Business Networks and Transnational Corporations: A Study of Hong Kong Firms in the ASEAN Region*

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Abstract: In recent years, the question of how business firms are embedded in society and space has received serious attention in economic geography. Arising from empirical research into the transnational operations of Hong Kong–based firms in Southeast Asia, this paper is concerned with the organizational processes of transnationalization—that is, how transnational operations are accomplished through networks of personal and business relationships. A network perspective specifies that three dimensions of transnational organizations—extrafirm, interfirm, and intrafirm networks—must be addressed simultaneously. Based on personal interviews with top executives from 111 headquarters and 63 subsidiaries of Hong Kong transnational corporations operating in the ASEAN region, I argue that social and business networks are necessary mechanisms of transnationalization. Political connections at the highest level enable Hong Kong entrepreneurs and business firms to tap into extrafirm networks and to penetrate local markets in Southeast Asia. Business connections and personal relationships are cornerstones of interfirm transactional governance structures through which Hong Kong firms establish their ASEAN operations. At the intrafirm level, personal trust and experience are keys to coordination and control in transnational operations. By showing how these Hong Kong firms and their ASEAN operations are socially and culturally embedded in networks of relationships, this paper serves also as a critique of economistic arguments and transaction cost analysis commonly found in leading international business research.

Key words: Hong Kong transnational corporations, regulatory regimes, social organization, Chinese business networks, personal relationships, social embeddedness, ASEAN region.

Research in international business and production has been dependent largely upon economistic and Western-centric theories developed predominantly in industrial and institutional economics (e.g., Buckley and Casson 1976, 1985, 1991; Dunning 1981, 1988, 1993; Pitelis and Sugden 1991). This paper points to the uncritical acceptance and applications of these theoretical frameworks in the so-called "Third World multinationals" literature (see Yeung 1994a). Typically, empirical studies of transnational corporations (TNCs) from developing countries and Asian newly industrialized economies (NIEs) are based on economistic interpre-

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tations (e.g., Agmon and Kindleberger 1977; Kumar and McLeod 1981; Lall 1983; Wells 1983; Khan 1986; Tolentino 1993). They tend to overlook the historical and social formations of these emerging TNCs (e.g., Yeung 1996c). Economic motivations of transnational operations are often ascribed causal status in explaining why domestic firms transnationalize their activities. These mixed motivations are further dichotomized into survey responses classified as either "push" or "pull" factors. The end product of most of these explanations becomes a theoretically infertile description of various *contingent* situations that may account only partially for transnational operations. They fail to stipulate the causal mechanisms through which transnational operations are made possible. A comprehensive theorization of the process of transnationalization, defined as a dynamic process through which TNCs are engaged in a diverse range of cross-border network relations and operations, is urgently required (cf. Yeung 1993, 1994b, 1997a).

On the other hand, recent reappraisals of the state-of-the-art of economic geography have called for a more culturally and socially sensitive approach to the fundamental concept of "the economic" (Thrift and Olds 1996). This paper puts forward a similar argument against prevailing economistic and Western-centric theories of the TNC. I argue that the role of *guanxi*, or personal relationships in social and business networks, is crucial in spearheading foreign direct investment (FDI) from Hong Kong TNCs (HKTNCs) into the ASEAN region.[1] Through personal interviews with top executives from both headquarters and ASEAN subsidiaries/affiliates of HKTNCs, I find that although lower production costs and the search for new markets are typical motivations for large investments made by these Hong Kong firms, *guanxi* or network relationships decide through which countries (locations) and how (mechanisms) these investments are channeled. Arguably, the economic actions undertaken by business enterprises such as HKTNCs are firmly embedded, socially and culturally (Granovetter 1985, 1991; Granovetter and Swedberg 1992), because business executives do not always base their investment actions on economic considerations per se. But network relationships play an equally, if not more, vital role as well. In conjunction with this argument, a deeper understanding of the processes of transnational operations via a network approach can be interpreted as providing a culturally and time-space sensitive perspective. For instance, Wade (1990), Biggart and Hamilton (1992), and Redding (1994) recently have launched critical reappraisals of the Western bias in neoclassical economic interpretations of Asian "economic miracles." This paper follows and expands upon the gist of their arguments, calling for a more socially and culturally sensitive explanation of changing world economic phenomena.

The main argument of this paper has three parts. First, at the macro *extrafirm* level, regulatory barriers and institutional opportunities in host ASEAN countries tend to induce HKTNCs to enter all kinds of extrafirm political relationships. These regulatory barriers arise from unique historical and social contexts, in particular the suspicion displayed by many host ASEAN countries (except Singapore) toward foreign capital, including overseas Chinese capital. Second, at the intermediate *interfirm* level, this paper emphasizes the role of personal and business relationships in transnational operations by looking at the social organization of Chinese business. The question of ethnicity is at the forefront of the discussion because Chinese business networks are socially and culturally specific and because Hong

[1] The Association of South East Asian Nations (ASEAN) was established in August 1967. The six member states are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. For the purpose of this paper, however, Brunei is effectively excluded because of its lack of data and inward foreign direct investment.

Kong is predominantly a Chinese society.[2] Third, at the micro *intrafirm* level, coordination and control of networks within HKTNCs are best achieved through trusted family members and close associates. It is also imperative to examine how power relations are manifested in the processes of controlling transnational operations (Dicken and Thrift 1992; Yeung 1994b, 1997a). In fact, the element of control is the key to any definition of the TNC and FDI (Cowling and Sugden 1987; Low, Ramstetter, and Yeung forthcoming). Based on this causal link between power and control, this paper sheds light on the nature of transnational operations through intrafirm network relationships.

Some methodological caveats are appropriate here. First, HKTNCs are defined as domestic business enterprises headquartered in Hong Kong that control assets and/or exert influence in the decision-making process of one or more cross-border subsidiaries and/or affiliates. Second, the original study was based on field research from December 1993 to August 1994 (see Yeung 1995a, forthcoming). In Hong Kong, I contacted some 182 headquarters of HKTNCs from an incomplete master directory that I had compiled from various published sources and validated through telephone interviews. Subsequently, 111 successful personal interviews were conducted, representing a 61 percent response rate. In four ASEAN countries, excluding the Philippines, another 63 personal interviews were completed from a sample of 102 ASEAN subsidiaries/affiliates of HKTNCs (61 percent response rate). This large data base also contains transcripts of personal interviews with top executives from 41 HKTNCs *and* (some of) their ASEAN subsidiaries/affiliates and transcripts of 19 additional personal interviews with top executives from the headquarters only. Third, this paper takes a qualitative analytical approach to the explanation of HKTNCs and their operations in the ASEAN region.[3] Fourth, company and personnel names reported in this paper are disguised in order to protect their confidentiality.

The next section offers a brief overview of an emerging network perspective on the TNC, followed by an excursion into the social and institutional settings of Hong Kong and the ASEAN region to set the context in which HKTNCs operate. Both the social organization of the Chinese business system and the regulatory regimes of ASEAN countries are examined. The penultimate analytical section is concerned exclusively with business networks among HKTNCs operating in the ASEAN region. Three levels of network relationships are presented, from extrafirm to interfirm and finally to intrafirm relationships. Some implications for theoretical development in international business and business developments in the ASEAN region are discussed in the concluding section.

