Institutional Change and Firm Adaptation: Towards a Typology of South East Asian Corporate Forms

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The comparative study of management demands some method for classifying organizations if we are to make valid generalizations about their behaviour (Perrow, 1967). Typologies are intended to indicate meaningful differences between the types of organization classified and are a necessary device for understanding, generalizing and delimiting organizational theories. In this paper, we employ institutional theories of organizational adaptation to develop a typology of large-scale domestic enterprises from South East Asia.[1] A robust typology of South East Asian corporate forms is needed to further the discourse on a range of economic and managerial issues pertaining to the region's firms. Such typologies may also be useful to practitioners who need to understand the type of organization they are dealing with so that they can be effective in dealing with that organization and its members.

While some research has examined major forms of business enterprise in East and South East Asia, most of these studies have utilized a *prima facie* criterion, country of origin as the basis for their categorizations. Such an approach is ill suited for the identification of shared characteristics among organizations from different nations because an explicit or implicit objective is to relate organizational characteristics to particular institutional structures and/or cultural phenomena (Hamilton and Biggart, 1988; Hall and Xu, 1990; Whitley, 1992). Such research has made many important contributions to our understanding of East Asian business forms (Lowe, 1998). However, in emphasizing the salience of social and cultural determinants of corporate organization, these perspectives may overstate differences between organizations within the larger regional context. Moreover, such approaches may also understate the influence of economic incentives and market forces (Wilkinson, 1996).

In this article we demonstrate that corporate forms of organization are not unique to societies; nor are societies uniquely defined by a single organizational form. In particular, we show that in South East Asia there are categories of indigenous organization that share close similarities with those found in adjacent, but dissimilar, social and cultural contexts. For instance, we explain that the organizational logic and business behaviour that

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characterize family business groups (FBGs) or government-linked enterprises (GLEs) can be observed in countries as culturally and socially diverse as Islamic Indonesia, Buddhist Thailand and the Christian Philippines.

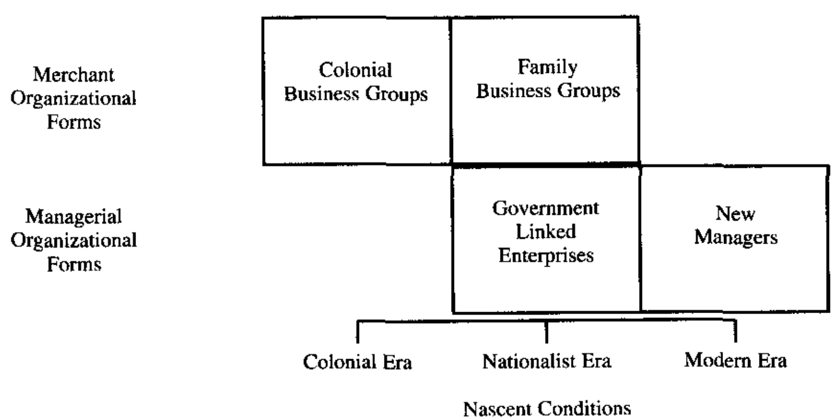
The study is organized in the following manner. We begin by developing a typology of indigenous corporate forms found in capitalist South East Asia. In doing so, we describe regional and global institutional forces which provided the seedbeds for their emergence and growth. Subsequently, we describe the capabilities and key aspects of strategic behaviour for each form. In concluding the article, we examine patterns and consequences of 'inter-species rivalry' among these organizational forms and discuss some implications of our analysis for economic development in South East Asia.

THEORETICAL FRAMEWORK

Phenomena such as the decline of colonialism, the growth of industrialization, the Cold War, privatization, and the emergence of free-trade blocks *are not self-contained within a specific national context*. Rather such phenomena are global in their scope. Their effect is to stimulate national responses that, among other things, produce changes in the prevalence and incidence of corporate forms within nations. While there are differences in the way nations respond to global forces and these differences produce contrasting patterns of national organizing (Fligstein and Freeland, 1995), important similarities also exist (Meyer, 1994; Murphy, 1994). Our typology of four South East Asian organizational archetypes is based upon the notion that global forces and organizational-level processes interact together to engender similar organizations across different societies.

This typology is constructed along two dimensions: nascent conditions and organizational logic, represented in Figure 1. Nascent conditions refer to the institutional environment that marked the birth and emergence of a corporate form; organizational logic incorporates elements of constrained

FIGURE 1
A TYPOLOGY OF SOUTHEASTERN ASIAN ORGANIZATIONAL FORMS



strategic choice carried out by human agents. In contrast to a symmetrical two by two matrix, the corners of Figure 1 are a trapezium. This presentation permits the spatial depiction of the nascent conditions across the three historical periods during which organizational forms currently active in the South East Asian region emerged.

Over the past 100 years, the South East Asian region has been distinguished by three historical eras. Each era engendered distinct organization forms. The first, the *colonial era*, reached its full extent in the mid-nineteenth century and went into decline after 1941. This era produced an indigenous class of expatriate merchant trading organizations, which can be termed colonial business groups (CBGs).

The *nationalist era* followed the watershed of the Second World War, and is marked by the introduction of more assertive self-government in the region.[2] The nationalist era saw the emergence of both the FBGs and GLEs as major forms of business enterprise. In terms of the typology presented here, FBGs are the second type of merchant organization. In South East Asia, they are mostly, but not exclusively, owned and controlled by overseas ethnic Chinese families. As their name suggests, GLEs are either state-owned or state-sponsored firms that, along with commercial goals, pursue state-sanctioned strategies and missions and they display a predominantly managerial organizational logic.

The third historical era is the *modern era* and it is marked by two epochal events. First, the adoption by China in 1978 of Deng Xiao Ping's four modernizations, which resulted in the gradual opening of China to foreign investment.

