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NEW ASIAN EMPERORS

THE BUSINESS STRATEGIES OF THE OVERSEAS CHINESE

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AND CHIN TIONG TAN

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PREFACE

About a decade ago, and in the middle of the Asian financial crisis, we published our first book together, *New Asian Emperors: The Overseas Chinese, Their Strategies and Competitive Advantages*. In that book, we questioned the assumptions foreign companies make when formulating and implementing strategic decisions for Southeast Asia. We called the region an informational black hole, and *The Economist* (2001) labeled our book as "important research."

Popular wisdom, and some research, has suggested that much has changed in Southeast Asia after the crisis. We set out to determine whether our research supported these views. In the process, we interviewed several more of the New Asian Emperors as well as CEOs in Asia, Mexico, and the U.S. We also added new archival data and conducted new research on the informational black hole. We believe our findings, encapsulated in this new book, may surprise you.

We conclude that important changes have occurred, but that other authors and researchers have glossed over the changes that we observed. The informational black hole remains, and the New Asian Emperors continue to exploit it. Simultaneously, the best of the Emperors are striving to develop the skills necessary to compete against Western companies on Western terms and in Western environments. We invite you to enter their world, and see if you can play. *Plus ça change, plus c'est la même chose*.

George T. Haley
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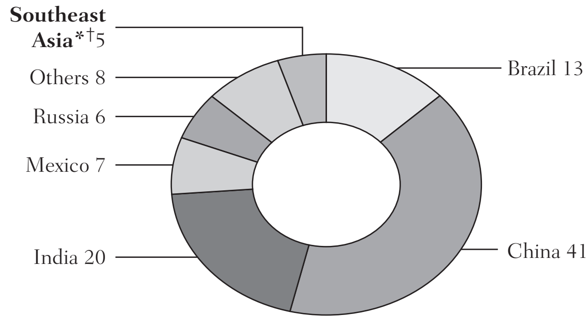
FIGURE 6.2: *Number of BCG 100 Global Challengers*

By region/country, 2008



***In Southeast Asia:**

Company	Country	Main business
Indofood Sukses Makmur	Indonesia	Food & drink
Malaysia International Shipping Co.	Malaysia	Shipping
Petronas	Malaysia	Fossil fuels
Charoen Pokphand Foods	Thailand	Food & drink
Thai Union Frozen Products	Thailand	Food & drink

† Excluding Singapore
Source: Boston Consulting Group

Asian financial crisis and SARS have spurred the cutting of internal tariffs, but as a 2004 McKinsey & Company report noted, product standards and other nontariff barriers often differ among ASEAN countries, forcing manufacturers to make small production runs for each country. These factors lower the competitiveness of the Overseas Chinese companies, as well as of multinational companies operating in the region. The next sections home in on the competitive advantages and disadvantages of Overseas Chinese businesses.

Competitive Advantages of the Overseas Chinese

As we identified in the previous section, many Overseas Chinese companies have improved their profitability since the 1997–1998 crisis. YTL, a Malaysian company, is one of the groups. Dominant in construction, the company also owns a British water firm, Wessex Water; operates hotels and up-market shopping malls; runs a high-speed rail link from central Kuala Lumpur to the city's airport; and owns a chain of power stations. Its founder, Yeoh Tiong Lay, built a giant construction business with state contracts in the country's early post-independence period. In the 1990s, when his friend Mahathir Mohamad served as prime minister, the company obtained concessions to generate electricity using subsidized gas from the state oil company, which the state's electricity company had to buy. The founder's son, Francis Yeoh, who now runs the group, insisted that it does not rest on its laurels. YTL has delivered, he argued, a 55 percent annual compounded growth in profits since the mid-1980s, and now earns 70 percent of revenues outside Malaysia (*Economist*, 2008). On February 22, 2008, it declared a profit for the six months to December 31, 2007, of 688 million ringgit (US$202 million), 24 percent more than a year before. Yeoh stated that the company's core competence included building and maintaining infrastructural assets of first-world quality at third-world prices. He also viewed the group's hotels and shopping malls as "unregulated infrastructure." In the future, Yeoh foresaw opportunities from applying Wessex Water's skills at cleaning up rivers to Asia's murky waterways. However, some sizeable Chinese water-treatment companies would also pursue those same contracts. Currently, Wessex Water is making profits in England but has not tested its potential to become a global leader. This section explores some competitive advantages of Overseas Chinese companies such as YTL.