A Network Perspective on Transnational Corporations

Although the concept is not altogether new, interest in the notion of the "network" form of business and industrial organization has reemerged in recent years (Camagni 1991; Dicken and Thrift 1992; Cooke and Morgan 1993; Dicken 1994; Dicken, Forsgren, and Malmberg 1994; Thrift and Olds 1996; Yeung forthcoming). This section discusses "net-

[2] There are many similarities in the transnational experience among minority ethnic groups throughout the world. It is thus possible to extend this analysis of the transnational operations of Chinese firms from Hong Kong to that of Jews, Indians, or other minority ethnic groups.

[3] I have dealt elsewhere with the spatial organization of HKTNCs and their associated FDI flows in the ASEAN region (see Yeung 1994c, 1995b, 1996b, 1996c). This paper therefore concentrates on the qualitative aspects of network relationships in their transnational operations.

works" as an important mechanism through which TNCs and their overseas operations are organized (see Yeung 1994b).

A network perspective views the TNC and its network relations as a *governance structure* through which transnational operations are made possible. Governance structure is conceptualized as the organizational forms and processes through which business activities are directed. The network form of governance in international business may be interpreted as the organizational forms and processes through which *transnational* activities are directed across different fields and geographic locations. The patterns and character of the connections among various relations in networks constitute their structures, because "such structures are conditioned by technical and cultural factors, but, primarily, they are interactive, that is, they are formed and modified through interaction among the actors. The network structure is a result of history" (Håkansson and Johanson 1993, 42).

In contrast to neoclassical economic models of the firm as an abstract economic entity (i.e., the "black-box approach"), this network approach advocates that all TNCs are simultaneously *embedded* in ongoing networks of relationships at three distinct levels: intrafirm, interfirm, and extrafirm networks (Table 1). This network perspective also argues that network relationships, expressed at different levels, are essentially the causal mechanisms of transnational operations—that is, network

Table 1

A Typology of Network Relations and the Sociospatial Organization of Transnational Operations

	Network Relations		
Categories	Intrafirm	Interfirm	Extrafirm
Nature	• Parent-subsidiary relationship • Internalized operations: proprietary rights and economies of scale	• Firm-firm transactional and institutional relationship • Externalized operations: economies of scope and joint production/marketing	• Firm-institution politics and relationship: state and nonstate • Contractual basis: direct business • Legal laws and enforcement
Instruments	• Integration (horizontal and/or vertical) • Coordination (loose vs. tight and centralized vs. dispersed) • Internal arbitration of disputes: labor relations • Transfer pricing	• Competition and cooperation • Contracts and agreements • Flexible production systems: just-in-time	• Conflicts and negotiations • Political bargaining • Social regulation • Propaganda strategy
Concrete dimensions	• Tentative full integration of R&D and production • High quality at reasonable costs • Decentralization of production decisions	• Close and long-lasting ties between producers and users • Networking to reap specialization and coordination gains • Long-term and cooperative subcontracting	• Power relations more than monetary relations • Quest for proprietary rights • Search for social and political legitimacy
Organizational forms	• Quasi-integration • Internalization • Multidivisions • Family business groups • Conglomerates	• Joint ventures • Subcontracting • Cooperative agreements • Strategic alliances • Licensing and franchising • Ethnic and personal networks • Technology financing	• Government contracts • Joint R&D collaboration • Institutional relationship, e.g., memberships

Source: Yeung (1994b, Table 3).

relationships empower the TNC to execute its overall modus operandi. Contrary to the capital-logic approach (cf. Hymer 1972; Palloix 1975, 1977; Harvey 1982; Ietto-Gillies 1992), it places *both* the TNC and its embedded network relations as the central foci of analysis.

Causal mechanisms, however, are subject to dynamic changes in the global capitalist space-economy. When the context in which causal powers in network relationships are realized changes over time, the empirical landscape of transnational operations will be expressed differently. For example, in the context of global technological change, TNCs will continuously reshape their corporate strategy according to their overall modes of rationality. Subsequently, new spatial organizations of their transnational activities will occur (see de Smidt and Wever 1990; Dicken 1992; Carnoy et al. 1993; Dunning 1993; Moran and Riesenberger 1994). The accelerated pace of globalization in the late 1980s and early 1990s has prompted many global TNCs to tighten their coordination and expand their operations among more geographic areas in the Triad regions (Ohmae 1985, 1990; Porter 1986; Bartlett and Ghoshal 1989). This pattern would be impossible if these giant TNCs were not embedded in ongoing network relationships. But these network relationships per se do not stimulate their escalated processes of globalization. It is rather the contextual change that has activated causal powers embedded in ongoing network relationships.

A business network may be defined as "an integrated and co-ordinated set of ongoing economic and non-economic relations embedded within, among and outside business firms" (Yeung 1994b, 476; emphasis omitted). Although this conceptual definition is necessarily broad, its concrete realization may take a very specific form (e.g., joint ventures and strategic alliances). A network is more than just an integrated structure, because it is simultaneously a structure *and* a process. It is a nested structure with emergent power in an abstract sense. Networks are enduring structures emerging from social relations and hence networks represent the sum of all social relations focusing at a particular nodal point—the TNC in this case. The "emergent power" nature of networks also enables them to synergize more than the sum or totality of social relations.

Social and Institutional Settings in Hong Kong and ASEAN

The "overseas Chinese networks of capital" is a predominant mode of business organization in Asia. This form of social and business organization of transnational production has spearheaded a rapid diffusion of economic activities and intraregional FDI flows among various Asian-Pacific countries in which Chinese have significant economic control (see Yeung 1994d, 1997b). Kao (1993, 32) points out that "cross-border investments alone are responsible for turning the de facto network of loose family relationships into today's Chinese commonwealth." Examples of such countries are China, Indonesia, Hong Kong, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. Any serious attempt to probe the processes of transnational operations by Chinese firms must therefore take into account the nature and specificity of so-called "Chinese business systems."[4]

Another important contextual issue is

[4] It should be noted that, in the case of HKTNCs, not only Chinese businesspeople are embedded in complex networks of personal and business relationships, but also long-time foreign business executives who have embedded themselves in the peculiar social and organizational settings of doing business in Hong Kong and the ASEAN region. It is not the intention of this paper to contrast Chinese business and Western managerial practices. Rather, this paper serves to show *how* HKTNCs, whether owned by ethnic Chinese or not, establish their ASEAN operations.

the organizational and institutional settings in which HKTNCs operate. Transnational operations do not occur in a time-space vacuum. Rather, they are embedded in specific historical and geographic contexts, within which the social organization of capital and institutional regulations are obviously important. This explains why many economic theories of international business and production have failed: they assume that the firm—that is, the TNC—is empowered to conduct its business activities according *only* to its internal logic. They forget that TNC activities are necessarily *influenced* by broader organizational and structural forces. For example, although TNCs are exerting greater influences over nation-states, political sovereignty remains essentially in the hands of the nation-state. Government policies toward inward foreign investment, both promotional and restrictive, serve as the "visible hand" reinstating national economic sovereignty and reshaping the geography of transnational operations.

