Globalizing Asian Business: Dynamics of Change and Adjustment

A Draft Chapter by

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For *Globalization in Transition: Forces of Adjustment in the Asia Pacific Region*, Edited by Dennis A. Rondinelli and John M. Heffron.

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12 March 2005

(8,988 words)

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by

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INTRODUCTION

Accelerated economic globalization has led to the complex interpenetration of private entrepreneurs and professional managers from different parts of the global economy.[2] In engaging in international business activities, these business actors are increasingly enrolled into global networks of production and value-added activities that bring about significantly new and innovative knowledge of business operations, strategic management, and financial arrangements. These two-way adjustments and transformation of globalization processes – the globalization of business actors and their critical role in transforming home country practices – are further facilitated by significant improvement in transport and communication technologies during the past two decades.

During the past 30 years, many Asian economies have experienced dramatic transformations in their progressive integration into the global economy through export-oriented industrialization and the adoption of technology-driven pathways to economic development. Domestic firms in these emerging economies are at the critical stage of transition from primarily inward looking and ethnocentric in their business orientation and governance structures to globally oriented in their outlook and organizational processes. Many of these domestic Asian firms grew out of their former roles as service providers, industrial subcontractors, and OEM manufacturers for global corporations to become significant competitors in the global business arena in their own right. Some of them also emerged from their former entity as national firms previously protected by their home governments through various tariff and non-tariff barriers. In organizational terms, while

family-based ownership and management structures continue to dominate Asian business today[3], this economic phenomenon is not really unique to Asia.[4] As global competition is increasingly approaching domestic markets in Asia and as these Asian firms are increasingly compelled to venture into the global marketplace, a two-way process I term "globalizing Asian business", we witness significant organizational learning and transformations taking place among some of Asia's most successful corporations.

In this chapter, I aim to analyze the emerging challenges and opportunities for Asian corporations in an era of economic globalization. In particular, I examine how business norms and practices are becoming increasingly globalized such that leading Asian firms are being transformed from locally oriented domestic operations to global business enterprises that span different continents and geographical territories.[5] In so doing, I first present some recent trends of corporate governance and strategic management in international business in order to set the broader context of how the *modus operandi* of international business is itself changing. I then discuss how these new business norms and practices are rapidly diffusing into the Asian region through the global experience of many Asian business actors in developing and managing their foreign operations and ventures, and through their own international educational experience.

In the second part of this chapter, I examine how this globalization of business knowledge impacts on the organization and governance of Asian business firms. In particular, I argue that business is no longer as usual among leading Asian firms that strategically seek to play a greater role in the global marketplace. To succeed in the global economy, many Asian firms are beginning to adopt innovative changes in their organizational structures and corporate governance in order to become more competitive and accountable to their stakeholders. This transformation is particularly visible in the aftermath of the 1997/1998 Asian economic crisis.[6] Based on over 50 personal interviews conducted with leading Asian

firms in Hong Kong, Taiwan, and Singapore between 2002 and 2004, and some secondary materials, I explain why these changes and adjustments are deemed necessary and imperative by Asian business leaders and executives. I also offer an assessment of the effectiveness of these changes and adjustments on corporate performance and the rapid internationalization of Asian firms.

In the concluding section, I consider some major implications of this chapter for policy makers and business leaders in Asia. In particular, I argue that this phenomenon of "globalizing" Asian business represents only the tip of an iceberg whereby a large number of Asian firms remain rather ethnocentric and domestically oriented in their business mindsets and operational practices. The rise of China and thus mainland Chinese firms also complicates this rosy picture of the growing alignment of Asian business practices to global norms and standards. This simultaneous convergence and divergence of business systems in Asia seems to point to an emerging hybrid system in which both elements of the traditional Asian business system and the global system may co-exist. There are therefore important implications for policy makers to consider in their efforts to bring about modern management in their home countries and for business leaders who aim to transform their local business into world-class players in the global economy.

THE GLOBALIZATION OF BUSINESS NORMS AND PRACTICES

Contrary to conventional wisdoms,[7] globalization entails more than simply economic transactions across border spearheaded by global corporations. Equally important are the cross-border diffusion of business norms and practices that fundamentally shape the ways in which firms are organized and managed in different parts of the global economy. This globalization of norms and practices does not occur accidentally as different countries and regions in the global economy are often dominated by different modes of economic organization known as business systems.[8] Institutional preconditions, path dependency, and

behavioral inertia explain why the rapid diffusion of international norms and practices is neither an easy process nor an inevitable outcome in Asian business. In this section, I outline some of the most significant trends in strategic management and corporate governance that become increasingly diffused to Asia. In explaining this spatial diffusion of business norms and practices, I focus on the role of social actors such as business executives and managers who are becoming globalized vis-à-vis their educational and work experiences. They have thus become the agents of globalization by embodying norms and practices they have gathered in different parts of the world and by implementing these norms and practices in their own business organizations.

Recent Trends in Strategic Management and Corporate Governance

Recent research in business and management studies has clearly pointed to emerging trends in organizing international business activities among global corporations – what DiMaggio has termed "a model of the twenty-first-century firm".[9] Three of these significant trends are associated with (1) changing organizational forms, (2) increasing reliance on capital markets and financial institutions for corporate finance, and (3) growing separation between ownership and control. In view of space constraints, I will briefly explain each of these trends as a prelude to subsequent discussion on Asian firms. Historically, transnational corporations (TNCs) have been organized in a hierarchical form that offers parent firms very tight management control of both information and knowledge.[10] As many TNCs are globalizing their operations and competition is becoming increasingly global in nature, this tight parent-subsidiary control relationship does not work well in engendering greater flexibility and adaptability necessary in managing the worldwide operations of global corporations. To promote greater subsidiary initiatives and local competitiveness, global corporations are constantly balancing between global integration and local responsiveness in their organizational forms.[11] Few global corporations today are highly centralized in their decision-

making and business organization such that the headquarters make all the decisions and subsidiaries merely execute these decisions. Instead, we begin to find many TNC subsidiaries playing a role as strategic business units (SBUs) that sometimes take charge of entire product lines or market segments – a significant organizational change from hierarchy to what Hedlund calls heterarchy.[12] On these emerging global corporations, Amin recently observes "the evolution of the firms from home-based organizations with a hierarchy of operations around the world towards global organizations commanding long supply chains, networks and consumption norms across the world".[13]