China later became a major rival to South East Asia for FDI (foreign direct investment). More importantly China's open door signalled a reduction in Cold War tensions and allowed states to focus upon their economic agendas.

The second major event was the Plaza Accord of 1985, which led to the Japanese yen's appreciation against the US dollar and stimulated a sudden increase in Japanese, and later Western, investment in the region (Stubbs, 1994). Together these events accelerated the movement of capital into and within the region and further increased the already rapid pace of industrialization (Krugman, 1994).

The modern era is marked by an easing of Cold War tensions, which permitted governments to focus their attention on trade and the sources of national economic competitiveness (McVey, 1992). In this environment, we see the birth of new high-technology firms (Vogel, 1991), which can be termed the new managers. Recently established, new managers either possess, or are developing, professional management, formal organizational structures, managerial appraisal systems and relatively focused business strategies. New managers are often still dominated by founding entrepreneurs, but appear to organize around logic that is a hybrid of Asian and Western organizational characteristics (Mathews and Snow, 1997).

Cultural and institutional theories of Asian organization are premised on the view that macroeconomic, institutional and cultural factors are crucial determinants of national organizing patterns (Hamilton and Biggart, 1988; Whitley, 1992). For example, institutional theorists suggest that Japanese keiretsu firms enact the communitarian logic of Japanese society while Taiwanese family businesses enact the patrilineal logic of Chinese culture (Orru *et al.*, 1997). In contrast, strategic management researchers focus on the organizational-level construct of dominant logic (Prahalad and Bettis, 1986) that suggests organizations exhibit unique attributes. The mid-range perspective developed here suggests that organizations are indeed influenced by their institutional context. However, we suggest that organizations do not passively reflect those environments but seek to achieve their interests within them. Moreover, institutional environments change in ways that undermine firms' strategies and devalue their capabilities. Such changes stimulate responses or adaptations from firms. Responses to institutional change may be properly conceived as attempted adaptations but, equally, responses may be understood as attempts to resist institutional change.

We use the term *organizational logic* to describe 'world views' (Prahalad and Bettis, 1986) or 'interpretative schemes' (Ranson *et al.*, 1980) found among categories of organizations across South East Asian societies. In particular, we distinguish between 'merchant' and 'managerial' logics. The merchant logic is predicated upon personalized relations and market- or contractual-based transactions (Porter and Livesay, 1971; Chan, 1982). On the other hand, firms organized around a managerial ethos are characterized by a bureaucratic rationality and a preference for hierarchical control (Chandler, 1990). Therefore, the vertical dimension of Figure 1 distinguishes between two distinct organizational logics. Organizational logic can be characterized as a set of propensities in four categories that reflect the range of strategic initiatives that organizations in South East Asia have used in response to the conditions they faced. We consider *strategy formation, product market scope, asset composition* and *geographic scope.*

Strategy formation. In the following analysis, the corporate forms evaluated are distinguished from each other in terms of their primary strategic goals. Strategic goals refers to a firm's basic mission and stance relating to financial performance such as market value, accounting profits, and revenue growth.

Product market scope. The prevailing view of South East Asian enterprises is that they are characterized by broad product market scope and conglomerate organization driven by opportunistic and unrelated diversification (Whitley, 1992). Our analysis indicates that this portrayal is an over-generalization and that a much wider range of product-market choices have been made by South East Asian enterprises.

Asset regime. By definition, industrialization produces asset accumulation. The four corporate forms described here are distinguished in terms of their distinct patterns of accumulating and investing in specialized tangible and intangible assets (Williamson, 1991).

Internationalization. In considering the international activities of South East Asian firms, our analysis examines the extent to which different forms of organization are moving beyond strategies based upon trade and export and are engaging in international alliances and FDI. Our analysis highlights the distinguishing features of each organizational form described here in terms of the eclectic model, which posits diverse motives for FDI and strategic alliances (Dunning, 1995).

The organizational logic exhibited by each of the archetypes in Figure 1 is long lasting and profoundly influenced by the circumstances prevailing at the time of founding and during early growth (Starbuck, 1965). In this early period, the strategies of successful and surviving organizations are reinforced by cycles of market feedback (Prahalad and Bettis, 1986). Organizational logic is also strongly influenced by prevailing cultural values (Redding, 1990) and institutionalized behaviour (Hamilton and Biggart, 1988). Strategic practices that are developed in the first few years of a firm's operations become deeply rooted or imprinted in organizational memory and repertoires (Nelson and Winter, 1982). Importantly, organizational logic drives attempts at subsequent environmental adaptations (Greenwood and Hinings, 1993). The longer a particular set of strategies is in place, the more difficult it is for an organization to unlearn them (Prahalad and Bettis, 1986). Therefore, logic also acts as an inertial force upon change, delimiting the range of options an organization may invoke. In evolutionary terms, some strategic responses become 'locked in' while others are simultaneously 'locked out'.

FOUR CORPORATE FORMS OF SOUTH EAST ASIAN ENTERPRISE

In this section, we describe and elaborate upon the analytical and theoretical basis for the typology of corporate forms represented in Figure 1. Each of the corporate forms identified here represents a distinct 'gestalt' (Hambrick, 1983), or 'configuration' (Mintzberg, 1979) of strategic responses that are 'tightly integrated' and consist of 'mutually supportive parts' (Miller, 1981: 3). Many possible responses to the environmental forces faced by firms in South East Asia exist, but the forms described below represent the most salient and enduring organizational responses.

Below we offer a description and analysis of each of the four corporate forms in the typology. The presentation of this discussion and analysis proceeds as follows. First, in order to situate the organizational form in the context of the article, a brief overview of the organizational form is presented. Second, the nascent institutional context that marked the emergence and development of each organizational form is described. Third, we describe how each form's organizational logic manifests itself in terms of strategic behaviour and capability creation.