The Chinese Business System

In most Asian economies, the concrete operation of business activities takes place in business systems belonging to specific ethnic groups (e.g., overseas Chinese and Indians). These business systems are socially and culturally reproduced and hence are embedded in specific time-space contexts (Hamilton and Biggart 1988; Clegg 1990; Hamilton 1991; Biggart and Hamilton 1992; Kotkin 1992; Whitley 1992a, 1992b; Yeung 1997a). Culture and society interact to produce a distinctive "way of business" that evolves over time. This "way of business" must also embed itself in a specific historical period and spatial context. Amin and Thrift (1994) call this local embeddedness of business institutions "institutional thickness." To them, local institutional thickness is defined as "the combination of factors including inter-institutional interaction and synergy, collective representation by many bodies, a common industrial purpose, and shared cultural norms and values" (Amin and Thrift 1994, 15). They identify four dimensions of "institutional thickness": (1) strong institutional presence; (2) high levels of interaction among the institutions in a local area; (3) development of sharply defined domination and coalitions through collective representation; and (4) development of mutual awareness (Amin and Thrift 1994, 14–15). Based on these criteria, the Chinese business system is institutionally "thick." It is perhaps one of the most institutionalized systems in world business, giving rise to what Kao (1993) calls "the worldwide web of Chinese business" and "the Chinese commonwealth."

The Chinese business system is traditionally based on interpersonal trust relations and family and business networks; it retains its distinctive characteristics even at a large organizational scale (Redding 1990). In the Anglo-Saxon business world, family businesses tend to break down and to be replaced by public ownership and professional management when they grow beyond a certain size.[5] Redding (1990, 1991) speculates on the strategic predisposition of overseas Chinese entrepreneurs as follows: (1) it is essential to retain control of the firm in the interests of long-term family prosperity; (2) risks should be hedged to protect family assets; (3) key decisions should remain within an inner circle; and (4) dependence on nonbelongers for such essentials as managerial, technical, or marketing skills should be carefully limited. Because of this tradition of family linkages and network relations, Chinese businesspeople find it more rational to exploit these relations across space. One would therefore expect more transnational operations by Chinese firms controlled either by family members or by entrepreneurs with extensive overseas networks. These com-

[5] Exceptions include the Walton, Mars, and Du Pont families in the United States and other top families in the *Forbes* list of the world's billionaires.

plex and extensive interpenetrations of overseas Chinese business networks and entrepreneurs among various Asian countries are well recorded in the literature (Wu 1983; Brown 1990; Hamilton 1991; Smart and Smart 1991; Chan 1992; Kao 1993; Leung 1993; Chan and Chiang 1994; Chen 1994; Mitchell 1995; Olds 1995; Weidenbaum and Hughes 1996).

In Hong Kong, the spirit and ethos of Chinese capitalism produce socially, culturally, and politically specific business systems (Wong 1985, 1988, 1991, 1993; Lau and Kuan 1988; Redding 1990, 1991; Yeung 1995b, 1997b). Chinese industrialists in Hong Kong are known for their entrepreneurship and higher propensity to engage in risky business and overseas ventures. The arrival of industrialists and entrepreneurs from mainland China after the communist takeover in 1949 contributed significantly to the rapid process of industrialization and economic development in Hong Kong (Wong 1988, 1991; Ho 1992). During the early twentieth century, turmoil and foreign occupations in mainland China forced an outward exodus of the Chinese work force, particularly young laborers from southern provinces. Many subsequently became permanent residents in the Chinese diaspora in Southeast Asia. This minority group of the overseas Chinese (except in Singapore, where the Chinese remain the major ethnic group) maintains its century-long contacts and relations with contemporaries elsewhere in the Asia-Pacific region. These contacts and relations form the organizational basis of Chinese business firms. Wong (1991, 24) contends that Chinese "entrepreneurs tend to dominate the market by activating particularistic ties such as regional networks rather than by building large, impersonal corporations." In Southeast Asia, a similar high level of entrepreneurship among the ethnic- and family-based Chinese business networks is observed. This phenomenon partially accounts for Chinese dominance of local business and commercial sectors.

Institutional Settings in ASEAN

Changing Regulatory Issues among ASEAN Countries. With the exception of Singapore, the postindependence ASEAN region was filled with antiforeign and anti-Chinese capital sentiment (Mackie 1988; Yoshihara 1988; Dixon 1991; McVey 1992). During the 1960s, virtually all ASEAN countries were in their embryonic stage of industrialization. Foreign capital was needed only insofar as it could contribute to employment. Domestic sectors, particularly agriculture and services, were mostly closed to foreign participation in order to protect the basic livelihood of indigenous nationals. During this period, anti-Chinese sentiment was rather deeply rooted in Indonesia and the Philippines (Robison 1986; Mackie 1988; Suryadinata 1988). In Thailand, the Chinese were able to assimilate themselves into the Thai economy, and Sino-Thai businesses experienced rapid growth under Thai political and, often de facto, military patronage (Suehiro 1985, 1992; Mackie 1988). In Malaysia, the Chinese managed to establish themselves under a more favorable political and ethnic climate because of the political coalition between the Chinese and the Malays (Jesudason 1989). In Singapore, Chinese capital faced serious competition from foreign TNCs entering one of the most open economies in the region. Although all investment boards had been established by the 1960s, few of them had explicit strategies for luring foreign investors because of stifling domestic economic problems and political instability. Impediments to foreign investment in these ASEAN countries originated not from the regulatory regime per se, but from the still underdeveloped ASEAN economies themselves.

The 1970s saw the emergence of major ethnic backlash in Indonesia, Malaysia, and, to a lesser extent, the Philippines and Thailand. The regulatory regime was much more restrictive. Domestically, pressure was exerted to allow a greater share of national economic wealth to indigenous people, known as *pribumi* in Indonesia and *bumiputra* in Malaysia. In Malaysia, for example, the New Economic Policy (NEP) was launched in 1970 with two key objectives (Jesudason 1989; Yasuda 1991; Taylor and Ward 1994): to eradicate poverty in general, and to strike a better balance in ethnic distribution of wealth. In order to achieve the latter objective, the Industrial Coordination Act of 1975 required all manufacturing establishments above a certain registered capital to be licensed under the Ministry of Trade and Industry. The initial minimum threshold for the shareholders' fund was M$100,000, but this was raised to M$250,000 in 1977 in an amendment to the act and recently increased further to M$2.5 million. It was hoped that through restricting both Chinese and foreign equity ownership, *bumiputra* ownership of the Malaysian corporate sector could eventually be increased from 2.6 percent in 1970 to 30 percent in 1990.

Externally, with the exception of Singapore, all ASEAN countries followed an inward-looking approach to industrialization. The oil boom in the early 1970s provided sufficient foreign exchange to cash-starved countries such as Indonesia and Malaysia to fuel their huge national development budgets and import-substitution industrialization strategies. In the Philippines, the Marcos government favored "cronies capitalism" rather than promoting inward investment. In Thailand, frequent military coups d'état created instability at the expense of foreign investment. In Singapore, foreign TNCs continued to enjoy government promotion; drastic industrial restructuring, however, effectively forced labor-intensive and low-tech manufacturing to relocate outside Singapore (Ho 1993, 1994; Yeung 1994c, 1995b).

From the 1980s onward, the attitudes of these ASEAN-4 countries changed toward more vigorous promotion of inward investments. The ethnicity issue has not disappeared completely, but instead it is supplemented by an increasing influx of foreign capital. Ironically, a large proportion of this foreign capital originates from ethnic Chinese societies—for example, Hong Kong, Taiwan, and Singapore. After decades of debate on the role of foreign capital in economic development, these ASEAN countries are convinced that they can progress and industrialize with the participation of foreign capital, as in Singapore.