Meanwhile, as global corporations are confronted with the paradox of control and collaboration in its governance structures,[14] many have turned to inter-organizational relationships as a means to compete in the global marketplace. This greater engagement in inter-organizational relationships results in the rapid emergence of all kinds of new organizational forms such as strategic alliances, joint ventures, and cooperative networks.[15] There are many reasons why global corporations often prefer to cooperate in order to compete. The efforts to drive down costs, to speed up innovation and time-to-market, and to tap into firm-specific repertoire of knowledge and technology are the most common reasons. In his portrait of the twenty-first century firm, Powell argues that "firms are coming to resemble a network of treaties because these multistranded relationships encourage learning from a broad array of collaborators and promote experimentation with new methods, while at the same time reducing the cost of expensive commitments".[16] The role of regulatory constraints may also explain the rise of cross-border alliances and cooperative ventures in some cases. Coupled with the loosening up of intra-firm control and coordination, the rise of cooperative forms of network organization among different firms have heralded the arrival of economic globalization as the definitive platform for intensified competition in the global economy. Firms that adapt and align their organizational structures to this new global reality

of simultaneous competition and cooperation tend to fair much better in their corporate performance and market reach.

How then do these emerging global corporations finance their worldwide web of operations? One of the integral constituents of globalization is the rise of global finance.[17] Together with its rise is the greater role of international capital markets and financial institutions (e.g. investment banks and mutual funds) in financing the globalization of business operations. The concomitant internationalization of finance and business is not something very new and surprising.[18] Rather, it is the greater reliance of global corporations on international capital markets and financial institutions for corporate finance that fundamentally reshapes the contours of international business activities. As these international capital markets are becoming more integrated than ever, the global reach of corporations with excellent access to these capital markets and institutional funds can be realized much faster than ever. Typically, global corporations use a variety of sources to finance their activities. Since virtually all of them are listed in one or more national stock exchanges, they are able to raise capital effectively and cheaply through issuing new shares. Alternatively, they can place new bonds in the highly globalized bond market underwritten by financial institutions (e.g. investment banks and offshore banks) that are global in their presence and operations. A third option is for these global corporations to borrow from syndicates of international banks at attractive rates. The balance sheets of most global corporations conceivably show a mixed use of these three financial instruments. The most interesting aspect of this phenomenon of corporate finance is its increasing global scope such that the home countries of TNCs are no longer the exclusive or even major source of capital to finance their globalization efforts. This globalization of finance and business comes with all kinds of implications. In particular, it necessitates the indispensable role of intermediaries such as brokers, financiers, credit-rating agencies, media reporters, and so on who do not necessarily subscribe to the ethnocentric

worldview of domestically oriented firms. As such, we expect globalizing firms to pay greater attention to these financial intermediaries because they have significant influence on the availability of capital and finance to these impending global corporations.

One of the most contested dimensions of this appeal by global corporations to the international financial community is the extent to which ownership is separated from management. Again, this issue in corporate governance is an old hat since the days of Berle and Means.[19] The separation between ownership and management and the rise of professional managers has been the hallmark of what Chandler terms "managerial capitalism".[20] The reality of corporate governance throughout the world, however, is expectedly much messier.[21] What globalization has facilitated is the further consolidation of this historical trend towards greater professionalization and formalization in corporate governance. The greater role of institutional investors in corporate governance has encouraged the professionalization of management. This is an important outcome for without it global corporations will find it hard to appeal to global finance for capital. The rapid growth and internationalization of higher education also account for the rise of professional managers as the bedrock of managing global corporations today. As the tasks of managing across borders are becoming much more complex and difficult, this demand for professionalization and formalization in corporate governance can only be greater rather than lesser. Taken together, the above three trends in international business norms and practices are both the causes and manifestations of globalization processes. It remains unclear how these new norms and practices impact on Asian firms as they venture into the global marketplace.

Spatial Diffusion of Business Norms and Practices

For any spatial diffusion to take place, we need what may be termed "agents". In the case of international business norms and practices, these agents are likely to be social actors who are connected to Asian firms in various ways and capacities. They can be owners, family

members of owners, shareholders, senior executives, government officials, and a whole array of international business and finance actors. While I have explained in detail elsewhere the various roles of these actors and their actor-networks in shaping Asian business,[22] it is useful to reiterate these actors before we consider how globalization has fundamentally transformed the *modus operandi* of many Asian firms. In general, there are two primary mechanisms through which these norms and practices can be diffused to Asian firms: (1) engaging with international business actor-networks and (2) gathering knowledge and experience through international educational institutions. Actors in different business systems engage in significant efforts to out-do each other through continuous innovations and changes. This iterative process of organizational adoption and change defines the dialectics of globalization because it both creates pressures for the homogenization of business systems and reinforces their continual differences. Concluding his comparative institutional analysis of globalization and organizational change in Argentina, South Korea and Spain, Guillén thus argues that "[t]he enhanced possibilities for networking in a global world make it easier for individuals, communities, firms, and labor unions to bypass brokers [e.g. the state and other powerful institutions], to look around by themselves, to adopt the patterns of economic action and organizational form that they find most appealing".[23]

