption of Chinese cultural homogeneity, noting that Hong Kong Chinese are already culturally differentiated from Mainland Chinese. In this case, authors may easily attribute the business performance of overseas Chinese firms to unchanging Chinese values and aspirations, and thus fail to deal satisfactorily with the methodological issues raised by this rigidity.

We also question the assertion that the Sojourners enjoy a unique advantage by operating in family teams. We posit that the mobilization of kinship networks in the pursuit of economic goals is a commercial strategy that may be a widespread business practice around the world. In this regard, Powell (1990) has suggested that the Western historical norm is similar in form to the network phenomenon.

In our research, therefore, we set out to design a methodology that was both sensitive to the guidelines of Aldrich and Waldinger (1990) and Braadbaart (1995), and avoided the pitfalls implicit in the assumptions outlined above. We thus adopted a combination of the application of inductive science and paradigm interplay and bridging (Schultz and Hatch, 1996). In the following, we expand on our approach to this research.

A continuing challenge to researchers working in multi-country fieldwork is the opaque nature of networks that we noted above (Forsgren and Johanson, 1992). This opaqueness is a result of the invisible nature of relationships, and requires insiders, or a 'fifth column' of deeply embedded observers to expose what is happening. Thus, to learn about network coordination, researchers need to interact with the players in the network. But those relational contracts that make up the network are very difficult to study because of their secret nature. The nearest that the researcher can observe are the traces which trusting bonds leave in the behaviour of other players in the network, including such core concepts as trust, reciprocity, opportunism, and forbearance.

The approach that we have adopted relies in part upon uncovering the 'traces' left by relational contracts upon the background. These traces take the form of subjective behaviour, opinions, and attitudes of the players themselves. Given the opaque nature of these relationships, this provides us with a viable alternative to attempting to expose the contracts themselves. This 'tracing of the telltale signs' approach presented challenges in design, but these paid off by having high (≥ 95 per cent) response rates to personal requests for interviews in the garment industry (see also Pyatt, 1995b for application to other industries), and resulted in adequate sample sizes for our research.

Of course, this approach also imposed limitations on our conclusions. Some of these delimitations are related to the challenges just mentioned and some are generic in this field of research. These include systems delimitations in the network approach, cultural dimensions, indiginization, network structure dimensions, and analytical issues.

Using the guidelines of Aldrich and Waldinger (1990), and Braadbaart (1995) as a benchmark, however, it has been possible to justify this approach from the broader literature, addressing four points as follows:

1. *Qualitative studies are the methodological norm in directly related fields.* Drawing upon Bettis (1991) and Hambrick (1990), Parkhe (1993, p. 231) expressed the opinion that methods using 'hard' data sources, such as the 'over-use' of large-scale mail surveys and ready-made databases (Bettis, 1991, p. 316, quoted in Parkhe, 1993) are 'unlikely to capture the core concepts' involved in motives for coordinations in international business. Also, Hambrick (1990, quoted in Parkhe, 1993) has advised against multivariate number crunching. Studies that are primarily qualitative in methodology should use constructs, laws of interaction, and system states from which to build propositions in preparation of the research model (Dubin, 1982).
2. *Unobservable entities such as trust are a feature of this and other Asian economic culture studies.* See Clegg, Higgins and Speybey (1990), Fukuyama (1995), and Peyrefitte (1996) for elaboration of this issue. Basically, the unobservable entities cannot be ignored. Instead, they need to be drawn out of the prevailing background and understood within their context.
3. *Organizational researchers face a variety of paradigms with which to theorize.* This is especially true for studies involving cultural issues. Schultz and Hatch (1996), for example, argue that culture researchers need to face this issue, regardless of whether or not paradigmatic assumptions are dealt with explicitly.
4. *The relationship between ethnicity and entrepreneurship highlighted in studies of the Sojourners.* This issue is pertinent when investigating the trading perspectives of Chinese manufacturers towards Asians, as we did in this research.