Current Regulatory Climate in the ASEAN Region. Most ASEAN countries generate only a meager amount of FDI outflows; instead, they actively seek inward FDI to fuel their economic development processes. All ASEAN countries set up institutions in the early days of their political independence to take charge of investment promotion and approval procedures. These include the Capital Investment Coordinating Board (BKPM) in Indonesia, Malaysian Industrial Development Authority (MIDA), Board of Investment (BOI) in the Philippines, Economic Development Board (EDB) in Singapore, and Office of the Board of Investment (BOI) in Thailand. All have a similar goal: to promote inward FDI through various marketing strategies (Wells and Wint 1993). Singapore's EDB, however, has a dual role, to promote both inward *and* outward FDI (Mirza 1986; Dicken and Kirkpatrick 1991; Perry 1992, 1995; Low et al. 1993; Régnier 1993; Yeung 1996d). Since its establishment in 1967, Singapore's EDB has been wooing investors from all over the world. Today, Singapore prides itself in attracting high value-added and high-technology FDI from mainly developed countries (Yeung 1994c, 1995b).

FDI approvals and regulations in different ASEAN countries significantly shape the orientation and processes of transnational operations. In Indonesia, Malaysia, the Philippines, and Thailand, local participation in the form of equity ownership is required in most industries, except under specific conditions such as investment in export processing zones (EPZs) or special development zones outside primate cities. Network relationships are thus helpful in these transnational operations. Typically, a foreign firm must team up with a local partner in order to get its investment application approved by the boards of investment. In addition, many investment boards enforce a policy of indigenization of foreign investment, so that over a period of time after the initial inception, local equity shareholding of an FDI project must be increased to a certain level, usually above 50 percent. In so doing, these nation-states aim to achieve not only technology and expertise transfer through FDI projects, but also domestic control of the corporate sector (e.g., Malaysia).

On the other hand, some industries and sectors are completely closed to foreign participation under the "negative list for investment." These are usually domestic industries that are small-scale and labor-intensive, such as contracting services in forest logging, casino gambling, utilization and cultivation of sponges, transportation services, retail and advertising, and mass media in Indonesia (Capital Investment Coordinating Board 1993). In Singapore, all industries and sectors are supposedly open to foreign investors, although some sectors are somewhat protected from full-scale foreign participation, such as stockbrokerage. In order to trade in shares and stocks on the Stock Exchange of Singapore, any stockbrokerage firm must obtain a full member license from the Monetary Authority of Singapore. Foreign firms are not normally granted full licenses in order to protect domestic stockbrokerage firms—an infant-industry argument. Instead, many foreign stockbrokerage firms are granted half-licenses so that they can act as intermediaries between their international clients and local brokerage firms; they are not permitted to conclude final trading deals or contracts. This indirect regulation puts foreign stockbrokerage firms in a difficult situation in competing with local firms (interview with the deputy managing director of the Singapore office of a leading Hong Kong stockbrokerage TNC, 18 July 1994).

These restrictions and regulations aside, foreign firms can invest and establish operations in most host ASEAN countries without going through the boards of investment (e.g., Singapore and Thailand). The main drawback is that they do not enjoy investment incentives and privileges. Even in Malaysia, a foreign firm can set up a manufacturing plant or a service company without applying for approval from MIDA, but approval for manufacturing plants must be sought under the Industrial Coordination Act of 1975 and service companies must be registered with the Registry of Companies. Most investors, particularly large TNCs from developed countries, still prefer to go through host country investment boards, not so much because of their incentive packages but largely because of the convenience and protection of these investment incentive schemes (Yeung 1996a). For example, a BOI-promoted Hong Kong firm in Thailand once suffered from low-price (dumping) imports from other countries. On receiving complaints by this HKTNC, the Thai Board of Investment immediately imposed duties and surcharges to protect the company, which is now enjoying good profitability (interview with the director of the Thai Board of Investment in Hong Kong, 25 March 1994).

Business Networks among Hong Kong Firms in ASEAN

This paper validates empirically that the TNC, as a network governance structure, is engaged in transnational operations through its preexisting and newly developed network relations. This view of both the TNC and its dynamic operations abroad contradicts economic theories of international production in which the TNC is conceptualized as a transaction cost economizing institution. More important, the network approach confronts economistic and essentially Western-centric "models" of international production by focusing on the sociospatial embeddedness of the TNC (Yeung 1997a). This argument, however, does not preclude the role of economic benefits (e.g., markets, profits, and diversification) and costs (e.g., cost reduction and minimization) in the calculus of transnational entrepreneurs; such is the "oversocialized" view of the economic (see Granovetter 1985). Rather, these so-called economic "factors" are necessarily contingent historically and geographically because the same set of economic "advantages" are not always replicated elsewhere. On the other hand, network relations are important causal mechanisms of transnational operations, irrespective of their contingent economic motivations.

This section explains the processes in which HKTNCs are engaged in cross-border networks and business operations. Table 2 shows that some 59 percent of respondents from the headquarters (N = 111) choose to set up their ASEAN operations through relationship-based mechanisms: personal relations (18 percent), suitable local partners (25 percent), and intrafirm personnel transfer (15 percent). While the first two mechanisms are largely interfirm relationships, intrafirm coordination and control constitutes the third mechanism. An additional 17 percent of respondents enter into important relationships with state institutions (extrafirm networks). Similarly, responses from ASEAN subsidiaries confirm these observations.

As discussed earlier, business networks of HKTNCs in the ASEAN region may be examined at three levels (see Table 1): extrafirm networks: intermediaries and political connections; interfirm networks: personal and business relationships; and intrafirm networks: coordination and control. These expressions of business networks and social relations by no means exhaust the list. They are merely indicators of the range and extent of network relations (see also Yeung 1997b, forthcoming). These three levels of network relationships are also embedded within each other to form the totality of network relationships.

Table 2

Ways of Establishing Successful ASEAN Operations by Hong Kong Transnational Corporations

Mechanisms of ASEAN Operations	Headquarters		Subsidiaries	
	Frequency	%	Frequency	%
Personal relations are important in establishing overseas operations	20	18.0	8	12.7
Stimulation, guidance, and assistance from local government institutions	19	17.1	4	6.4
Able to find a suitable local partner/person to set up the operation	28	25.2	10	15.9
Sent someone over to set up the operation	17	15.3	25	39.7
A well-developed corporate procedure to set up overseas operations	6	5.4	0	0.0
Decision or suggestions from major client	2	1.8	0	0.0
Long history of operation	3	2.7	1	1.6
Direct merger or acquisition	6	5.4	8	12.7
Branch out from existing ASEAN operations	4	3.6	4	6.4
Unknown	6	5.4	3	4.8
Total	111	100.0	63	100.0

Source: Author's survey.

The Politics of HKTNCs and ASEAN Operations: Extrafirm Networks

At the macro level, there are many institutional hurdles in the ASEAN operations of any TNC. It remains to be seen whether these regulations are effective in practice. The existing literature seems to suggest that, because of connections and coalitions between top government officials and businesspeople, *actual* regulations and restrictions are effectively circumvented through successfully cultivated extrafirm relationships at the micro level. Chinese businesspeople, in particular, are well known for cultivating political relationships with government officials. Such an argument defies the contractual basis of transnational operations and is particularly relevant to ASEAN countries such as Indonesia, Malaysia, Thailand, and the Philippines.