Colonial Business Groups

CBGs represent the most enduring of the corporate forms currently present in South East Asia. As their name suggests, these firms emerged during the region's colonial era and are the outgrowth of three sets of institutional forces present during that era. CBGs emerged as entrepreneurs that followed the flag of their native country and their subsequent growth patterns mirrored the colonial activities of their home country. The operational practices of CBGs were also profoundly shaped by home-country demand. Finally, the CBGs have a distinctive merchant ethos reflected in the pioneering spirit of their founders' colonial-era entrepreneurs.

Prior to the development of the multinational enterprise, the prevailing instrument of trade was the expatriate investment and trading house (Chapman, 1985). As an investment house the CBG performed the task of local managerial agency over a range of mercantile activities to represent the growing industrial domestic business interests in foreign markets. During the period of rapid colonial territorial expansion in the eighteenth and nineteenth centuries, trading and commercial interests followed their national flag. The trading houses of major colonial powers developed a distinctive sphere of influence where they were pre-eminent. For example, the Japanese trading houses Matsui, Mitsubishi and Sumitomo were active in Korea, Taiwan and Manchuria. Dutch traders and Dutch crown agents dominated the Dutch East Indies (Indonesia) oil, coffee, tobacco, and sugar trades (Allen and Donnithorne, 1957). With origins in eighteenth-century India, British traders such as Guthrie, the Borneo Company (now Inchcape) and Sime-Darby were active in Malaya (Malaysia and Singapore) and Thailand (Falkus, 1989).

Despite the creation of territorial strongholds, the effect of pre-eminence in a colonial domain was to make the colonial traders relatively uncosmopolitan. In particular, the British perfected a *comprador* form of capitalism that utilized overseas Chinese immigrants as go-betweens with indigenous communities. Internationally, the CBGs traded mainly with businesses from their home country (Drabble and Drake, 1981). CBGs appear superficially international because of their wide-ranging trading activities (Lasserre and Schutte, 1999). On closer inspection they can be seen as parochial organizations because for the most part they acted as agents in a two-way trade between their home country and a specific colony in its colonial empire (Jones and Wale, 2000).

Industrialization in Europe and Japan created a demand for oil, minerals and agricultural raw materials from South East Asia, as well as the reciprocal need to create and develop markets for manufactured goods (Davenport-Hines and Jones, 1989). For example, the creation and rapid expansion of the Malayan rubber plantation was a response to the growth of the motorcar and pneumatic tyre (Allen and Donnithorne, 1957), and the Thai teak logging industry was intimately tied to the growth of railways (Falkus, 1989). The rapid growth and subsequent decline of the Philippine abaca (hemp) industry was exclusively tied to the demand for ship's rope (Brown, 1997).

However, prices and domestic demand for categories of raw materials was highly variable (Brown, 1997), subject both to variation in the normal business trade cycle and to competition from substitute materials (Allen and Donnithorne, 1957). Where demand was especially strong and enduring, as in the case of oil, CBGs surrendered to the arrival of emerging multinationals that began to re-internalize activities handled by agents. CBGs operated under a liberal pro-trade ethos (Murphy, 1994) and their trading activities benefited from several technological innovations such as the introduction of the telegraph and improvements in ship design and speed. However, CBGs embodied the pioneering spirit of the expansionist colonial era, which triggered agricultural and organizational innovations in new and uncertain environments. Allen and Donnithorne (1957) credit European traders with the development and local cultivation of several non-indigenous commodities such as coffee, tobacco and rubber, and with the introduction of capital-intensive extraction of oil and tin. In the early twentieth century, CBGs applied the management agency function first to insurance and financial services and later to a wide range of infrastructure franchises such as electricity and telecommunications and exclusive distributorships.

Colonial-era relations were abruptly and permanently disrupted following 1941 with the establishment of Japanese military administration (*Gunseikanbu*) over South East Asia's economy (Twang, 1998). After 1945 the assets of pre-war Japanese CBGs were seized and redistributed to newly independent governments or to reinstated colonial administrations. Where feasible the remaining assets of Western colonial firms were restored to their owners. However, CBGs are of decreasing importance in the modern era, in part due to the emergence and growth of other corporate forms. Yet they remain an important analytical category because they provided the corporate model for many indigenous and immigrant entrepreneurs. Moreover, while often under new local ownership (McVey, 1992; Mackie, 1992), CBGs are characterized by strategic continuity and they remain significant players in several commercial and financial sectors (Lasserre and Schutte, 1999).

CBG strategy formation. The transition from colonial to nationalist rule was rarely smooth and CBGs in the modern era found themselves in hostile environments. Where there was no civil war there was political and military competition for power from both capitalist- and communist-oriented political parties. Colonial prestige never fully recovered from Japanese occupation (Twang, 1998). As a consequence of the changing institutional environment, the ownership structures of CBGs in the modern era became quite diverse. For example, following the adoption of a New Economic Policy by the Malaysian government, the ownership of many Malaysian-based CBGs passed into the hands of local entrepreneurs in a sequence of often-hostile take-overs (Van Helten and Jones, 1989). In other parts of the region, an emergent class of overseas Chinese entrepreneurs purchased the assets of retreating CBGs (Mackie, 1992). Elsewhere CBG assets were taken into state ownership or, especially in Singapore, remained in the hands of colonial era owners

Despite the heterogeneity in their ownership structures, CBGs have in common the adoption of short-term profitability as their pre-eminent strategic goal – often at the expense of growth. CBGs, whether under local or original ownership, have not grown to become truly global enterprises (Jones and Wale, 2000). Indeed, the post-war growth rates of CBGs have been modest relative to the later-starting Chinese FBGs (Carney, 1998).