The solution that we have adopted to overcome the opaque nature of networks and to address the issues we have listed above is based on the standpoint of 'illumination' (Herbert, 1990, p. 36). In this respect, we have adopted the specific approach of triangulation (Jick, 1979), where observations measured quantitatively are used in combination with a subjective interpretation of

social life. By adopting this approach, the effects of relational contracts can be traced, and some clarity found in the opaque images non-players obtain of business networks.

In particular, our research employed participant observation as discussed by Layder (1993) in the manner advocated by Strauss, Bucher, Enrich, Schatzman and Sabshin (1964). The objective of this type of research is to produce findings not arrived at by means of statistical procedures or other means of quantification. As a result, we were able to gain an understanding of the emerging phenomenon of global tribes through access to the underlying reasons and motivations for country-net partnerships and entry mode choices.

In summary, our research approach employed a triangulation of qualitative and quantitative data in a study of Southeast Asian Strategic Network Studies in Hong Kong and Thailand. This approach enabled us to plumb the underlying ethnology of the phenomena under investigation, to relate these findings to our numerical data, and to interplay the approaches in the manner suggested by Schultz and Hatch (1996). Further, this approach allows us to explain how country-nets of Chinese family firms relate internally, with other Chinese businesses, and with non-Chinese. Although we report only limited quantitative results in this article, other specific quantitative data analysis methods employed in our overall research programme included content analysis, linear regression, two-way contingency tables, chi-square analysis, external and internal validation processes, and research auditing (see Pyatt, 1999, for details).

RESULTS AND ANALYSIS

Qualitative Interview Results

The outstanding finding from our interviews with twenty Thailand and twenty Hong Kong business leaders in the garment industry was the strength of personal networking in the business dynamics of Chinese business enterprises. The absolute centrality of this process was not something that we anticipated, but came to light during the course of our interviews. In particular, the Thai interviews suggest that clan linkages play a vital role in network entry and positioning, while the Hong Kong investigations highlighted the critical interweaving of the personal and the business network.

In the context of our research, the productive power of transnational networks was partially determined by the availability of garment export quotas in areas such as the Mekong region, and based upon the dynamic extension of personal networks beyond the business network. Thus, we were able to

uncover a ten-step process of Chinese network expansion: (1) expand personal network beyond industry network; (2) search internationally for import quotas; (3) search regionally for lower labour cost capacity; (4) prioritize relationships, barriers, and market potential; (5) buy production in quota country; (6) set up new business network in quota country; (7) reposition established network into quota country; (8) set up production in quota country; (9) review transfer of production from other country; and (10) return to step 1. The process provides a picture of the revolving network expansion process of owner managers. The important point is the expansion of personal networks for the purposes of reducing costs of exchange and production.

The network power expansion we describe above entails 'spinning the web' of personal contacts. The model depicts the Sojourners' method for extending domain overlap and having something to offer in a network. This is achieved by extending their personal network into all the stakeholders involved in supporting their business network expansion plans. This differs fundamentally from the models found in rational interpretations of networks in textbooks such as Jarillo (1988) and Lorange and Roos (1992), and is more akin to personal networks found in entrepreneurial and sociological studies (e.g., Easton and Araujo, 1993).

The productive power expansion process we found clearly applies specifically to types of secondary production such as garments, where the ability to manufacture is dependent upon the import quotas allocated to that country by the major importers such as the European Union and North America. Nevertheless, it appears to be in general use by transnational corporations in the Asia-Pacific region. Outside this region there may also be other aspects that also apply generically into what Kao (1993) calls the 'world wide web' of the Overseas Chinese.

Finally, we note that, in the pragmatics of the real world, players may use more or fewer steps than is indicated in the model. Also the 'spinning of the web' steps might require a number of attempts with different people in the real world. There may, for example, need to be 'repairs' to the web of contacts brought about through dynamic movement in the players' own networks and those of their trading partners. For example, customs or party officials who become strands in the web are not always to be relied upon in the long term, so that their replacements have to be identified well ahead of the time they are needed.