Government assistance and even direct involvement are crucial in establishing a firm's market significance in host ASEAN countries. Singapore prides itself in providing positive government assistance through various ministries to prospective foreign investors. Such direct government assistance is not common in those ASEAN countries characterized by red tape and bureaucracy. One way of building up extrafirm relationships in these host countries is to coopt influential politicians in local subsidiaries or to activate political connections available to the parent HKTNC (see HKElectronics, Table 3). For example, the son of HKElectronics's founder and chair has good connections with one of the sons of the Malaysian prime minister. They worked previously for Salomon Brothers, an international security company, for many years, and since then a strong friendship and personal trust have developed. When HKElectronics wanted to expand into the ASEAN region to produce cordless and cellular telephones mostly on an original equipment manufacturer (OEM) basis, they were looking for a piece of land and a good place to set up an electronics plant. HKElectronics finally decided to set up in Malaysia because it was thought that the prime minister's son could help overcome the hurdles in application approval and site selection.

The Malaysian prime minister's son, together with a reputable local property developer, subsequently took up 30 percent equity of the Malaysian plant and became its first chair. He is also currently on the board of directors in Hong Kong. Although these Malaysian partners are not involved in HKElectronics's day-to-day operations, they do give advice on what should or should not be done in Malaysia. During the start-up phase, they helped select the location of the manufacturing plant in a suburb of Kuala Lumpur. This assistance is potentially very important because it not only affects the smooth operation of the factory in terms of transportation and labor supply, but also greatly reduces production costs by locating outside the city area of Kuala Lumpur. The prime minister's son also obtained approval for the project and pioneer status[6] from the Malaysian Industrial Development Authority (MIDA), which again helped lower the costs and increase the profitability of HKElectronics's Malaysian operation. His political power was demonstrated by the presence of the Minister for Trade and Industry at the opening ceremony for the Malaysian plant.

A number of other "high-powered" HKTNCs have coopted senior host country civil servants in order to circumvent hostile host country regulations and investment climate. These "political patrons" often play a relatively insignificant role in terms of operational management and control. But they help at the start-up stage to secure critical licenses and approvals. Beyond that, these "political patrons" usually become "sleeping part-

[6] A foreign firm will enjoy tax holidays and investment incentives if it is conferred pioneer status, which refers to manufacturing firms in relatively new or underdeveloped industries promoted by the host country.

Table 3

A Profile of Selected Hong Kong Transnational Corporations

Company Name	Company History	Main Businesses	Sales Value	Profit	Total Assets	Number of Staff	Countries of Operation
HKArch	Established in 1979, it has developed into a niche market firm solely owned by its founding chair, Mr. Lee, an architect, and his partners in Hong Kong.	Architectural, engineering, and development consultancy firm	NA	NA	NA	240 for Group	China, Singapore, Thailand, and United Kingdom
HKCarpet	Established in 1956 by a Shanghainese entrepreneur, Mr. Chiu, who is extensively connected to leading Jewish and Chinese businesspeople in Hong Kong. Now owned by the Chiu family and another Jewish family and managed by the chair's son.	Manufacture, import, export, and sale of carpets, trading of interior furnishings, investment and property holding	HK$258 million (1992)	HK$38 million (1992)	HK$867 million (1991)	200 (HK) and 8,000 (Group)	ASEAN, United States, France, United Kingdom, New Zealand, and China
HKComputer	Founded in 1983 by three parties—Mr. John (Australian), Mr. Chan (a Thai Chinese and director of Bangkok Bank), and IBM—it is owned 25% by IBM and 75% by Mr. John and Mr. Chan. Mr. John is chair and managing director of the holding company in Hong Kong.	Consulting and business solutions in computer software, specializing mainly in IBM systems	US$35 million (1993)	NA	US$3 million (1993)	120 (HK) and 250 (Group)	Indonesia, Malaysia Singapore, Thailand, China, and Macau
HKElectronics	Established in 1971, it is one of the leading electronics manufacturers in Hong Kong, specializing in OEM manufacturing, e.g., for AT&T cordless phones. The founding chair is still CEO of the holding company.	Development, manufacturing, and distribution of telecommunications products; some medical products and vehicle monitoring systems	HK$976 million (1993)	HK$90 million (1993)	HK$445 million (1993)	3,000 (Group)	Malaysia and China

Sources: Author's survey and various company reports.

ners," relinquishing management control to the parent HKTNC. On the other hand, these "political patrons" are often personal friends or associates of key personnel in those HKTNCs, and in exchange for their political connections they often benefit from personal investment opportunities.

HKTNCs tend to enter into extrafirm network relations in order to take advantage of "rent-seekers" in host ASEAN countries. These extrafirm relationships are often embedded in complex networks of personal and business relationships (e.g., the case of HKElectronics). It would be erroneous to view extrafirm network relationships in isolation from other forms of network relationships. The following section addresses interfirm networks which are embedded in other dimensions of network relationships.

The Social Organization of Transnational Operations: Interfirm Networks

HKTNCs enter into interfirm network relationships mainly through personal contacts in business networks and close friends in "family" networks. These interfirm network relationships are predominantly cooperative and mutually beneficial, albeit shaped by unequal power relations over time (Yeung 1997b). Redding (1991, 41) points out that "the large structures of cooperation needed for an economy to flourish and to manage economic exchanges are reliant on a peculiarly effective mechanism for interfirm linkages." But how are these cooperative relationships manifested in the ASEAN operations of HKTNCs? To what extent do they show characteristics of Chinese business relationships? This section outlines two main mechanisms through which HKTNCs enter into cooperative relationships with host country partners and/or business associates: through complementary partnership and reliance on local capital, and by developing interpersonal relationships.

In the first mechanism, an interfirm network can emanate from active participation on the part of local partners in both parent HKTNCs and ASEAN subsidiaries. These network relations are somewhat more formal than personal friendship. Most likely, the original HKTNC is not family-controlled and thus all shareholders contribute to successful operations abroad through their individual business contacts and connections. The level of coordination would likely be higher than in a family-controlled business. When operations are created at the level of business connections—that is, at the interfirm level—not only trust and reputation are important, but business interests and operational coordination are also cornerstones of successful transnational operations.

An example is the HKComputer Group, a computer software services company (see Table 3). HKComputer specializes in IBM systems, and IBM has a 25 percent stake in the company. In this case, individual country general managers do not own any significant equity shares of the company. But they are fully entrusted to set up individual country operations, in collaboration with their local partners, representing a kind of loose intrafirm network relationship. All country general managers have been working for the company for a long time and all have worked previously in Hong Kong for more than five years, except the general manager in Thailand. This form of intrafirm coordination resembles Hedlund's (1986, 1993) concept of "heterarchy," in which individual country managers are given substantial autonomy in decision making and running of the operation.