Wherever colonial-era ownership and control persisted, real and perceived conflicts of interests between their country of origin and newly independent national governments resulted in a relatively defensive and conservative business posture. As such, CBGs have emphasized short-term profitability limited only by the need to maintain a high stock price in the expectation of liquidation. In short, subject to a stock price constraint, and due to their precarious political position, CBGs pursue financial goals related to short-term profitability and emphasize short-term cash flow, rather than growth opportunities.

CBG product market scope. Due in part to variable home-country demand, CBGs are not strongly attached to any particular line of business and many have made remarkable product-market transformations.[3] Key CBG advantages are reputation, knowledge of supply and demand conditions in their home and colonial territory and the skills associated with trade and management agency. This form of organization has proven highly adaptive, as its basic competency, managerial agency, is applicable across a wide range of commercial settings, such as franchise-holding. CBG capacity to exploit local market opportunities is a function of both local and distant reputation. Recent analysis has applied the logic of reputation as a core competence to the conglomerate organization (Ghemawat and Khanna, 1998). Khanna and Palepu (1997: 47) suggest that in underdeveloped institutional environments, diversified business groups perform an extra-judicial arbitration service and are described 'a haven where property rights are respected'.

CBGs did not integrate vertically into upstream production-related activities due in part to the risks associated with variable demand for agricultural and industrial commodities. Rather, CBGs continue to rely on their management agency competencies to diversify across a broad range of downstream retailing, service and commercial activities.

CBG asset regime. As a consequence of their established relations with domestic manufacturers and the fluctuating nature of home demand, CBGs developed two deeply rooted characteristics: a preference for liquidity (or the avoidance of investment in capital intensive activities) and an aversion to manufacturing (Drabble and Drake, 1981). The political and economic uncertainties of trading, the risks of an agency business being re-internalized by a proprietary owner and the need to redeploy assets to new economic activities created in CBGs a preference for liquidity. As CBGs are predominantly commercial, or business services organizations, their financial and trade activity is reflected in an asset base weighted heavily toward financial and short-term assets. Capital investment is directed toward assets that can be marketed easily, such as properties and securities, or to assets that can be quickly depreciated. The franchises of CBGs and their contractual distribution arrangements carry a finite time-horizon and their implicit value can be capitalized as goodwill, an intangible asset. Indeed, the core value of these firms' assets is in their local knowledge and reputation and, to a large extent, these values will be related to the perceived security of tenure within an eminent domain. The transfer of ownership in recent years to politically acceptable local interests maintains the underlying value of these assets. These considerations suggest that CBGs are characterized by low levels of capital expenditure in property, plant and equipment. Rather, high levels of intangible assets (such as goodwill) and financial assets (such as property investments) *relative to fixed and tangible assets will characterize their asset regimes.*

CBG internationalization. The growth and international expansion of CBGs was truncated at the beginning of the twentieth century by the arrival in the region of the re-internalizing multinational enterprise (MNE) (Davenport-Hines and Jones, 1989). Internalization by MNEs is an endemic problem among of CBGs except in industries that use franchises and agencies as the main distribution and marketing method. As such, vehicle distribution, hotels, and food service have remained product market staples for CBGs. Additionally, post-Second World War nationalist economic policies of governments in South East Asia have further constrained the business scope of CBGs. To escape the pincer movement of expanding MNEs on the one hand and nationalist economic policy on the other, many CBGs have attempted to expand internationally.

Despite their best intentions, CBGs find international expansion very difficult.[4] Part of the difficulty faced by CBGs is that the core competence of local knowledge and reputation are location-specific assets and are not easily transferable to new regions. Nor does the holding company corporate structure characteristic of CBGs promote intra-firm coordination, or the acquisition of new competencies. Attempts to internationalize are generally carried out through the acquisition of existing firms because the competence base of CBGs cannot support market-seeking foreign investments. Moreover, the activities of CBGs are concentrated in service sectors that require *in situ* production and do not permit efficiency-seeking relocation (Reich, 1991). As a consequence, the overseas investments of CBGs consist mainly of passive asset holdings. In these circumstances, CBGs may exercise *de jure* control over acquired assets, but can do little to add value in contexts where they possess little local knowledge and where they have little reputation. In sum, outside of their core activities in trading and franchise holding, the international activities of CBGs consist mainly of passive investments in foreign assets.

Family Business Groups

Overseas Chinese entrepreneurial success is frequently attributed to Confucian cultural values of diligence, order, filial piety and familial responsibility, which promote the prudent use of resources and capital accumulation (Redding, 1990; Hodder, 1996). Indeed, these Confucian values have endured over many centuries. However, it took developments in the post-Second World War nationalist era to bring the entrepreneurs who espoused Confucian values to prominence in the South East Asian region. Since their emergence in the nationalist era, these entrepreneurs have typically used the FBG form (Granovetter, 1994).

On the one hand, the FBG can be seen as a post-colonial version of the CBG in that FBGs and CBGs both possess a similar merchant orientation. On the other hand, the mercantile propensity of the FBG is the product of institutional forces very different from those that marked the development of CBGs in the colonial era. Specifically, FBGs emerged and developed during the post-Second World War nationalist era in response to three sets of institutional forces: diaspora, discrimination and nationalistic economic policy.

The overseas Chinese in South East Asia are in many ways a product of turmoil in their home country. Successive rebellions, civil war, poverty, recurrent famine and impermeable social barriers to advancement in China produced a steady flow of migration from China to countries in South East Asia (Fairbank, 1994). Interestingly, many of the overseas Chinese who have enjoyed considerable entrepreneurial success outside China emanated from an unstable, warring society that placed little value on commercial activity and had no entrepreneurial tradition.[5] During the eighteenth, nineteenth and early twentieth centuries, Chinese workers migrated to predominantly agricultural societies where colonial expatriates occupied the highest social and economic status. Nevertheless, the plantation system required the occupation of a variety of new and diverse economic roles (Brown, 1997). Immigrant Chinese workers were encouraged to gravitate towards jobs in tax collecting, retailing, money lending and intermediary roles and the lower levels of trade (Wu and Wu, 1980). This ascribed position of middlemen within the colonial order produced an enduring cosmopolitanism among overseas entrepreneurs (McVey, 1992).