Delineation of Architectures

Within the context of the network expansion model described above, we were able to delineate clearly different relational network characteristics. Applied to

the 'country-nets of a global tribe', in this chapter, the term 'architecture' relates to the 'distinguishable characteristics' (see Kotkin, 1992) of the relationships of the Sojourners in Thailand and Hong Kong.

The results of our field interviews suggest that three distinguishable architectures typify the Hong Kong and Thailand garment manufacturers (see Pyatt, 1999 for further details), delineated by the nature of the relationships within the networks, and their propensity for local versus international and transnational expansion. We have called these three forms: (1) 'Country-net', (2) 'International', and (3) 'Transnational' architectures respectively. Further, we have identified six stages of development of the architectures. The model that comprises the three architectures and their stages is set out Table 5.1.

We acknowledge that linkages possibly exist between the three architectures, and that some firms will be in transition between these forms. Further, certain architecture characteristics are likely to be strongly interrelated in

Table 5.1 Staged development of three distinguishable architectures

Stage	<i>Country-net architecture</i>	<i>International architecture</i>	<i>Transnational architecture</i>
1.	Chinese management attributes, and spinning of personal networks for business.	Chinese management attributes, and spinning of personal networks for business.	Chinese management attributes, and spinning of personal networks for business.
2.	Trade coordination based on the entrepreneurial-clan. (Avoid non-Chinese Asians. Distant with other Chinese and Westerners.)	Trading coordination based on open trading preferences. (Avoidance of non-Chinese Asians. Comfortable with other Chinese and Westerners.)	Trading coordinations based upon proactive buying and selling, long-term strategies, forbearance based networking and corporate memory.
3.	Management values are the underlying attributes: (i) Reciprocity (ii) Relationships (iii) Long-term Interactions	Traditional values are still present, yet social capital is developed as an attribute from increased interface with suppliers and customers outside the ethnic group. Attributes are: (i) Rationality (ii) Business trust	Traditional values and social capital as in the other architectures, yet human capital a highly developed attribute: (i) Organization (ii) Law-abiding (iii) Knowledge (iv) Technology (v) Education

Table 5.1 (continued)

<i>Stage</i>	<i>Country-net architecture</i>	<i>International architecture</i>	<i>Transnational architecture</i>
4.	Limited vertical integration.	Limited vertical integration, but possibly production offshore.	Extensive vertical integration, and multiple offshore manufacturing.
5.	Ethnic networks. Attributes: (i) Ownership (ii) Investment (iii) Production	National networks. Attributes: (i) Ownership (ii) Investment (iii) Production (iv) Distribution	Transnational networks. Attributes: (i) Ownership (ii) Investment (iii) Production (iv) Distribution
6.	The country-net architecture may not be able to develop past this point.	Slow adoption of advanced data-communications systems.	Strategic dependence upon advanced data-communications systems.

reality, so that some combinations, hybrids, and plural or intermediary forms are more likely to develop than others are. Indeed, the variety of feasible architectures that have the potential to develop in Southeast Asia is not small, and reflects the variety of economic cultures in networks. Finally, we acknowledge that the three architectures that we observed in our two-country fieldwork are only a sample, and may be unique. We suggest, nonetheless, that equivalents are likely to be found amongst other global tribes.

Quantitative Survey Data Results

Table 5.2 presents a summary of business relationship preferences for the Hong Kong and Thailand respondents, based on the survey data. The results represent a cross-tabulation of relationships developed from the combined valid responses from the Hong Kong and Thailand respondents. The data reveal two configurations of networks of trading relationships: 47 per cent of respondents preferred to deal with local Chinese ('Country-net architecture'), while 23 per cent of respondents preferred to deal with Westerners ('International architecture').