The emergence of Asia as a major global economic powerhouse is linked to both the globalization of non-Asian firms into Asia and the globalization of Asian firms into non-Asian host economies. This two-way globalization of business firms between Asia and other regions implies that key actors in Asia are compelled to learn new management and business practices from their competitors, suppliers, customers, and so on. At the same time, these same actors need to undo some of their previous learning and practices in order to compete effectively against foreign competitors in Asia as well as in their home turfs (i.e. North America and Western Europe). This process of organizational learning through *engaging with*

international business actor-networks occurs in several ways. First, Asian business actors may appoint non-Asian actors to manage their diverse operations both in Asia and in host countries outside Asia. These global managers are often endowed with significant experience in managing transnational operations in national economies embedded in different business systems. Their involvement in leading Asian firms may bring new norms and practices to these organizations. Asian business actors may also pick up new organizational knowledge and practices in non-Asian host countries through transnational operations. These knowledge and practices can originate from their intensive interaction with customers and suppliers in the host countries or from their previous employment in foreign firms. Actor-networks are formed between Asian actors and their customers, suppliers and competitors on a global scale, facilitating inter-personal information and knowledge flows and organizational adaptation.[24] In his sociological study of mainland China's transitional economy, Guthrie observes that "[c]ontact with foreign firms, via joint ventures, and the feeling of being set adrift by the central government – and thus the need to mimic firms from developed market economies – predict which firms will adopt Western practices".[25] Mainland Chinese firms are increasingly adopting Anglo-American economic and management practices "not for reasons of efficiency but for reasons of legitimacy".[26]

Globalizing actor-networks in *international finance* also represent one of the most influential mechanisms for the diffusion of new business norms. Even proponents of enduring national business systems have recognized this influence:

> The effects of internationalizing financial flows on business-system characteristics could be considerable under certain conditions. If, for instance, most of the leading firms in credit-based financial systems were to raise the bulk of their external finance from international capital markets instead of relying on their usual business partners, this could alter the strategic priorities of these firms and eventually affect the nature of their domestic business system.[27]

In the context of financial globalization and the desire to access large-scale flows of capital to fund development projects, many of Asia's largest conglomerates are faced with new

challenges. Indeed, the goal of securing new forms of financial resources represents one of the most critical factors that lead (directly and indirectly) to their adoption of international norms and practices. An increasing number of Asian founding entrepreneurs are now seeking capital resources beyond their immediate social and ethnic networks to finance their development objectives. Gordon Wu of Hong Kong's Hopewell Holdings, for example, spent much of the first half of the 1990s trying to raise capital in financial markets in London, New York and Tokyo to finance his mega infrastructure projects in China, Indonesia and Thailand.[28] By 1994, his efforts in wooing global investors had finally paid off when he successfully raised US$776 million by spinning off his power plants in Asia into a new company, Consolidated Electric Power Asia.[29] Olds also reports that, through the sharing of important information and contacts and the formation of joint ventures, Hong Kong's Li Ka-shing had developed long-term relations with such global investors as Paul Reichmann, Rupert Murdoch, George Soros, and the Bronfman family.[30] Reducing the reliance on internal capital within the home economies is attractive in an era of global competition where investment outlays are becoming significantly larger and financial leverages have become the norm in most competitive industries.

To ensure that global financial elites are comfortable with their financial positions and obligations, key actors in Asia are required to follow certain accounting standards and business norms in global capital markets. As early as 1992, for example, Peter Woo – the successor to one of Hong Kong's most powerful Chinese family conglomerates, the Wharf Group – pronounced that "[t]here are no friends in finance. The world has changed. They [old style family business] need to realize we are in a world market and need an international culture".[31] Having received his MBA from Columbia University and developed his early career in Chase Manhattan Bank, Woo's attitude to the traditional norms in Asian business is not entirely surprising. The 1997/1998 Asian economic crisis has only made these changes

even more apparent and necessary. Recent empirical studies in financial economics[32], for instance, have identified significant positive relationships between improved corporate governance (e.g. establishing credible investor protection provisions and appointing Big Six auditors) and lower cost of capital. The potential improvement in corporate governance is particularly welcome in Asian developing economies in which family firms thrive and shareholder protection and judicial efficiency are clearly inadequate. Klapper and Love have also found that good corporate governance matters a lot more in countries with weak shareholder protection and poor judicial efficiency.[33]

Another important mechanism in the diffusion of international business norms and practices to Asia today is that most key actors have spent time during their entire educational life in institutions located in North America, Western Europe and Australia. Most significantly, the *globalization of business knowledge* is linked to the emergence and, perhaps, domination of top business schools located in North America and Western Europe.[34] Key actors in Asian family businesses now face the challenge of professionalizing their management and business practices (see the next section). Other actors in non-family businesses are also active in organizational reengineering and management restructuring to prepare for global competition. This process of professionalizing Asian firms occurs when more patriarchs in Asian family firms have allowed and encouraged their heir-apparent to be educated in top business schools abroad. Personal contacts and relationships developed by these successors abroad potentially widen the social and geographic scope of family business networks when external non-family members (often MBA classmates or former colleagues of sons and nephews) are brought or socialized into existing business networks. The return of professionally trained family heirs also represents an important step towards the professionalization of Asian firms. DiMaggio and Powell have termed this process "normative isomorphism" through which "[u]niversities and professional training institutions are

important centers for the development of organizational norms among professional managers and their staff".[35] When the heir eventually takes over the family business, he/she is likely to adopt a much more open view towards the involvement of professionals in the management of the family firm. Well trained in top business schools elsewhere and often equipped with considerable international business and industry experience, these professional managers are key players in an emerging transnational community of business elites who are not only transferable in terms of their managerial skills, but also much more difficult to be "controlled" in the traditional Asian way of work management. Sklair has coined the term "transnational capitalist" to describe this group of highly powerful executives.[36] As Whitley notes, "this mobility has become frequently based upon the possession of a general management credential such as the MBA degree… [And] 'management' is seen more as a generalizable set of skills and competences than as a set of industry-specific functions linked to more technical competences".[37] To sum up, we begin to find more competent professional managers being socialized into Asian business such that over time, they become agents of diffusing international business norms and practices.