There are many opinions on the competitive advantages of the Overseas Chinese. Drawing on the core competencies that we identified in the previous chapter, we argue that four factors give the Overseas Chinese competitive advantage in their business dealings in Southeast and East Asia:

- Speed
- Knowledge
- *Guanxi*
- Empowerment

Speed

Kwek Leng Beng, who took over the Hong Leong Group from his father, said:

> I have seen both the old man's style and Western-style management. The latter is bogged down by many layers of the decision-making process. Consequently, you lose speed, and as a result, you also lose the deal. For example, it took us just 48 hours to tender for Grand Hyatt Taipei. You can say that I have incorporated into my management style and business approach the best of both worlds (*Asiamoney, 1994*).

Their vaunted speed of decision and action flows from their decision-making style, a core competency of the Overseas Chinese that we previously identified. Many Western observers note speed as the primary competitive advantage of the Overseas Chinese. When asked about their greatest competitive advantage, many of the Overseas Chinese will also mention speed. Stan Shih, chairman and founder of Acer Computers, told us, "We believe in doing things quickly" and "We implement and change things quickly. It's all implementation in the market place."

Both Western and Overseas Chinese decision-making styles accept the existence of uncertainty and try to minimize it. However, Western strategic decision making depends heavily on quantifiable and measurable data. Western managers often become stymied when they confront environments that do not generate the data they require and to which they have become accustomed, delaying strategic decisions for many Western companies. The Overseas Chinese managers can arrive quickly at strategic decisions with minimal information, primarily through use of subjective data, speeding strategic decisions for their company. Moreover, many strategic decisions of Western companies go through hierarchical levels that do not exist in Overseas Chinese companies. Consequently, the Overseas Chinese companies have a nimbleness that most major Western companies envy.

Knowledge

Their knowledge stems from control of information, a core competency of the Overseas Chinese that we previously identified. The Overseas Chinese have recognized their competitive advantage and actively sought to monopolize sources of special market and business information. Historically, their manner of conducting business has involved developing their sources of information to the greatest extent possible. Networking supplies their market research, and talks with friends and sifting of experiences serve as their analyses. Combined, these two activities give the Overseas Chinese the input and analysis necessary for informed decision making. The Overseas Chinese, however, can create and maintain a monopoly over this knowledge relatively easily.

The Overseas Chinese create their competitive advantages in market and business information in two ways. First, they practice an exclusionary style of business. This does not mean that all the Overseas Chinese networks exclude non-Chinese. Contrary to popular opinion, the Overseas Chinese do have people of other nationalities in their networks and inner circles. Indeed, close inspection of the Overseas Chinese networks and companies in Southeast Asia indicates that both include many non-Chinese members. Like other businesspeople, the Overseas Chinese look for trustworthy, upright, hard-working, honest, loyal individuals who possess talents needed by their circle of friends and associates. However, the Overseas Chinese style of business excludes nonassociates from possessing the same advantages that the Overseas Chinese and their associates have. Competitors and nonassociates find they simply cannot obtain the quality and quantity of knowledge needed to compete on a more equal footing.

Second, the Overseas Chinese maintain a competitive advantage in knowledge through inaction. If the more economically advanced Southeast Asian countries' business communities desired freer and greater availability of market and business information, they would lobby their governments and probably obtain its release. Indeed, the Southeast Asian governments do supply data for the markets; but at least two types of data exist: freely available data, which therefore have little competitive consequence, and "special data." Various Southeast Asian networks generally enjoy exclusive access to the special data. Because these networks prefer to maintain their monopoly over the local markets' special data, they do not lobby their governments for a level playing field.

Most regional business deals also involve some elements of government licensing or concessions, which both parties prefer to keep private. Consequently, secrecy permeates Overseas Chinese business dealings and processes. In 1991, Robert Kuok wrote a letter to the *Far Eastern Economic Review* with reasons for this secrecy and for his refusing interviews with the news magazine: "The average Chinese is publicity shy for various reasons, is averse to washing linen in public, and, consequently, also averse to dealing with the media" (Friedland, 1991, p. 46). As Joe Studwell noted (2007), this reticence did not prevent Kuok from buying the *South China Morning Post* in 1993. Not surprisingly, Studwell (2007), in his book *The Asian Godfathers,* did not appear to have obtained interviews with any of the Overseas Chinese tycoons that he so caustically profiled (although he did mention many undisclosed sources from the business groups).