Results of the survey data, and supported by the interviews, also showed that, although the dominant pattern was to prefer to trade with fellow Chinese within the country, there was a small proportion of respondents in each

Table 5.2 Summary of country-net preferences of the Thailand and Hong Kong Sojourners (combined sample)

	<i>Least prefer non-Chinese Asians</i>	<i>Least prefer Westerners</i>	<i>Other</i>	<i>Total</i>	<i>Per cent</i>
Prefer Westerners (international architecture)	47	–	–	47	23.4
Prefer local Chinese (country-net architecture)	52	43	–	95	47.3
Other preferences	–	–	59	59	29.3
Valid response ^a	99	43	59	201	100

Notes: ^a Thailand, n = 78; Hong Kong, n = 123.

country who preferred to trade internationally. This proportion was different in Thailand and Hong Kong. In Thailand, only 2 per cent of respondents expressed this preference, while the proportion in Hong Kong was 6 per cent. This difference was statistically significant ($p < .001$), and supports our prediction that Hong Kong firms would be more internationally oriented. In particular, while these entrepreneurial respondents constitute only small percentages of the whole sample, we argue that they constitute a powerful group because of their extensive value-added chain. This is clearly consistent with what we concluded in our discussion of qualitative results.

In summary, our results point to the existence of three distinguishable architectures amongst the Sojourners: 'Country-net', 'International', and 'Transnational'. These architectures are characterized by distinguishable stages of development (Table 5.1) and different preferences for doing business with local Chinese, non-Chinese, and Westerners (Table 5.2).

Six Stages of Development

In this section, we discuss in more detail the six stages of the three architectures in the model described in Table 5.1, based largely on the field interviews. Firstly, the respondents in each architecture share the same Mainland China roots. This common heritage of dispersion is expressed in Stage 1. In this stage, all three architectures share the Chinese management attributes and human resource policies that we discussed earlier. All three were in the initial stages developed through the spinning of personal networks in the ways that were clearly evident in our case interviews.

Stages 2 and 3 of our model of country-net and international architectures are based on our interviews and are supported by the survey results. Our data indicate that the Sojourners tend to avoid doing business with non-Chinese Asians and are distant with other country Chinese and with Westerners (see Table 5.2). In addition, it was apparent from our interview data that the transnational firms in Stages 2 and 3 exhibit trading coordinations based upon proactive buying and selling; they also exhibit long-term strategies, and had developed levels of forbearance with networks of suppliers and customers in a number of economies and cultures. In particular, these ethnic Chinese transnational firms manifested a clear corporate memory; they knew what strategic choices brought them to their current market position and who their best contacts were. Still, we noted that the human capital, social capital, and management values of the Sojourners differed between Thailand and Hong Kong, reflecting the demographic and economic differences between the two locations.

As we expected, the majority of the country-net architecture and international architecture firms were found to reside in Thailand, so it is reasonable to associate survey results on Thailand trading partner attributes with those architectures that are not transnational. Conversely, the majority of the transnational architecture firms are found to reside in Hong Kong, so it is reasonable to associate survey results on Hong Kong trading partner attributes with those architectures that are transnational. Stage 4 of our model reflects the changing structure of firms as they develop their strategies from the country-net form, through the international form, and into the transnational forms associated with each country-net. Finally, Stages 5 and 6 of our model are directly related to the literature we discussed earlier in this chapter.

Three Distinguishing Architectures

In Table 5.3, we summarize the distinguishing features of the three architectures. Essentially, the country-net architecture corresponds to the traditional Chinese family business or *quan-xi*. The international and transnational architectures are more modern organizational forms that have emerged as Asia has entered into the industrialized global economy. Still, all three architectural forms maintain the essential Chineseness that we noted earlier in the chapter, and this makes them unique from their Western counterparts. In the following sections, we discuss each of the architectures, and place them in the context of post-modern theories of organization.

Country-net architecture. The basic feature of a country-net architecture is its short valued-added chain. As an embodiment of the CFB, it typically includes strong traditional values, family-oriented human resource policies,

Table 5.3 Summary comparison of distinguishable architectures

	<i>Country-net architecture</i>	<i>International architecture</i>	<i>Transnational architecture</i>
<i>Internal network structure</i>	Strong (family-based).	Strong (family-based).	Medium-strong (family-based, but with managerial systems).
<i>External network structure</i>	Limited.	Extended.	Extensive, including retail distribution and franchising.
<i>Locus of production</i>	Domestic.	Cross-border.	Offshore.
<i>Main focus of relationships</i>	Centred around clan lineage.	International.	Transnational and international.

and limited vertical integration inside ethnic networks. Direct control of distribution by members in this chain is unlikely. A family-based internal network structure characterizes the firms who are most likely to be the typical players in this foundation form of architecture. Finally, if the firm is limited in resources and/or is suspicious of foreign trade, then it may not be able to advance beyond this architecture.