ASIAN BUSINESS AS USUAL? CHANGING ORGANIZATION AND GOVERNANCE AMONG ASIAN FIRMS

Before I proceed to show how Asian firms are adjusting to globalization tendencies by adopting innovative changes in their organizational structures and corporate governance, let me describe briefly the traditional modes of Asian business. This analysis is imperative because globalization tendencies and the rise of the so-called "new economy" have raised serious questions on the continual viability of traditional governance and practices in Asian business. As *The Economist* reported in a special issue on 29 April 2000, "Asia's tycoons are coming under pressure to adopt a more 'western' style of business. The change is gradual, but Asia's companies have started to shift away from their old patriarchal cultures and towards

those prevailing in America or Britain".[38] Two distinctive characteristics of Asian business stand out in this regard. First, the centralization of ownership and control within immediate families of founding entrepreneurs seems to define the corporate governance of most Asian firms. The 1996 figures in Table 1 demonstrate the enormous corporate and economic power of founding families and their ownership of public companies in East and Southeast Asia. In all seven stock exchanges, the share of families in total market capitalization varies from 64 per cent in Thailand to 96 per cent in Singapore. The extent of market capitalization and share of GDP accounted for by the top 15 families in 1996 is astonishing. It ranges from over 50 per cent in total market capitalization in Indonesia, the Philippines and Thailand and over 40 per cent in GDP share in Hong Kong, Malaysia, the Philippines and Singapore.

Second, financial institutions such as banks play a very important role as intermediaries between global finance and Asian firms. The first half of the 1990s was indeed an incredibly fortuitous period for business groups in East and Southeast Asia that sought new sources of capital to finance their global expansion of business activities. In Table 2, it is clear that global flows of capital into Asia increased very substantially from an average of US$16 billion during 1977-1982 and 1983-1989 to over US$40 billion during 1990-1994. By 1996, the annual flow had exceeded US$110 billion. Though the inflow was temporarily interrupted by the 1997/1998 Asian economic crisis, the amount of capital inflows into Asia in 1998 and 1999 remained comparable to the pre-crisis period. Among the various financial institutions intermediating global financial flows in these Asian economies, banks have occupied a particularly important position, not least because many of them are Asian family-owned and controlled. Table 3 shows that the shares of banks in financial intermediation in Singapore, Taiwan, Indonesia, Malaysia and Thailand during 1994-1995 were particularly high when compared to their counterparts from the US and South Korea. Foreign banks were also very significant in Hong Kong and Singapore, accounting for 78-80 per cent of total assets in the

banking sector. In terms of their net interest margins, banks in most of these East and Southeast Asian economies appeared to be highly profitable during the same period. By the late 1980s and the early 1990s, global finance had clearly made a significant inroad into Asia and facilitated the enormous growth and development of its leading business groups.

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In this section, I analyze and explain some of the most significant changes and adjustments occurring in the organizational structures and corporate governance of leading Asian firms. My observations are based on personal interviews with top executives in many of these leading Asian firms from Hong Kong, Taiwan, Singapore and South Korea. To begin, leading Asian firms from outside Japan are becoming increasingly important region/global players in high-tech sectors such as electronics and telecommunications. This *organizational specialization* in sectors that demand much greater capital investment, managerial knowledge, and technological competence reflects a telling move of Asian firms away from serving merely as subcontractors or suppliers for global corporations. Specializing in high-tech sectors also impinges upon these leading Asian firms to transform themselves from locally oriented national firms to emerging corporate giants that set their sights on the global arena. Meanwhile, some family-controlled Asian firms have also managed to grow out of their former position as ethnocentric firms serving the interest of controlling families. Instead, these globalizing family firms are professionalizing their management and adopting to world-class practices in their respective sectors. My analytical focus is placed on these two groups of leading Asian firms – high-tech giants and enlightened family firms. Some exemplars are useful here before I conduct some firm-level analysis.[39] Among those Asian firms specializing in high-tech sectors, we can further divide them on the basis of family ownership and control:

(1) family controlled high-tech firms: Nanya Technology and VIA in semiconductors and chip design (Taiwan), PCCW in telecommunications (Hong Kong), and Samsung Electronics in semiconductors and consumer electronics (South Korea);

(2) non-family controlled high-tech firms: Acer, BenQ, TSMC, and many more in computers and semiconductors (Taiwan) and Singapore Telecom and Singapore Technologies (Singapore).

Among those enlightened Asian family firms in diverse business sectors, I will count Hong Kong's CLP Holdings in the power industry (Kadoorie family) and OOCL in the shipping industry (Tung family), and Singapore's Hong Leong Group in property and hotel development (Kwek family) and Eu Yang Sang Holdings in traditional Chinese medicine (Eu family).

I argue that as they are competing in the regional and global marketplace, these Asian firms are compelled to adopt and adjust to international norms and practices. This transformation in Asian firms takes place primarily in the areas of organizational forms, corporate finance, and corporate governance – a phenomenon mirroring the ongoing trends in the globalization of business norms and practices. As Mathews argues, "globalization creates wholly new kinds of possibilities for small- and medium-sized enterprises to become global players exceedingly rapidly, provided they have the wit and ability to take advantage of the opportunities offered".[40] One of the most visible strategic innovations among the above Asian firms is their willing to take on *new organizational forms* to compete effectively in the global marketplace. Historically, Asian firms were mostly tightly controlled and managed in Williamson's classical sense of hierarchy dominated by the founders and their immediate family members.[41] While this centrifugal organizational structure remains widely visible in Asia, some of my case study firms have clearly moved away from this "one-center" model of transnational organization of their business operations. This trend in the organizational

structure of Asian firms not only reflects the need for greater flexibility and adaptability in network form of business organization, but also serves as a form of organizational leverage for these Asian firms to overcome their initial competitive disadvantage as technological "latecomers".[42]