In their capacity as intermediaries, migrant Chinese entrepreneurs were exposed to a wide range of indigenous commercial activities in their adopted societies. As intermediaries, the Chinese immigrants learned techniques of both trade and basic manufacturing (McVey, 1992). The value of skills and contacts developed by the immigrant Chinese in the colonial era made them vitally important during the subsequent nationalist era when indigenous entrepreneurial skills and capital were both in short supply (Twang, 1998). Indeed, migrant Chinese entrepreneurs were well positioned for the changes in political power that occurred in South East Asia after the Second World War. The Chinese diaspora was widespread in the region and entrepreneurs maintained personal contacts among Chinese entrepreneurs from the same family or language group in many countries. Geographically dispersed kin-networks provided secure channels for asset movements, capital mobilization and for learning about profitable opportunities (Hodder, 1996). In sum, the diaspora produced an entrepreneurial class that was well placed to operate international networks and which was attuned to the behaviour of a diverse group of key actors in South East Asia.

Despite their economic success, and indeed possibly because of it, Chinese entrepreneurs encountered discrimination and risked asset expropriation in their adopted societies (Hodder, 1996). Recent violence against Chinese property in Indonesia indicates that this hostility is both grave and enduring. Overseas Chinese entrepreneurs suffered official discrimination in Malaysia and Indonesia from nationalist policies intended to secure greater participation in the economy for ethnic nationals (Lim, 1996). In Thailand, Indonesia and the Philippines, political corruption and bureaucratic 'rent-seeking' (McVey, 1992) produced wariness of the state.

A main concern for post-Second World War national governments was national security. There was a need to restore internal order and to fend off external threats. In view of this, government officials predominantly came from a military background. The economic agenda was limited to managing strategic industries and rebuilding basic infrastructure. After the expropriation of Japanese capital after the Second World War and prior to the Plaza Accord of 1985, there was little Japanese investment in the region. Most capital for investment came from local savings. Almost without exception, states in the region adopted export-oriented development (EOD) models. These policies focused upon the provision of tax incentives and low-interest loans to spur production and the utilization of low-cost labour (or other factor advantages) to compete in labour-intensive industries. Importantly, EOD provided many market opportunities, which were capitalized upon by overseas Chinese entrepreneurs (Mackie, 1992.)

FBG strategy formation. Chandler contends that compared with managerial enterprise, kin-based organization is neither enduring nor conducive to capital accumulation (Chandler, 1990). Scholars of Chinese capitalism suggest that family businesses are unable to span more than two or three generations of senior management before weakening and disintegrating (Tam, 1990; Fukuyama, 1995). FBG ownership is ordinarily concentrated in the hands of a founding entrepreneur, the immediate family or ancestral trust depending upon the age of the firm (Wong, 1985). The family firm's assets account for a significant proportion of that family's wealth. This concentration of assets creates a significant risk that can be reduced by extracting capital from the business and allocating it to alternative, safer, sources.[6] Moreover, the risk of expropriation has made it prudent to avoid capital concentration.

Tam (1990) and Wong (1985) describe centripetal tensions that promote a near-term focus on immediate earnings in FBGs. To provide income for an extended family and inheritances for male offspring who may wish to establish their own patrilineal businesses, there is a leaching of capital out of the core business. Redding (1990: 109) suggests the spirit of Chinese entrepreneurship is infused with values that 'facilitate the initiating phase of entrepreneurship, but which place barriers to the higher levels of co-ordination necessary for growth'. Under these conditions, goals related to patient capital and large-scale or enterprise growth often give way to a concern for near-term profitability and family wealth preservation.

Likewise, Fukuyama (1995) and Kao (1993) describe the lack of capacity of FBGs for large-scale enterprise. In summary, goals promoting large-scale or enterprise growth give way to a concern for near-term profitability and family wealth preservation.

FBG product market scope. The manufacturing opportunities offered by (EOD) policies provided the initial impetus for FBG growth (Yoshihara, 1988). However, FBGs do not possess a particular affinity for manufacturing activities. Indeed, their propensity for capital dispersion weighs against success in capital-intensive manufacturing activity. Many analysts have noted the Chinese FBG propensity for trading (Hodder, 1996), speculating (Yoshihara, 1988), and ventures aimed at rapid cash generation and the maintenance of corporate liquidity (Limligan, 1986). FBG entrepreneurs favour, and excel in, opaque transactions based upon personalized relations or *guanxi* – a Chinese term which refers to the practice of drawing on personal networks to secure favours in personal or business relations (Luo and Chen, 1997). Lasserre and Schutte (1999) see FBG success as stemming from *guanxi* and the related ability to exploit market imperfections arising from access to privileged contacts and non-publicly available information. Many of these opportunities are self-limiting, or temporary, and do not require major capital commitments.

Williamson (1997) says FBGs have a locational advantage. Situated in a fast growth region, they benefit from local knowledge and they have the capacity to move quickly. While possibly inefficient, and lacking specific product-market skills, they operate on the principle that 'it is better to be always first than always right' (Williamson, 1997: 55). Similarly, Whitley (1992) notes the FBG pattern of investing profits from manufacturing in real estate and property development rather than reinvesting their profits in the manufacturing business. Whitley refers to this pattern as 'opportunistic diversification'. Kao (1993: 25) suggests the preference for liquid and tangible assets results from deeply held 'life-raft values' stemming from generations of economic and political uncertainty. Redding (1990) traces FBG defensiveness and insecurity to the legacy of state disdain for mercantile activity and its thwarting of modern capitalism. Collectively, the factors described above suggest that at the level of the family group, FBGs are widely diversified.