Guanxi

Guanxi (a Mandarin term, with no exact English translation, which includes concepts of trust and the ability and knowledge of how to present uprightness to build relationships) stems from their networks, a core competency of the Overseas Chinese that we previously identified. The ability to generate trust, and to judge who among others appears worthy of trust, constitutes a true competitive advantage for the Overseas Chinese in Southeast Asia. Though Westerners obviously have the ability to judge others—and to generate trust among others—uprightness forms one of the most culturally specific aspects of Overseas Chinese business culture.

Guanxi gives Overseas Chinese an important competitive advantage over Western companies: a discrepancy in the availability of information between Western companies and Overseas Chinese companies. The large, publicly held Western companies that most often enter Southeast and East Asia dispense freely available information on their operations and strategies. If a company develops an exemplary reputation, it becomes freely available knowledge. Alternatively, if a company develops a reputation for having difficulty in dealings with Asian partners and customers, this too becomes freely available knowledge or knowledge the networks can obtain through their contacts.

Conversely, as we indicated in the previous chapter, most people without local contacts have difficulty obtaining knowledge on Overseas Chinese companies. Most of the companies are closely held and information is not widely available or published, especially in Western circles. Many Westerners have no knowledge of the Asia-based publications or sources that would furnish valuable sources of information or strategic leads. Due to the closely guarded privacy of most Overseas Chinese, and their proclivity to share information only among their own networks of friends and associates, most Overseas Chinese businesspersons do not divulge information about local markets or business situations to strangers. Trust usually develops through years of socializing and doing business with people. Also, Overseas Chinese generally judge individuals, not companies; they direct their loyalty and trust accordingly toward individuals rather than companies.

CHINA AND THE OVERSEAS CHINESE

Reaching out Through the Networks

THOUSANDS OF BUSINESS delegations leave China each year for the Asia Pacific to contact local ethnic Chinese communities and local Chinese Chambers of Commerce in their quest for investment for their home area in China. Although specific figures are lacking, the *huaqiao,* or Overseas Chinese community, is among the biggest groups of investors in China. Through family and clan, regional, and dialect ties, the Overseas Chinese created an empire without borders that generated an estimated GNP of around US$1.5 trillion in 2002—third after the U.S. and Japan. Some of that money has been pouring back into the mainland since the Chinese economy opened in 1978. After the Asian crises, according to World Bank estimates the ASEAN countries with the largest concentrations of Overseas Chinese—Singapore, Thailand, the Philippines, Indonesia, and Malaysia—have continued to pour more than US$4 billion annually into China.

Traditionally, Overseas Chinese have preferred to do business with people of their own dialect or clan. In Malaysia, on the booming Penang waterfront, seven old piers represent the clan-based *gongsi* (syndicates) that used to trade exclusively with their own kind. Typically, New Asian Emperor Li Ka-shing, who was born in 1928 in the sleepy city of Chaozhou (Chiuchow in Cantonese) in southeast Guangdong, has made many financial investments and commitments to his ancestral region, including US$13 million to various Chaozhou charities and US$152 million for the founding of Shantou University in the nearby city of Shantou. "I'm a Chiuchow person," Li told friends in China in the early 1990s; "I'll earn money elsewhere and bring it back home."

Many delegations originate from specific parts of China and frequently attempt to contact their former compatriots living abroad. For example, in 1994 a business delegation from Fuzhou in Fujian province visited the timber and logging city of Sibu in Malaysia's Sarawak. Sibu has a high concentration of Overseas Chinese who originate from Fuzhou. The New Asian Emperors have not forgotten home.