International architecture. Features of the international architecture include a longer value-added chain than that adopted by the country-net architecture. Although this will be similar to the short value-added chain in its basic design and composition by *quan-xi* firms, it will extend outside the domestic country market, involve agents for major brands, and may adopt offshore (cross-border) manufacture. *Quan-xi-qiy*e firms are more competitive than *quan-xi* organizational forms, and may be found more frequently in this architecture than in the country-net architecture and also, perhaps, in some 'quasi-corporations', which we define as corporations having the appearance of Western organizational forms, but still existing within a traditional Chinese economic infrastructure. Direct control of distribution in the form of retail outlets, brand development, and perhaps franchising are likely to be seen developing incrementally in this architecture. Even in medium-size firms aspiring to develop an international architecture this may be coupled with the use of advanced electronic data communications systems with selected suppliers and customers. Family contacts are still the dominant underlying mode of relationship, however, and determine human resource policies. Once established, international architectures assist a firm to develop a degree of autonomy from the economic culture of the host economy.

Radical changes in architecture (for example from country-net to international) are more likely to be brought about from the transfer of human capital from outside the country-net than from changes in the host economy.

Transnational architecture. There are certain distinguishable features of the advanced transnational architecture that some firms adopt which can assist our understanding of the ways in which the ethnic Chinese transnational network comes about and is sustained. This is achieved by firms who will typically be quasi-corporations; distinguishable by multi-country sourcing and production, and international marketing that is likely to include direct, or semi-direct, distribution in three or more economies. It should be noted, however, that the traditional families in all cases we studied were unwilling to relinquish control of the firm, even though by now it may be a stock exchange listed company. Internal networks are encompassed by the family, but may be extended into professional managers, whose employment will be necessary if it is further to expand offshore. Cross-border and cross-cultural manufacture from factories in emerging economies is a normal feature of this architecture. The strategic use of advanced data-communications systems aspired to in the international architecture becomes a standard component of the transnational architecture and is also a competitively important feature of its configuration. Human resource policies in these organizational forms include management systems, but still retain elements of the family-oriented approach to human resources associated with the other forms.

DISCUSSION

Early in this chapter, we pointed out that, if competitive price provides the exchange mechanism of markets, and administrative regulations that of hierarchies, then trust is what controls opaque networks of relational contracts. Understanding the boundaries of trust, reciprocity, and forbearance in the different architectures has been an underlying aim of this study. A number of interesting factors have come to light in our exploration of the architectures and boundaries of trust in the Chinese relational networks in Hong Kong and Thailand. With two noticeable exceptions, only country-net architectures were identified in Thailand. In Hong Kong, all three architectures (country-net, international and trans-national architectures) were observed. Boundaries of trust also differed between the Thailand respondents and the Hong Kong respondents.

Results revealed three patterns of trust and forbearance that we characterized as three distinguishing architectures. At this point, we interpret the three architectures more specifically in terms of different forms of CFB organization.