However, when inspecting particular FBG enterprises at the business level, a different picture emerges. FBGs typically organize their assets into multiple separate public listings. Ultimate majority ownership is typically concentrated in a private enterprise registered in an offshore country. Tam (1990) describes a tendency toward fissioning in the Chinese FBG into separate spheres of influence, sometimes done to accommodate family interests and offspring (Wong, 1985). However, breaking up large businesses into smaller units also offers certain important advantages to the FBG.

First, such a fragmentation of businesses operations reduces the FBG's visibility, which can be seen as a basic defence mechanism for ethnic minorities operating in hostile environments (Hodder, 1996). Second, the fragmentation and the creation of multiple separately listed public units is a means of achieving monitoring and feedback on unit performance when subsidiary managers are not trusted, or when the organization has inadequate capacity to perform a thorough internal auditing function (Carney, 1998). Daily market valuation of a business unit's performance is a valuable managerial decision tool, which is an advantage denied most diversified firms. Consequently, there are sound economic reasons for creating relatively focused product-market strategies at the level of the business unit.

FBG asset regime. Discrimination and suspicion of governments have also encouraged FBGs to develop generic asset regimes and to maintain financial liquidity. The establishment of large enterprises with high sunk costs and the promotion of brand names require patient capital and investment in specialized assets. Such factors increase the visibility of an enterprise and increase the risk of expropriation (Williamson, 1991).

Fukuyama (1995) notes that FBGs have performed best in light manufacturing businesses such as apparel, toys, electronic sub-components and computer peripherals and do less well in industries that are capital intensive. Redding (1990) agrees, indicating that FBGs have a marked strategic preference for projects characterized by labour-intensive, rather than capital-intensive technologies. Further, it has been argued that restricting resource commitments in dedicated assets, or lock-in investments, maximizes resource flexibility and is central to FBG adaptive-entrepreneurial capabilities (Chen, 1995). Rather, capital investment is directed towards generic assets that are readily deployed to respond to shifts in fashion and volume (Redding, 1990). Whatever capital is employed is worked intensively, and demand above capacity is met by subcontracting (Whitley, 1992).

A liquidity preference among FBGs also stems from weak protection for property rights characteristic of the nationalist era. Regulatory mechanisms in many South East Asian countries are still developing and unenforceable property rights are a disincentive to investments in specialized assets (Ghemawatt and Khanna, 1998). Such legal and regulatory environments generate a skew towards the adoption of generic rather than specialized investments. In sum, the effects of hostile operating environments, strategic advantages in labour-intensive settings and the weak protection of property rights in many host countries all suggest that the asset regimes of FBGs are characterized by the use of generic, rather than specialized, assets.

FBG internationalization. FBGs emerged as a regional force during the early 1980s. The success of their export-led development quickly eroded the factor (labour) cost advantages of domestic firms whose firm-specific proprietary advantages lay in the management of small scale operations employing labour-intensive production technology of sufficient flexibility to produce a wide range of outputs (Lecraw, 1992; 1993). Therefore, FBGs began to internationalize in order to seek lower labour costs than were available within their own territories. At first, overseas Chinese entrepreneurs made extensive small-scale investments in China. The first wave of international investments by FBGs was labour-seeking assembly transplant activities (Yeung, 1997), which were funded through internally generated funds.

While these international manufacturing activities have attracted much attention their numbers, size and significance are dwarfed by a second wave of investments in the service sector, infrastructure, property development and financial services. Second-wave investments were made possible by a flood of foreign portfolio investments and commercial bank lending (Henderson, 1998) which enabled FBGs to accelerate the pace of their offshore investments and acquisitions. However, many of these investments were in fields where the FBGs had no technological expertise (Panamond and Zethaml, 1998). Consequently, and in the wake of the financial crisis, recent analysis suggests that much of this investment was misdirected (Goldstein, 1998).

There are divergent explanations of this second wave. One view is that FBG investments are consistent with Dunning's (1995) eclectic model. For example, FBG investments in hotel management, construction and infrastructure are consistent with firm-specific advantages in the management of labour-intensive processes and in trade and financing (Lecraw, 1992). Others propose a catch-up explanation (Ernst, 1998). Less favourable is a view that suggests that FBG international investments are *guanxi*-driven project-specific investments aimed at generating fast returns (Lasserre and Probert, 1998). However, *guanxi* is location-specific since there is a limit on the number and depth of personal contacts that can be cultivated by an entrepreneur and his family. Consequently, the advantages conferred by *guanxi* might be expected to decline in more distant markets. Moreover, *guanxi* is an essentially market-seeking asset and does not generate productivity-enhancing capabilities for the firm. Indeed, *guanxi* may do the opposite. As personalized investments typically escape internal bureaucratic and market scrutiny, many may be allocated to inefficient or low-return projects.

It is the over-personalization of capital allocation that underscores Krugman's (1994) influential critique of the Asian development model. Krugman proposes that many Asian economies have failed to develop microeconomic mechanisms that create productivity improvements. While some have heralded the emergence of FBG FDI and the development of the Asian multinational (Yeung, 1997; Lecraw, 1993), others suggest that it is a form of disguised portfolio investment and a case of capital flight (Yoshihara, 1988). In the latter view, a significant portion of Asian FDI may be neither market- nor asset-seeking; rather it is wealth-seeking reflecting attempts by entrepreneurs to internationally diversify their personal and familial wealth. Together, these considerations suggest that relative to other firms in South East Asia, a significant portion of the FDI activities of the FBG consist of investments stemming from the firm-specific advantages of relational contracting and the management of labour-intensive production processes. Second, relative to other firms in South East Asia, a significant portion of the FDI activities of the FBG consist of passive investments in foreign assets.