In compliance with the Board of Investment regulation in Thailand, the Thai operation is owned 49 percent by the HKComputer Group and 51 percent by Mr. Chan, a majority shareholder, and his two Thai brothers. One of the two brothers became the majority local shareholder because he wanted to experience growing a software house. This arrangement of a "virtual joint venture" serves not only to overcome regulatory constraints posed by the host country, but also to strengthen business networks within the company. The Thai operation looks like a joint venture on paper, but the Thai regulatory authority knows little about the complex ways in which shareholding is worked out among key owners of the company in Hong Kong. Such an arrangement also favors future business relationships between the three brothers and the Hong Kong group. From IBM's perspective, the Thai operation is a safe bet because of the strong partnership between the Hong Kong–based company and the Thai brothers. In fact, the role of Mr. Chan is instrumental in the start-up phase, but over time he becomes mainly advisory. According to Mr. John, group chair and managing director, the Chan brothers' connections are not used in the running of the business:

> Believe it or not, not at all, because you find with very influential businessmen, they often won't use their connections unless you prove you are successful. They're not going to recommend us and find that we are too small. They'll leave us alone to grow. It [the connection] didn't help to start with; it's starting to help now though. (interviewed in Hong Kong, 24 March 1994)

Mr. John's comments are echoed by Mr. Louis, general manager of HKComputer Thailand:

> We all agree that because they [the Chan brothers] are such a significant family in Bangkok, it's not wise for them to be involved directly in recommending or trying to push a decision in one way or the other. They are also quite a long way removed from the decision-making process because they are just so senior and they are too high profile. They would compromise themselves if they were to say "Buy this because I say so." Then it will reflect badly on their name if either the solution didn't work or whatever. They restrict themselves to advice when I ask them. They are happy to let me run their business and it seems to work well. (interviewed in Bangkok, 7 June 1994)

The Chan brothers seemingly do not want to involve themselves too much in the "personalization" of the business, representing a relatively more formal approach to interfirm networks.

A more interesting case is HKComputer's Malaysian operation, because it originated from a close and symbiotic relationship among company shareholders as well as customers—a good example of interfirm networks. The former managing director of IBM Hong Kong/China, Mr. Low, introduced Mr. John (HKComputer) to Mr. Ismail, the managing director of MalayComputer, which had been IBM's sole distributor in Malaysia. HKComputer and MalayComputer subsequently went into a joint venture that was favored by IBM because HKComputer could establish itself faster and have a better chance with a recognized local business partner (MalayComputer). Both companies in Malaysia also have complementary business platforms. Mr. John commented:

> Legally you can be in Malaysia and own 100 percent of the operations as an overseas business, which we did for several years. It didn't seem to work; we were legal, but the business didn't seem to work. We evaluated along with IBM and decided to invite [MalayComputer] to take 30 percent, which used to be the old rule in Malaysia. And since they took the 30 percent, the business boomed. You don't have to do it, but people felt more comfortable when they saw that we have a local business partner. (interviewed in Hong Kong, 24 March 1994)

Mr. Andy, the general manager of HKComputer Malaysia, confirmed this:

> It gave us a level of credibility. If we just walk into the country as a subsidiary of a Hong Kong–based company, regardless of the fact that there is IBM ownership, it would have been hard to establish ourselves. But the fact that [MalayComputer] then entered into the partnership gave us credibility from the day we opened. (interviewed in Kuala Lumpur, 11 August 1994)

In brief, the HKComputer case is embedded in trust relationships and cooperative spirit among suppliers and customers—that is, between IBM, HKComputer, and local partners. It is an interfirm business relationship that evolved over time and developed eventually into a strategic partnership. Transnational operations are thus the outcome of these interfirm cooperative and trust relationships.

The second mechanism through which HKTNCs enter into cooperative relationships with host country partners and business associates is through interpersonal relationships, in particular among Chinese family-controlled HKTNCs. These Chinese family-based HKTNCs tend to operate in ASEAN countries through a combination of intricate interpersonal relationships and interfirm cooperation. Personal friendship is perhaps one of the most peculiar modes of business rationality in the Chinese business system. Among family business operations in Hong Kong, reliance on personal trust and social circles is common. Founders and owners of many family-controlled HKTNCs would first exploit their personal networks when going transnational. This tendency works in two directions: the owner will either approach personal friends or business associates whom the owner trusts and has known for a long period of time (anywhere from 10 to 40 years), or personal friends or business associates will approach the owner and ask for joint venture collaborations in a particular host country. In the latter situation, the level of trust and business goodwill of the initiating party will be assessed, and normally personal friends are preferred over "new comers," or complete strangers introduced by business associates or friends. Because personal friends may originate from the host country (e.g., the prime minister's son in the case of HKElectronics), transnational operations are often motivated by personal relationships rather than by purely abstract economic cost and benefit factors. The actual process of establishing oneself in the host country also takes place through personal networks of friends and associates.

Consider the case of HKCarpet (see Table 3), in which personal relationships are involved in the processes of setting up overseas operations. While Hong Kong remains the marketing, R&D, and coordinating center of HKCarpet's world carpet manufacturing activities, all manufacturing facilities have relocated to other countries. Except in Singapore, all ASEAN operations are established through joint ventures with reputable local businesspeople or families. Ethnic and business connections are the single most important mechanism through which HKCarpet set up its ASEAN operations. The present managing director, the son of the founding chair, described the process:

> Typically, the connections are made through friends, referrals. That's very important . . . I think a partner can make or break a venture. In all these countries, but not all of them, at the time when we went into most of these countries, the structure, the system, the laws were all not very clear. So you relied on your local partner to tell you everything about the market, take care of the venture and hopefully not cheat you. So that's why the local partner is very important . . . Well, for us, we were not in the carpet business at the very beginning. You just find someone, through other connections who has other ventures with other people, who has proven to be reliable. All you need them for is their financial support and their business contacts in their countries to set up a new plant . . . Typically, either we would know them or we have close associates who would know them. In any case, the key is to make sure that whoever we pick has a reputation in that local community. Trust and reputation are most important. (interviewed in Hong Kong, 12 April 1994)

My interviews with several directors of HKCarpet's ASEAN operations offer additional insights into the complex ethnic relationships between the company's chair, a Shanghainese, and his ASEAN associates. Some 20 years ago, the Philippine operation was set up by a Shanghainese, Mr. Tso, who went to Hong Kong in the late 1940s and had been a long-standing friend of the chair, Mr. Chiu. Through connections with a reputable Jewish family in Hong Kong that owned large hotel chains and public utility companies, Mr. Chiu was able to find a local partner who was also the partner of a five-star hotel owned by the Jewish family in the Philippines. The managing director in Hong Kong said that "we both relied on the same person because he was reliable. You know then that someone already has experience, that he's a good person" (interviewed in Hong Kong, 12 April 1994).

The personal relationship between the Chiu family and the Jewish family is based on historical contingencies during the Japanese occupation of Hong Kong in the Second World War. The Jewish family was subsequently sent to a Japanese camp in Shanghai, where they met and received substantial help from Mr. Chiu and his family. In the postwar period the Jewish family returned to Hong Kong to resume their hotel and infrastructural business. The same period also saw the emigration of the Chiu family to Hong Kong and the establishment of HKCarpet. Their prior personal relationships in Shanghai, embedded in mutual obligation and sentiments, developed into significant interfirm business relationships in Hong Kong. In fact, the Jewish family is a significant shareholder of the HKCarpet Group, but it is not involved in the management and control of HKCarpet. Meanwhile, there are significant economic complementarities between HKCarpet and the hotel business of the Jewish family. Its five-star hotels need high-quality carpets that HKCarpet is well positioned to supply. Congenial interpersonal relations between the two families are complemented by interfirm business relationships. In theoretical terms, economic action is socially and culturally embedded within specific time-space contexts.