Let's take Taiwan's Acer as a prime example. It has been a pioneer in Asia to adopt innovative organizational forms to the extent that it has been able to compete effectively with top-ten PC manufacturers in the world. Stan Shih, Acer's founder, and Leonard Liu (former CEO) introduced the concept of strategic business units (SBUs) and profit centers as early as 1992 when Acer was facing financial difficulties. Stan Shih recalled in late 1996 that "we bit the bullet and 'broke' Acer up into a series of semi-autonomous operating entities, allocating market responsibilities to some (called the RBUs) and production and technology responsibilities to others (called the SBUs)".[43] This organizational innovation has further strengthened the payoff incentives in Acer Peripherals, a SBU that evolved successfully into an independent brand-name electronics and lifestyle manufacturer, BenQ, in December 2001. In 2001, the Acer Group underwent another round of major reorganization that led to the founding of four independent companies. My interviews with presidents/CEOs in Acer Inc, BenQ, and AU Optronics in mid 2004 confirm that this organizational innovation has benefited substantially the Acer Group as a whole. Today, the Acer Group comprises of several heavy-weight players in the global computer and electronics industry: (1) Acer Inc – world's No.6 brand for PCs and notebooks (US$4.9 billion sales in 2003), (2) BenQ – world's leading manufacturer of computer peripherals (US$3.9 billion sales in 2003), (3) AU Optronics –world's third largest manufacturer of large-size TFT-LCD devices (US$3.1 billion sales in 2003), and (4) Wistron Corp. – Acer's former PC manufacturing division (US$3.2 billion sales in 2003). In 2003, the Acer Group had more than 60,000 employees worldwide and generated sales of US$15.6 billion.

The 2001 reorganization of Acer into four independent companies can be explained by several interrelated factors. The first and foremost reason can be termed the "industry effect". As the global PC industry was becoming ever more competitive, Acer was unable to sustain its entire in-house production network without allowing its various SBUs to develop new sources of revenues and markets. By spinning its manufacturing operations into Wistron Corp., Acer is now able to focus on its role as a brand-name holder and on how to market the Acer brand of IT products more effectively. Wistron Corp. is able to manufacture for other PC companies, some of which are Acer's direct competitors. In so doing, Wistron Corp. can widen its revenue base very substantially while exploiting its superior manufacturing expertise. Meanwhile, Acer Inc. no longer has to buy from Wistron Corp. exclusively as the latter is now an independent manufacturing company. Indeed, Acer now also sources its notebooks from Compal and Quanta, two of the world's largest notebook manufacturers from Taiwan. The decoupling of brand name management and global marketing (Acer Inc.) from manufacturing operations (Wistron Corp.) and peripherals production (BenQ) represents a significant shift in the organizational mindset among members of the Acer Group. Another reason for the reorganization has to do with the diversification of product lines into new growth areas such as lifestyle products. The incorporation of BenQ in December 2001 is largely explained by its potential to be a major global player in electronics lifestyle products. In fact, BenQ stands for "Bring Enjoyment And Quality to Life". This shift in strategic focus could not be achieved within Acer Inc.'s existing organizational framework as Acer has always been associated with IT products, particularly computers. The renaming of Acer Peripherals to BenQ in December 2001 represents a form of organizational reinvention for the Acer Group as a whole to go beyond merely a PC brand and manufacturer to become a major global group specializing in IT and lifestyle products. As the Chairman and CEO of BenQ concurred to me, BenQ wants to be the Sony and Philips from Taiwan.

Innovative changes in organizational forms, however, are clearly not only restricted to the Acer Group of companies. We can observe similar innovative organizational changes among family-controlled Asian firms. The family-controlled South Korean electronics giant, Samsung Electronics, has completely shifted from a region-centric management system to a product-based global management systems since the late 1990s. Samsung currently has 13 global business units (GBUs) and the heads of GBUs determine everything including what and where to produce, where and how to sell those products, and so on.[44] This significant shift is explained by the pressing need to ensure speedy and responsive decision-making. Our interviewee said that "if sales and production are separated, conflicts between regional heads and production heads may occur and this delays decisions. It is also often the case that responsibility is not clearly distinguishable between regional heads and production heads. For instance, when sales performance is not good, regional heads can attribute it to problems with products. In a product-based global management system, this kind of excuse cannot be made. Heads of GBUs have all the authorities and responsibilities. If a regional head sees market situation of the region negatively and becomes conservative but a head of GBU sees it positively, the GBU head can bypass the regional head and even establish logistics and market networks in the region by mobilizing his own resources". Such organizational flexibility and GBU initiatives in Samsung today reflect its role as a leading global electronics product company rather than an inward-looking family-controlled Asian firm.

Another very relevant example is OOCL from Hong Kong – one of the world's largest integrated international container transportation, logistics, and terminal companies and one of Hong Kong's most recognized global brands. OOCL has pioneered the global shipping industry by developing an IT platform for managing its global container fleets in the early 1990s when the company was suffering from the worst-ever downturn in the industry. This significant investment in IT infrastructure in a typical Chinese family firm owned and

controlled by the Tung family, according to its Chairman and CEO, has significantly transformed its organizational capability to compete against global giants from Europe and Asia.[45] In 2003, OOCL achieved global sales of US$3.2 billion and profit of US$329 million – an outstanding performance in an industry saddled with overcapacity and cut throat competition. Its IT platform has become the gold standard in the global container shipping industry and this CargoSmart system provides "one of the most advanced portal and integration providers for the ocean container transportation industry. Customers use CargoSmart to help manage their shipments with multiple carriers throughout the shipment cycle. CargoSmart's shipment management services include tools to let customers plan, process, monitor, and share their shipment information".[46]

In the telecommunications sector, Hong Kong's PCCW is positioning itself as a major telecom player in the Asian region, with the long-term ambition to venture into the established markets in Europe. Perhaps reflecting its fortuitous founding during the heydays of the dot.com phenomenon, PCCW counts among its strategists a number of people with background in either investment banking or consulting.[47] These agents of diffusion bring with them substantial knowledge and experience in the global financial and consulting industry about the present and future of the telecom industry. Not surprisingly, PCCW is now venturing into the UK's wireless broadband business when its core business remains in Hong Kong's fixed lines. Interestingly, this wireless broadband venture is new to the UK market as well as there are currently no operators offering such services. Similar flexibility in organizational forms is also evident in the case of Singapore Telecom (SingTel). During the past five years, SingTel has been actively acquiring telecom operations in the US (Global Crossing in 2003) and Australia (Optus in 2001). It has also engaged in several partnerships in order to penetrate host markets in Asia and elsewhere. Its overseas revenue reached around

US$5.6 billion in 2004.[48] Today, Singtel is Asia's leading telecommunications group with operations in more than 20 countries throughout the world.