Despite their ethnic and financial ties, the *huaqiao* rarely exercise the political influence in China that they do in their Southeast Asian home countries. Indeed, Wang Gung Wu called it "eunuch wealth," or wealth that cannot translate naturally into political power. The Overseas Chinese acquire their wealth in an environment devoid of legal and institutional guarantees. Therefore, just as political connections confer wealth, so governments can snatch it away. Regional governments and rival indigenous groups also suspect the Overseas Chinese of having pro-Beijing allegiances. To avoid such accusations, Overseas Chinese often respect the wishes of the local government and seldom invest in China solely for ethnically inspired reasons (though these do sway final decisions).

Empowerment

As the Overseas Chinese networks of companies have grown, their people have spread globally; yet their organizational structures remain flat, and in many ways lean. The centers have retained substantial control. The dispersed, subsidiary units remain largely autonomous, but with strong supporting links to the centers. The numerous hierarchical levels found in many Western firms and some Japanese do not exist. The subsidiary units' key managers are trusted employees; they wheel and deal and expand the subsidiaries within the constraints of the centers' vision. Western management circles classify the Overseas Chinese subsidiary managers' authority and actions as empowerment.

Overseas Union Enterprise's Thio Gim Hock (of Lippo Group) explicitly emphasized empowerment when he told us, "Many Chinese owner/CEOs get their hands on a project and get into the details. Stephen [Riady] is very different. He establishes a macro policy that gives guidance but leaves the details to the professional managers. The operations and functions are all in the hands of the managers. It puts pressure on us to perform, to really develop a project that is marketable—that is coherent and sound. He has final say on the project, but he doesn't interfere with the details." The best of the Overseas Chinese companies have empowered their managers for years; thus the business networks grew rapidly.

In the Chinese networks, the subsidiaries look to headquarters for guidance on policies, for directional thrust or vision, and for financial support. The financial relationships approximate those of venture-capital companies and their clients. Headquarters supports field operations and approves general plans but transcends day-to-day operations and decision making.

The companies in Overseas Chinese networks exude a paternalistic culture. Employees receive substantial bonuses when they produce good results. Lifelong employment constitutes the norm. Senior managers often consider the best, most talented, and most

LI & FUNG'S JOHN WAYNE STRUCTURE

Li & Fung has grown into the world's largest trading organization on the basis of the organizational principal that selective uniformity and centralized control grant effective independence of action. In an interview with us, CEO Victor Fung labeled this his "John Wayne organizational structure" and exhorted his line managers to behave as John Waynes. In his most memorable film roles, Li & Fung's CEO argued, Wayne played fiercely independent, highly determined, and driven people who achieved their goals through any honorable means. Victor Fung actively seeks this type of manager. Such people, he told us, "if they did not work for Li & Fung, would rather start their own business than work for a more traditionally structured company. They must be able to operate on their own, without strict supervision; they must be entrepreneurial."

Li & Fung structures its trading operations around customers and product markets. Each John Wayne manages 30 to 40 people who focus on specific customers' needs within product markets Li & Fung serves, primarily textiles, toys, health and beauty, and importation of packaged foods into their home markets. The company hopes to become its customers' extended supply chain and employs John Waynes to make it so.

This structure evolved at Li & Fung by dint of the large number of transactions in which the company engages. A centralized structure failed to manage transactions effectively while simultaneously interfacing with customers to offer the rapid and thorough service that has distinguished Li & Fung. Each John Wayne structure enompasses a corporate profit center and has complete authority in marketing, customer service, product selection and development, purchasing, logistics, distribution, and sales. Corporate finance and information technology (IT) remain the only centralized functions. The John Waynes must live within management's funding constraints or else justify the need for additional funding. Structural lubricants include extensive investment in IT and enforced uniformity of all IT documents and corporate communications. All corporate communications occur in English, and consistent IT forms and devices permeate Li & Fung.

upright employees for potential partnerships in new businesses they fund. Such benefits hinder Western multinationals from hiring away the best of the Overseas Chinese companies' employees. We next discuss some of their attendant competitive disadvantages.

Competitive Disadvantages of the Overseas Chinese

As Lao Tzu would have recognized, many of the competitive disadvantages of the Overseas Chinese stem from their competitive advantages. The disadvantages that we perceive them to have are:

- Home turf only
- Susceptibility to blind-siding
- Proprietary capabilities
- Family limits
- Lack of professionalization

Home turf only

The home-turf-only disadvantage stems from their control of information, a core competency of the Overseas Chinese that we