In 1972, the Indonesian operation of HKCarpet was established by an Indonesian family that had been long-associated friends of the chair and of Mr. Tso, the founder of the Philippine plant. Mr. Tso went to Indonesia to assist during the process of establishing the Indonesian plant. He is also a member of the Indonesian and Thai boards. In both countries, partnership with local families is embedded in the personal relationships between Mr. Chiu and his close circle of friends and business associates.

HKCarpet's wholly owned operation in Singapore was set up in 1968 by another Shanghainese, Mr. Chen, who emigrated from Shanghai to Hong Kong and then from Hong Kong to Singapore in the early 1960s. Mr. Chen was a good friend of Mr. Chiu in Hong Kong. The Singapore operation was established to fulfill the wish of Mr. Chen to emigrate to Singapore and the marketing strategies of Mr. Chiu's HKCarpet Group, increasingly focused on the Southeast Asian regional market. The director of the Singapore operation commented:

> The first partner of [Mr. Chiu] in Singapore was a gentleman . . . from Hong Kong; he's a Shanghainese. But he settled in Singapore. So I think that's how he started. [Mr. Chiu] knew people already in the country. So he said: "Come, why don't we do business together?" . . . It's quite different [from Western firms]. It's very important because there is already this element of trust. If you want to set up an operation in a foreign country, it helps if you have a friend staying in the foreign country, knowing what the pitfalls are, rather than going to an independent firm and saying: "Can you do me a market survey of what it would be like for me to set up a factory in such and such place?" But if it's from your old personal friends and contacts, I think the trust is there and the information will be more reliable. (interviewed in Singapore, 15 July 1994)

Intrafirm Networks: Coordination and Control in Transnational Operations

Intrafirm networks in TNCs are governed by coordination and control. There is a continuum of control in decision making and power relations, varying from centralization at one end to decentralization at the other. Any point along such a continuum is dependent upon the relationship between the subsidiaries and the headquarters. If their *guanxi*, or relationship, is weak, it is likely that centralization will follow. For example, a professional employee may be recruited locally to set up a subsidiary. If the headquarters has relatively little experience of or confidence in this local manager through a prior relationship, it is unlikely that he or she will be socialized into the corporate "family." Rather, the headquarters will exercise greater control through inspection, auditing, and reporting mechanisms. On the other hand, if the local manager is trusted for any of various reasons—such as a prior working experience in the headquarters, as in the case of HKComputer, or personal contacts or close friends, as in the case of HKCarpet—it is likely that he or she will be included in the "family." The subsequent intrafirm network between the headquarters and local subsidiaries tends to be closely knit, although decision making may be largely decentralized. Over time, relations between headquarters and subsidiaries may be strengthened or may deteriorate, depending on contingent circumstances such as business performance; the local manager may develop a successful relationship with the headquarters over time, or the local manager may damage the relationship by performing badly. The point is that intrafirm networks, although enduring like any other networks, are dynamic over time and flexible over space.

Survey data reveal interesting patterns of intrafirm coordination and control among HKTNCs. Both headquarters and ASEAN subsidiaries tend to agree that there is a high degree of integration and coordination among them. They differ, however, in their perception of the extent of control. While almost half of the headquarters report controlling their ASEAN subsidiaries, few subsidiaries agree on such a view. Rather, respondents from subsidiaries think that they are more autonomous. This reflects a perception gap between key executives presiding over the headquarters and local managers in charge of ASEAN subsidiaries. The headquarters of HKTNCs perceive their firm control of ASEAN operations because of their direct investment and shareholding arrangements. Often, they send expatriate staff from Hong Kong to manage their ASEAN operations. By putting their own people from the "corporate family" in place, top executives in Hong Kong feel their presence in ASEAN subsidiaries. From the ASEAN subsidiary's point of view, local managers tend to think that they are less controlled by Hong Kong per se because either they are sent by Hong Kong (empowered to make decisions, as in the case of HKComputer) or they have good personal relationships with the Hong Kong headquarters (e.g., HKCarpet).

What then are the mechanisms of intrafirm control? Three major control mechanisms are employed by HKTNCs: periodic reporting (23 percent), periodic inspection (19 percent), and cost control (18 percent) (see Table 4). Responses from ASEAN subsidiaries largely conform to the headquarters' view. Data on channels of marketing and sourcing demonstrate that ASEAN subsidiaries are relatively autonomous. Both marketing and sourcing activities for ASEAN subsidiaries are conducted at the local level, as demonstrated in Table 5. There is thus little intrafirm control by the headquarters through marketing, sourcing, and technology.

The primary mode of intrafirm control exercised by parent HKTNCs is finance. Survey data show that an overwhelming majority of ASEAN subsidiaries are financed by headquarters in Hong Kong. A crude generalization is that many HKTNCs still behave like traditional Chinese businesses, in which finance is tightly controlled by the head of the family (see Limlingan 1986; McVey 1992; Chan and Chiang 1994). Despite a significant number of joint ventures in this study (see Yeung 1995b, forthcoming), financial control still lies with HKTNCs, not with their local partners. This finding further reinforces the idea that "money matters" in the Chinese business system.

HKArch provides an interesting case study of intrafirm control and coordination within HKTNCs. In a period of 15 years, HKArch (see Table 3) developed into one

Table 4

Mechanisms of Control of ASEAN Operations by Hong Kong Transnational Corporations

Mechanisms of Control	Headquarters		Subsidiaries	
	Frequency[a]	%	Frequency	%
Production and marketing planning from headquarters	20	8.6	9	6.1
Inventory and quality control by headquarters	9	3.9	1	0.7
Cost control by headquarters	42	18.0	34	23.1
Provision of broad guidelines by corporate groups	21	9.0	11	7.5
Centralized decision making from headquarters	18	7.7	6	4.1
Employment of expatriate managers and/or executives	12	5.2	4	2.7
Periodic inspection by top management executives from headquarters	43	18.5	6	4.1
Periodic report of local managers to headquarters	54	23.2	40	27.2
Corporate sourcing of information from headquarters	2	0.9	0	0.0
Mutual exchange of information	9	3.9	19	12.9
Annual meetings	3	1.3	17	11.6
Total	233	100.0	147	100.0

Source: Author's survey.