Apart from innovative change in organizational forms, leading Asian firms are also experiencing significant change in their *corporate finance* practices. As one might expect, many of these leading Asian firms are billion dollar companies and require investment outlays that often approach hundreds of millions. While banks and related financial institutions play a major intermediate role in Asia (see Table 3 above), leading Asian firms are increasingly tapping into global capital markets to finance their domestic and international expansion. This increased reliance on capital markets through share issuing and bond placement represents a significant shift in the mindset of Asian owners and managers. On the one hand, many of them have understood the strategic imperative of transparency and professionalism in their corporate governance – a practice that may not be consistent with predominantly family-oriented nature of their businesses. CLP Holdings from Hong Kong is a very good example here. Its wide range of investment in power plants within Asia necessitates good access to global capital markets for finance. Its founding family, the Kadoories, is fully cognizant of the need to adhere to best practice in corporate governance and has made every possible efforts to ensure this good governance is widely known to its investors and stakeholders. On its corporate website, CLP Holdings has one of the most transparent sets of information on corporate governance among all Asian firms I have interviewed.[49] My interview with its Group Managing Director and CEO, a former investment banker from Schroders, has confirmed this relentless quest for good corporate governance. Despite the 34% shareholding of CLP Holdings by the founding Kadoorie family, there is a clear-cut separation between ownership and management control. In many ways, CLP Holdings is not too different in its corporate governance from many leading family-owned giants in the world today (e.g. News Corp., Ericsson, Wal-Mart, Michelin, and so on).

An interesting aspect to the relationship between family ownership and corporate finance is that family-owned Asian firms may find family capital to be more patient and long-term in its investment horizon. Having family ownership in some firms with very high investment outlays (e.g. in capital-intensive industries such as semiconductors) may prove to be attractive to global investors who are confident in the level of professionalism among family-related senior management. In fact, some global (institutional) investors prefer to invest in high-tech family firms precisely because they trust owner-CEO much more than professional CEOs.[50] Some of my interviewees in Taiwan have noted that they have no problems accessing global capital markets and their bond issue has often been well received because they are part of a larger family-owned business group. The personal stake of CEOs who are family members provides sufficient goodwill and trust to entice the venture investment of these institutional investors. For example, several member firms of Taiwan's largest business group, the late Wang Yue-che's Formosa Plastics, have very good access to global capital markets, thanks to Wang's reputation as a long-term investor himself. My interviews with senior managers of two high-tech firms within his family empire, Nanya Technology Corp. and VIA Technologies, have confirmed this phenomenon in corporate finance. As one of Taiwan's largest memory chip maker and world's No.5 DRAM supplier in 2004, Nanya Technology Corp. is a highly capital-intensive operation that benefits from substantial intra-group investment. This financial commitment from the Wang family has gained trust in the international financial community that culminated in its successful public listing in August 2000. The same family-linked financial advantage is also evident in VIA Technologies, Taiwan's largest semiconductor design company and second only to Intel Inc. worldwide as a supplier of chip sets. As a fabless chip design house and a serious competitor to AMD and Intel, VIA has very strong financial support from the Wang family. Its largest shareholder and Chairman, Cher Wang, is the daughter of Wang Yue-che. Together with Wen

Chi Chen, President and CEO of VIA, they had worked for Intel and Leo Computer before founding VIA Technologies.

Clearly then, the separation between *ownership and control*, while occurring among an increasing crop of leading Asian firms, is not an inevitable outcome of financial globalization. There are always mixed advantages associated with this separation and corporate success is not a guaranteed outcome. What is apparent is that leading Asian firms of both family-controlled and non-family controlled genres are increasingly professionalizing their management in order to compete effectively in the global economy. For those family firms with greater separation between ownership and control (e.g. CLP Holdings from Hong Kong), improved corporate governance comes about through the employment of professional managers who have both global outlook in their managerial visions and tremendous experience in the respective sectors (e.g. finance). Those family firms in Asia that continue to have family members at the helm of management are not necessarily laggards.[51] Rather, these family firms have consciously chosen to keep to their long term commitment to the businesses. Meanwhile, they have increasingly professionalized their top management such that not only the heirs are highly qualified professionals themselves (e.g. OOCL's Chee Chen Tung, PCCW's Richard Li, VIA Technologies Cher Wang, Hong Leong's Kwek Leng Beng, and Eu Yan Sang's Richard Eu), but also they hire highly competent international managers to complement their own deficiencies. For example, many of the leading Asian firms in my sample (CLP Holdings, PCCW, Eu Yan Sang, and so on) have senior executives with good experience in strategic management and corporate finance. Samsung Electronics, for example, has a highly decentralized management system whereby Lee Kun-Hee, the Chairman and son of the group founder, is mostly involved in major decisions on strategy and investments.[52] Expectedly, the large investment outlays in many of these Asian firms and the lack of relevant

personal experience among family members explain this tendency towards using professional managers to build links to the global financial community.