Government-Linked Enterprises

As their name suggests, GLEs are South East Asian firms which are either directly controlled by a national government, or have multiple and long lasting ties with a government.[7] GLEs emerged during the post-Second World War nationalist era and continue to play an important role in the economies of many South East Asian economies. The overriding contextual force that marked the emergence and development of the GLE is *nation-building*. The GLE came into being to meet the economic development and infrastructural needs of South East Asian economies in the period after the Second World War.

The prevailing ideology of the nationalist era was a strong belief in the efficacy of state planning (Vogel, 1991). In the aftermath of the Second World War, a new wave of nationalist politicians and bureaucrats, many educated in the New Deal US and European schools, turned their attention towards leading domestic capitalist institutions toward national objectives and policy priorities (Wade, 1990). Public policy goals of modernization and a desire to advance the social position of previously excluded ethnic groups were prominent features of the business environment that marked the emergence of the GLE in the early nationalist era (Lim, 1996).

The emphasis placed on nation-building in the nationalist era stemmed both from colonial retreat and from perceived external or internal threats to the state. Following a period of Japanese occupation during the Second World War, South East Asian states struggled to establish themselves against communist forces. Assisted by US military and civil aid, many South East Asian countries attempted to develop their economic and technological infrastructures as a means of promoting economic and social stability. During this period, capital- and technology-intensive industries, such as energy, aviation and telecommunications were considered vital to a country's national security. However, CBGs were cautious about extending investments under new political regimes and Chinese FBGs possessed neither the capacity nor the inclination to enter these industries (Vogel, 1991). As such, the preferred vehicle for building infrastructure was the GLE (Wade, 1990).

Many former colonial-era enterprises became state enterprises as a direct result of colonial retreat. For example, in Singapore the state inherited several naval shipyards that became the centrepiece of a diversified oil services industry. In Singapore the state established enterprises with particular industrial missions. While GLEs are often widely held public companies, their close relationship with government shareholders creates potential agency problems because GLE managers are frequently appointed for their commitment and allegiance to public goals (Zutshi and Gibbons, 1998).

GLE strategy formation. South East Asian governments have often targeted for development strategic industries and established GLEs to coordinate them. Strategic industries are typically related to natural resources such as oil in Malaysia, Singapore and Indonesia, rubber in Malaysia and lumber in Indonesia. The core GLE mission is capacity-building; the establishment of large-scale capital-intensive industry. Such capacity is often complementary to the small firm size-structure that characterizes light engineering and consumer manufacturing sectors. Indeed, Fukuyama (1995) suggests the need for state involvement in heavy industry results from FBG-dominated economies that are ill-equipped to organize large-scale industry. Several writers (Lim, 1996; McVey, 1992) note that Singapore's state capitalism is a proactive response to a perceived lack of entrepreneurial acumen on the part of indigenous entrepreneurs. However, state-owned enterprises (SOEs) also generally cluster in 'heavy industries' that are capital intensive and potentially monopolistic (Caves, 1989) and SOEs also dominate South East Asia's main utilities such as telecommunications, power, transport and infrastructure.

Historically, GLEs appear to operate profitably. Whether this is due to subsidized capital and their quasi-monopoly status or to sound administration is unclear. Typical of SOEs, GLEs possess dual missions: to operate commercially, but also to pursue a specific mission established by government. With regard to strategic goals GLEs have externally imposed mandates and must balance profitability with goals aimed at contributing to the home nation's industrial capacity.

GLE product market scope. In many cases, it is difficult to discern unequivocally the effects of political preference and a dual mission on GLE product-market strategy. GLEs have often been profitable and have established capacity, but these accomplishments have often been achieved at the cost of being inefficient and of entrepreneurial weakness (Noble, 1998). Some analysts such as Wade (1990) and Mathews (1999) credit industrial policy with successful industrial development.

Similarly, Schein (1996) partly attributes Singapore's successful economic development to a pragmatic policy of establishing government-owned enterprises and statutory boards in selected industrial sectors. However, others suggest that state policy has directed strategic industries into non-dynamic stages of the value chain (Hobday, 2000). In general, the product-market scope of GLEs is typically narrowly focused on industries deemed strategic by the state.

GLE asset regime. Their close government ties profoundly influence the size and composition of the asset bases of GLEs. Indeed, several detailed accounts of GLE micro-management and state support exist (e.g. Vogel, 1991; Wade, 1990; Schein, 1996). From the perspective of the GLEs, close ties with their host government provides them with several advantages pertaining to revenue generation; for example, obtaining contracts with other government enterprises. GLEs also enjoy access to cheaper capital and secure sources of credit. These advantages support growth rates above what might be achieved unassisted.

In the absence of competition, GLEs' domestic profitability must be tacitly negotiated with governments because excessive profits are seen as illegitimate. Granovetter (1994) alludes to a moral restraint that constrains monopolistic behaviour. As such, a rate of return may be negotiated or decreed by the state. However, rate of return constraints provide incentives to over-expand capital bases as a means of promoting profit growth. Over-investment is also predicted by the public choice literature, which suggests that government-related agencies have a propensity to empire-build and accrete activities beyond their original mission (Mitnik, 1980).

South East Asian developmental-oriented countries have adopted an Asian industrial policy model that directs and concentrates investments in selected sectors. For example, in the modern era, industrial programmes designed to establish automobile and aerospace sectors have been promoted as governments attempt to repeat earlier successes in labour-intensive sectors by emphasizing more value-added activities (World Bank, 1993). However, much of this state investment is often made without regard to market demand or a firm's cash flows (Rajan and Zingales, 1998). Ironically, many analysts now contend that the creation of massive over-capacity in high value-added activities such petrochemicals and automobile manufacturing is presently the major obstacle to continued growth in the region (International Monetary Fund, 1998). Collectively, these considerations suggest GLE asset bases are characterized by over-investment in fixed assets relative to the firm's scale and the size of its potential market.