1. The traditional *quan-xi* CFB form, characterized by strong family and regional ties, high levels of trust, long-term interactions, and implicit reciprocity. These firms also exhibit little vertical integration, and the limitations usually associated with the *quan-xi* form. We have termed this 'country-net' architecture. These firms have a definite preference for working with local Chinese, and least prefer to work with either Westerners or non-Chinese Asians.
2. A more open form, that we refer to as the 'international' architecture, is similar to the Chinese *quan-xi-qiye* organizational form, and is characterized by a more competitive hierarchy than the traditional *quan-xi*. These firms employ more open trading preferences, although they remain uncomfortable dealing with non-Chinese Asians. They also rely more on social capital developed through increased interactions with suppliers and customers outside of the local Chinese ethnic group. Rationality and business trust has replaced the values of long-term relationships and reciprocity evident in the more traditional form.
3. Finally, we identified a 'transnational' architecture, more akin to what is found in Western corporations, and quite distinct from the traditional CFB. We term these organizations 'quasi-corporations'. While they 'look and feel' like their Western counterparts, these organizations still retain their central Chinese values, including an emphasis on the spinning of personal networks for business, both within and without the firm. At the same time, however, human capital is viewed as a highly valued attribute, with trading based on proactive buying and selling, long-term strategies, forbearance based networking, and corporate memory. Key values in these firms are respect for laws and procedures, education, knowledge, technology, and education. They also extensively employ modern communication technology, vertical integration, and multiple offshore manufacturing facilities. Finally, these organizations prefer to work with Westerners and local Chinese, rather than with other Chinese or non-Chinese Asians.

In addition, our results showed that, as we expected, the more traditional 'country-net architecture' was the dominant organizational form of Chinese business located in Thailand. Conversely, the 'transnational' architecture was just almost exclusively located in Hong Kong.

SUMMARY AND CONCLUSIONS

The purpose of this chapter has been to uncover the distinguishing characteristics of the opaque business relationships of the Sojourners. Amongst

other matters, our research has uncovered relationships at the country, international, and transnational levels. The shape of the individual net relationships of firms will be determined by partner preferences, coordinations, and management attributes. Although it is not suggested that the three 'Q-form' network configurations adopted by the Sojourners in our study are universally applicable, we suggest that their competencies may have important implications for future collaborative and competitive business forms.

The neo-feudal features of the Q-forms share a number of features with *keiretsu* and *chaebol* that Donleavy (1995) has described as post-modern (in that they have evolved in response to prevailing values). Using the Donleavy definition, these Chinese Q-forms include family or clan management and human resource policies, the Confucian work ethic, close relationships with government, and informal systems. Indeed, we argue that these organizational forms may be interpreted as a form of post-modern firm. The particular post-modern aspect of Confucian firms that we focus on is their ability to disentangle cultural and relational components from the transactional and pragmatic (Donleavy, 1995).

We have seen that a network of relational contracts in and around a firm (its architecture) can form a distinctive capability, which when applied to an industry and market can be a source of competitive advantage for the firm (Kay, 1993). Therefore, if the distinguishing characteristics of the business relationships of the Sojourners are distinctive capabilities, an implication of our findings would be that the Q-forms of Chinese organization result in competitive advantages over other forms of management within the *Nanyang* context, and perhaps more widely. A detailed study of these potential competitive advantages is a complex task, however, and beyond the scope of the present study. Therefore, an important step for future research is to investigate whether the distinguishing characteristics of the Sojourners' webs are indeed distinctive and lead to competitive advantages.

In conclusion, we note that it is necessary neither to underestimate nor to exaggerate the scope and domain of the Chinese Q-form architectures. Our research fits within the growing body of literature dealing with the phenomenon of globalization in the contemporary world of the twenty-first century. Further, the intra-Asian linkages of the global tribe in Southeast Asia, although identifiable, are complex geographically and relationally. Finally, it must also be noted that the Chinese Sojourners in the *Nanyang* and China Coast are not universally connected. Chinese traders in one country have no more affinity with Chinese traders in another country than their counterparts of British ethnic origins in Canada have affinity with their counterparts in South Africa or Australia. Yet there are strong linkages carried out by a leading

entrepreneurial elite heading up those firms with transnational architectures. The elite constitute a pro-active minority who need to trade beyond kinship. It clearly behoves us to learn more about how these elites operate, and then to use this knowledge to further our understanding of organizations in the Asia-Pacific region and beyond.

Note

1. The Chinese word *pang* can be translated as speech-group solidarities (Mackie, 1992a; Chen, 1995). The major speech-groups (dialect-groups) referred to in this chapter are the Cantonese, the Chiu-chow, and the Fukienese.

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