[a] Total number of cases exceeds sample size (N = 111) because up to three responses were allowed in the survey.

of the largest and most established architectural TNCs based in Hong Kong. It is also one of the earliest architectural firms to work on projects in China, since 1979. The Singapore office of HKArch was established in 1991 as a response to a specific project request in Singapore. The founding chair and sole proprietor of the company in Hong Kong, Mr. Lee, has close connections with a director in one of the largest property development firms in Hong Kong (HKProperty), whose sister company is a leading property developer in Singapore (SINLand). Because of this connection, HKArch has done many projects for HKProperty in Hong Kong. The director of HKProperty asked Mr. Lee to set up an office in Singapore to serve SINLand in Singapore and related projects in China. Mr. Lee recapitulated:

> Some of our customers asked us to go over; we set up overseas operations because we don't want all our activities in Hong Kong and China alone. Even when we ignore political factors, economic risk is still substantial if we don't diversify . . . We have had this idea of overseas operation for a long time, for seven to eight years; but four years ago, we had a chance to realize it. We had some clients in Hong Kong who originated from Singapore. When we had casual chats, they asked us whether we were interested in operating in Singapore as well. So this is how we went. They gave the project to us. (interviewed in Hong Kong, 8 March 1994)

Although the contact was made, the main difficulty was how to set up an office in Singapore, because HKArch did not have any existing operations in Singapore and Mr. Lee was not granted an architect's license in Singapore. Subsequently, he sent a Singaporean, Mr. Tan, who used to work in their Hong Kong office, to set up the Singapore office (note the similarities with the case of HKComputer). Through two years of working experience with the parent company in Hong Kong,

Table 5

Channels of Marketing and Sourcing among Hong Kong Transnational Corporations in the ASEAN Region

Channels	Headquarters Frequency	Headquarters %	Subsidiaries Frequency	Subsidiaries %
Marketing				
Through central marketing department in the headquarters	5	4.5	12	19.0
Through local marketing department in subsidiaries and affiliates	77	69.4	51	81.0
Through subcontracting independent marketing services in Hong Kong	1	0.9	0	0.0
Through subcontracting independent marketing services in ASEAN	11	9.9	0	0.0
No such marketing activities	17	15.3	0	0.0
Sourcing				
Through central corporate sourcing from the headquarters	10	9.0	14	22.2
Through local production and supply department in subsidiaries and affiliates	49	44.1	36	57.1
Through subcontracting independent suppliers in Hong Kong	1	0.9	0	0.0
Through subcontracting independent suppliers in ASEAN	8	7.2	0	0.0
No such sourcing activities	43	38.7	13	20.6
Total	111	100.0	63	100.0

Source: Author's survey.

Mr. Tan, now the director of the Singapore office, developed a strong personal trust relationship with the directors in Hong Kong. He reasoned:

> Yes, definitely a trust has to be formulated before anybody goes into business together, whether in the same place or different places. I think a big proportion of the operation is based on trust. Yes, it's true. Well, I did not do anything behind [Mr. Lee's] back which I think I could. I could set up another company and all the jobs would run to that company. [He] would never know about it. I've never done . . . Yes, I think the partner in Hong Kong has to know this person who will take charge. At the same time, the associate company has to know the principal company will actually look after his interest financially as well as give a certain amount of support. (interviewed in Singapore, 18 July 1994)

The trust and confidence of the Hong Kong head office in Mr. Tan is substantial. Clearly, the Hong Kong office has ruled out the possibility of relying upon other executives recruited locally in Singapore because prior trust relationships serve the company best. Trust relationships therefore tend to narrow the choice of intrafirm personnel transfer and to justify preferential reliance upon specific personnel in the transnationalization processes. Trust elements also form the "noncontractual basis of contracts," in Durkheim's terminology (cited in Holton 1992, 189). A strong bond within the corporate "family," for example, exists between Mr. Tan and his chair, Mr. Lee. Mr. Tan explained how such a personal bond enables a closer intrafirm relationship and defies the use of elaborate contractual arrangements in the Singapore operation:

> There is always this nagging feeling of suspicion that will still be there. You know, in Hong Kong our operation is very cautious. Unless you really know the person very well, then otherwise the partnership will form on a different basis. Like, for example, there may be a lot of legal writings

> in the lawyer's office and more frequent contact . . . It [the Singapore operation] is some kind of contractual basis, but not so explicit. It's kind of loose, based partially on understanding and partially on written agreements. But the written agreement is still quite loose, subject to a certain amount of interpretation . . . They [directors in Hong Kong] have to feel that this person whom they entrust in running the operation is trustworthy and loyal and has the drive to make the company work. (Interviewed in Singapore, 18 July 1994)

This case study shows that intrafirm personal trust relationships are coupled with interfirm project relations to prompt transnational ventures in professional business services. It is typical that a trusted member is sent over to set up in the host country (see Table 2). Mr. Tan was also given complete autonomy in running the Singapore office. Although the initial capital investment came from HKArch, the Singapore office is now responsible for its own profit and loss. It established itself quickly as a profit center independent of HKArch. This does not mean, however, that HKArch has lost control of its Singapore office. Instead, both operations are closely integrated and coordinated through personal trust relationships between Mr. Lee and Mr. Tan. In order to serve projects secured through interfirm connections with HKProperty and SINLand, HKArch must coordinate its intrafirm networks well enough to serve their friends and clients. Meanwhile, the Singapore office is governed by a complicated budget because there are two separate companies, one owned by Mr. Tan and the other controlled by Mr. Lee in Hong Kong.

Conclusion

In this paper I have shown that Chinese business networks, embedded in host country regulatory regimes and the social organization of "institutional thickness," explain the processes and mechanisms of transnational operations by HKTNCs in the ASEAN region. This finding contradicts the prevailing negative perception of the ability of Chinese family firms to expand into overseas markets. The paper also justifies Wong's (1988, 151) argument that "there is nothing inherent in the Chinese family structure to limit the size of an enterprise." In this study, there is nothing in the Chinese business structure that inhibits the growth of transnational operations (e.g., HKCarpet). Rather, Chinese business structures, particularly their emphasis on networks of personal and business relationships, tend to facilitate transnational operations by providing the "institutional thickness" and social organization of capital. Such support is carried mainly through three network relationships: (1) extrafirm relations with "rent-seekers" within the state bureaucracy through political connections; (2) interfirm relations with business partners through intricate shareholding arrangements and with personal friends through joint ventures; (3) intrafirm control and coordination through the process of "family-ization," that is, socialization of key personnel into the "corporate family."

This conclusion has critical implications for research into international business and production. "Network thinking" serves as an alternative approach to the understanding of transnational operations of firms from all countries. What we must bear in mind is the emerging concept of business organizations as networks of ongoing personal and social relationships embedded in specific geographic contexts. Perhaps it is time to divert *some* attention away from the narrow focus on transaction costs and economic advantages as the sole explanatory variables in international business. We need to examine the embedded power relations and social construction of transnational activities. The TNC is as much a social entity as an economic institution. More important, we need to realize the crucial difference between time-space contingent factors and causal mechanisms in our explanations. This paper shows that network relations are important causal mechanisms of transnational operations.

What are the implications of this study for business development in the ASEAN region? ASEAN countries, in particular Indonesia, Malaysia, Singapore, and Thailand, are likely to continue to benefit from traditional family links and cultural ties with Hong Kong in "overseas circuits of Chinese capital." In view of Hong Kong's reversion to China in 1997, more Hong Kong firms will go transnational; many of them will consider their preexisting network relations in activating such transnational operations (Lam 1990). FDI flows from Hong Kong to the ASEAN region will continue to grow, and HKTNCs will also flourish in many ASEAN countries vis-à-vis their global competitors from developed countries (Yeung 1994d, 1995b, forthcoming). Ethnicity and connections become two critical dimensions to the success of transnational operations in many ASEAN countries. In this regard, HKTNCs will gain the upper hand over many foreign competitors. Increasing attention has recently been paid to this interesting topic of ethnicity and connections in national development and business success (e.g., Jesudason 1989; Kotkin 1992). Future studies of the geography of international business in the Asia-Pacific region are promising. But such an optimism can only be realized if we take a much more open-minded and interdisciplinary approach to such an important topic.

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