Moreover, as some of the Asian firms in my sample are emerging to become major players in the global market for technology-intensive products, the level of professionalism and expertise in their top management is only becoming much higher than a decade ago. Some of Taiwan's largest semiconductor firms, for example, are stacked with highly qualified engineers and technologists who have substantial experience in Silicon Valley and other technopoles of the world.[53] TSMC, a joint venture between the Taiwan government and Philips from the Netherlands, has now become the world's largest and most successful dedicated integrated circuits foundry. It has not only pioneered foundry services, an organizational innovation arising from its highly professional founder and CEO Morris Chang, but also outgrown its half-parent Philips in terms of market capitalization. In 2003, TSMC achieved US$6.1 billion in sales and US$41.2 billion in market capitalization (cf. US$36.6 billion for Philips in 2003). Its very high market capitalization clearly reflects the investment preference of the international financial community in an industry leader that has proven track record in both cutting-edge technology and management expertise. Several other semiconductor firms from Taiwan (e.g. Macronix International, Mosel Vitelic Inc., PROMOS Technologies Inc.), founded by highly entrepreneurial engineers, are no different from their US counterparts in terms of the extent of separation between ownership and control. Their founders and current CEOs are highly respected engineers who previously worked for leading companies in Silicon Valley during the 1970s and the 1980s.[54] Although they do not personally own more than a few per cent of their firms, their professional competence in flash memory chip design and manufacturing is undoubtedly first-rate. Mosel Vitelic was first founded as MOS in Silicon Valley in 1983 and merged with Vitelic USA in 1991. Macronix became the first Taiwanese firm to be listed in NASDAQ in 1996.

CONCLUSIONS AND POLICY IMPLICATIONS

While the theoretical and empirical analysis in this chapter may seemingly point to the convergence of Asian firms in their business norms and practices towards global trends in organizational processes and corporate governance, I need to conclude with a cautious note. Evidently, many of my case examples are leading firms in respective Asian economies and they are the early movers in the globalization of national firms from these economies. Their apparent and ready acceptance of and adjustments to changing global norms and practices may simply reflect their leadership role in their home economies rather than the wholesale change and adjustment among many other firms in the same business system. In many ways, certain elements of business norms and practices in Asia may continue to be highly relevant for international business activities and we should not expect a natural convergence in Asian business towards a pre-defined global model. In this sense, I agree with Guillén's assessment that "[c]ountries and organizations do not gravitate toward a supposedly universal model of economic success and organizational form as they attempt to cope with globalization. Rather, the mutual awareness that globalization entails invites them to be different, namely to use their unique economic, political, and social advantages as leverage in the global marketplace".[55] For example, the recent emergence of mainland Chinese firms in the international arena (e.g. Haier, TCL, and Lenovo) has posed new challenges to the future of Asian firms. While these Chinese transnationals are taking a serious look at their traditional socialist norms and practices in order to match world-class competitors, there is sufficient evidence to suggest that they remain international firms with Chinese socialist characteristics. It is too early to tell if they can be completely transformed into the likes of General Electric, Matsushita, and IBM. To many Asian firms, globalization remains a messy game of continuous adjustments rather than a clearly defined pathway to corporate success in the global marketplace. This conclusion perhaps illustrates quite well Malnight's observation that

"There was no single objectives of "globalizing" the firm, and rather the cumulative result of a series of adjustments within and across individual functions was a fundamental adjustment of how it operated globally, or what has been defined as globalization".[56]

Despite good indications that the above changes and adjustments in three areas of Asian business are occurring in many leading Asian firms, it must be noted that not all aspects of these changes work themselves out easily or positively in Asia. There remain many obstacles to wholesale change and adjustments in Asian business – what Backman terms "old habits".[57] For example, as more Asian firms are taking up different organizational forms, the more family-oriented firms are struggling with the fear of losing control and thus are often reluctant to decentralize fully their decision-making. Meanwhile, the greater reliance on capital markets may result in the dilution of family holding that in turn may not be appealing to some patriarchs and their family members. Several well-known cases of feuds within family business in Asia are related to the extent to which family shareholding can be diluted through public placement. For example, the feud among second-generation siblings of the Yeo family resulted in the end of family control of Yeo Hiap Seng, a leading food and beverage company from Singapore, in July 1995.[58] There are indeed limits to the globalization of business norms and practices as locally embedded norms and practices may continue to provide a "comfort zone" for existing firms in these places. Powell thus concludes that "[s]ince few nations possess an identical combination of institutional practices and cultural legacies, the diffusion of a new mode of organizing is likely to be uneven and partial through the industrial democracies. Rather than convergence, I suggest that we will see distinctive strengths and weaknesses as national elements either combine with or fail to articulate key elements of the new model".[59]

What then are the implications of this study for governments and business firms in Asia? First, it is important for us to recognize the inherent limits to the globalization of

business norms and practices such that we should take a *gradual approach* to organizational change and adjustments. The cases analyzed in this chapter are leading Asian firms that have been "first-movers" and active participants in globalization tendencies and unsurprisingly they are also at the forefront of organizational change and adjustments. However, there are many other firms in Asia that remain firmly rooted and embedded in domestic business norms and practices. I am not arguing that change and adjustments to globalization are impossible for these domestically oriented and/or embedded firms. Rather, organizational change and adjustments in this large number of firms need to happen gradually through mimesis and other non-coercive processes for them to be effective and long lasting. In this sense, the imposition of structural adjustments by the IMF on the Korean government and its business groups, the *chaebols*, in the late 1990s was rather disruptive and ineffective.[60]

Second, while this chapter has shown that leading Asian firms often experience global norms and practices through their international business activities, many other Asian firms may not enjoy the same level of access. It is imperative for domestic governments and relevant institutions to provide *increased opportunities* for diffusing and learning these international business norms and practices. Strategic policies that facilitate partnership arrangements between domestic and foreign firms are most welcome. Regular briefings and seminars on organizational innovation and change can also be educational to local firms. These policies should be seen as a means rather than an end to improving the overall corporate performance of national firms. As such, the increasing interaction between domestic and foreign firms in any Asian economy will not only increase the opportunities for local firms to learn from their foreign partners, but equally importantly for their foreign partners to learn about existing local practices and legacies. As Andrews et al. argue in their study of global corporations in Southeast Asia, there is a growing trend towards "cross-vergence" (i.e. hybrid forms) rather than convergence in international business practices in Asia today.[61]

Third, as much as Asian governments should encourage more business interactions between domestic and foreign firms, they should also put in place some specific regulatory requirements that demand greater adherence to international business norms and practices among particularly public listed companies. There should be rewards for the adoption of best international practices in corporate governance, corporate finance, and international standards (e.g. ISO certifications). Tax incentives, for example, can be structured in such ways to encourage adoption of good accounting practices. In so doing, Asian firms that actively seek to learn and adopt global practices are reasonably compensated for the extra organizational efforts they have put in. National stock exchange authorities should also be more vigilant in their listing requirements and monitoring. As these stock exchanges are an important nexus of connecting national firms to the global financial community, they should take an active role in shaping the corporate codes of conduct and governance processes of their member firms. In better preparing their domestic firms for the challenges of globalization, these Asian governments and business communities are more likely to reap the positive benefits of globalization and mitigate the possible disadvantages such as financial scandals and corporate scams.

Last but not least, the above regulatory and policy changes will be ineffective if the business community does not take part actively in adjusting to globalization tendencies. The role of business associations is particularly critical in this respect precisely because they often establish and enforce business norms and practices through socialization among their member firms. There are indeed many types of business associations – some organized on the basis of industry types and others of geographical origins. While many business associations are primarily domestic in terms of their interest groups and representations, they can serve very important functions in the globalization of business norms and practices. In particular, these business associations can rethink their changing role in an era of accelerated globalization.

How do they better serve the interests of their member firms? Are they still relevant in a global economy that is characterized by much greater linkages among firms on a global scale? These are important questions for the future of Asian firms if they were to be transformed from local business into world-class players in a highly competitive global economy.

ENDNOTES

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[1] I would like to thank Dennis A. Rondinelli for kindly inviting me to contribute to this volume. The empirical materials for this chapter are collected as part of an ongoing research project funded by the National University of Singapore (R-109-000-050-112). The generous information provided by top executives in over 50 leading Asian firms is gratefully acknowledged. I am solely responsible for the opinions expressed in this paper.

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[37] Whitley (1999), p.97.

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TABLE 1. Family Ownership of Publicly Listed Firms and GDP in East and Southeast Asian Economies, 1996

Economy	Year of Stock Exchange Establishment	Total Number of Listed Firms	Market Cap. (US$ million)	Number of Sample Firms (% of total)	Share of Total Market Cap.	Percentage Owned by Families (20% cut-off)	Family Control Weighted by Market Cap.	Total Market Cap. by Top 5 Families	Total Market Cap. by Top 15 Families	Share of GDP by Top 15 Families (%)
Hong Kong	1891	583	449,258	330 (56.6)	78	66.7	71.5	26.2	34.4	84.2
Taiwan	1962	382	273,608	141 (36.9)	66	48.2	45.5	14.5	20.1	17.0
Indonesia	1977	253	91,016	178 (70.4)	89	71.5	67.3	40.7	61.7	21.5
Malaysia	1964	621	307,179	238 (38.3)	74	67.2	42.6	17.3	28.3	76.2
Philippines	1965	216	80,649	120 (55.6)	82	44.6	46.4	42.8	55.1	46.7
Singapore	1910	266[1]	153,234	221 (83.1)	96	55.4	44.8	19.5	29.9	48.3
Thailand	1975	454	99,828	167 (36.8)	64	61.6	51.9	32.2	53.3	39.3

[1] Main board listing only.

Source: Stijn Claessens, Simeon Djankov and Larry H.P. Lang, 'The separation of ownership and control in East Asian corporations', *Journal of Financial Economics*, Vol.58 (1-2) (2000), Tables 2, 6 and 9.

TABLE 2. Global Capital Flows to Emerging Economies, 1977-1999
(Annual Averages and in US$billion)

	1977-82	1983-89	1990-94	1995	1996	1997	1998	1999
All emerging economies								
Total net capital flows	30.5	8.8	120.8	192.0	240.8	173.7	291.2	264.3
Net foreign direct investment	11.2	13.3	46.2	96.0	114.9	138.2	170.9	192.0
Net portfolio investment	-10.5	6.5	61.1	23.5	49.7	42.9	15.6	27.6
Other (includes bank lending)	29.8	-11.0	13.5	72.5	76.2	-7.3	104.7	44.7
By region	15.8	16.7	40.1	95.8	110.4	13.9	90.7	96.3
Asia	26.3	-16.6	40.8	35.7	80.5	91.1	188.4	144.5
Western hemisphere	-11.6	8.7	39.9	60.5	50.0	68.8	12.1	23.5
Other								

Note: 1977-89 figures exclude transitional economies and some Middle Eastern emerging economies.
Source: Stephen Grenville, 'Capital flows and crises', in Gregory W. Noble and John Ravenhill (eds.), *The Asian Financial Crisis and the Architecture of Global Finance*, Cambridge: Cambridge University Press, 2000, 36-56, Table 2.1; World Bank, *Global Development Finance 2000*, Washington, DC: World Bank, 2000, p.188.

TABLE 3. The Nature of Banks in Selected Asian and Developed Economies, 1994-1995

Economy	Bank Share in Financial Intermediation[1]	State-Owned Banks (% of total assets)	Foreign Banks (% of total assets)	Non-Interest Operating Costs[2]	Net Interest Margins[2]
Hong Kong	-	0	78[3]	1.5	2.2
Singapore	71	0	80	1.4	1.6
Indonesia	91	48	4	2.4	3.3
Malaysia	64	8	16	1.6	3.0
Taiwan	80	57	5	1.3	2.0
Thailand	75	7	7	1.9	3.7
South Korea	38	13	5	1.7	2.1
Japan	79	0	2	0.8	1.1
Germany	77	50[3]	4	1.1	1.4
United States	23	0	22	3.7	3.7

[1] Assets as a percentage of the assets of banks and non-bank financial institutions.
[2] As a percentage of total assets, averaged over the 1990-1994 period.
[3] Not directly comparable to percentages for other countries.
Source: Mauro F. Guillén, *The Limits of Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain*, Princeton, NJ: Princeton University Press, 2001, Table 7.1 on p.185.