GLE internationalization. In the nationalist era, FBGs concentrated on export-oriented production in labour-intensive sectors, while GLEs focused upon domestic capacity-building in capital-intensive sectors. As such, GLEs had few international activities beyond resource-seeking investments. While many governments in South East Asia have perceived national competitive advantages in promoting indigenous enterprises of multinational scale, very few have seen the GLE as the appropriate vehicle for spearheading internationalization.

Singapore is the exception. Dissatisfied with the international achievements of its domestic entrepreneurs, its government has chosen to utilize the public sector in its internationalization drive. Following sequential state strategies termed 'the next lap' and 'the learning nation', Schein (1996: 57) describes Singapore's Economic Development Board's (EDB) new thrust as 'going overseas'. The stated intention of Singapore's EDB is to create proprietary asset-based MNEs whose high value-added functions are performed within Singapore's borders. As Singapore has few companies with marketable proprietary assets, the plan is to purchase them abroad and absorb them domestically.[8] This approach is a variant of the Korean model of competence building (Hobday, 1995). This discussion suggests that GLEs are most typically domestically focused. International activities are limited to resource-seeking investments (e.g. oil and gas). However, in countries with more active industrial policies, the international activities of GLEs are strategic asset- (technology) seeking (Zutshi and Gibbons, 1998).

New Managers

The emergence of the new managers can be traced to three sets of institutional forces that have marked the modern era (from 1978 to the present) in South East Asia; *managerial availability*, a new *pro-business ideology* and *new technology*. The management style of the new managers tends to emulate Japanese and/or Western business practices.

In the past two decades, several new types of professional managers have emerged in South East Asia who, exposed to a variety of different influences, do not necessarily embody old values (Vogel, 1991). Many in this new generation of managers received graduate engineering and/or business education in Western universities. Many students did not return home immediately upon graduation, but remained in the West to work for several years. However, many subsequently returned and promoted professional management practices and the absorption of new technology in their firms. An important second source of professional management in the modern era has been a large number of young managers who gained experience working in the local subsidiaries of MNEs. Extensive Japanese investment has been accompanied by the transfer of management techniques, especially at the plant level (Thong, 1991). Additionally, the expansion in the numbers of local universities also contributed positively to the supply of trained managerial talent (Vogel, 1991). Collectively these sources contribute to a pool of potential managers that was simply not available until quite recently.

Often dominated by military personnel, state bureaucracies of the nationalist era were sometimes uninterested in the fortunes of business. In the nationalist era, new governments were often preoccupied with national security issues. McVey (1992) now sees an aligning of interests between the state bureaucracy and big business. Political rents secured by bureaucrats from office holding and cronyisms are relatively fleeting and insecure. To assure a more secure revenue stream, officials needed two things: the acquisition of sufficient business knowledge to enable the official to oversee the handling of his money, and effective legal guarantees for private property to ensure it could not be confiscated once out of office (McVey, 1992). At the same time vulnerable entrepreneurs actively sought to cultivate relations with powerful bureaucrats to protect their interests (Laothamatas, 1994). Under these circumstances of common interest and balanced power-relations, officials and entrepreneurs began to develop a measure of trust and mutual accommodation. One effect of this new accommodation is the institutionalization of relational contracting (Rajan and Zingales, 1998). As McVey (1992: 26) felicitously puts it, bureaucrats were transformed from 'parasites to promoters' of business.

The third force marking the emergence of the new managers is the arrival of new technologies in the region. Import substitution and labour-cost driven export development policies traditionally produced a product market emphasis on textiles and low-cost electronics. In the modern era, the new growth markets are in telecommunications, PCs and media. The size, internationalism and intellectual property requirements of these new industries are ill suited to the self-financing ways of the traditional FBG. Often the assets needed to compete in these new industries are proprietary, firm-specific intangibles that are embodied in firms' processes and routines (Nelson and Winter, 1982). Corporate-financial arrangements that support the creation, utilization, maintenance and transfer of intangible proprietary assets are more specialized and complex than those for tangible assets (Prowse, 1996). Large capital-intensive ventures in the region have normally been the domain of GLEs. Unfortunately the GLEs, with their dual mission and bureaucratic structures, have largely been unable to effectively exploit the available opportunities in high-tech industries. The firms we call the new managers have emerged to take advantage of these new market opportunities.

New manager strategy formation. New managers are typically founded as entrepreneurial and family-owned firms, but their ownership is often quickly diluted because of the need to raise new financial capital. Unable to fund growth from internal earnings, firms active in these areas have often been compelled to raise money on the region's capital markets. However, capital markets are not well developed in the region so new managers face difficulties in accessing growth capital (Carney and Gedajlovic, 2000) and have sought and received financial assistance from capital-rich FBGs.

New managers face a number of key strategic issues. First, an important issue for new managers relates to their ability to maintain independence from potentially predatory or rent-seeking investors. Second, the ability to use subcontracting networks to cope with variation in demand is lessened in industries with proprietary processes and more complex operations. Third, the technological complexity of these industries is such that founding entrepreneurs have been forced to rely on outsiders, professional managers and high-tech professionals. The confluence of these factors has made the ownership and management of new managers both more heterogeneous and transparent then other forms of enterprise active in South East Asia. The strategic opportunities in the new technologies are such that new managers have organization-building strategic goals related to growth in assets, revenues and technological leadership.

New manager product market scope. Positioned in high-growth market segments, most new managers have not yet generated sufficient free-cash flow to contemplate diversification out of their core industries. Indeed, in telecommunications and information technology, rapid local market expansion has provided ample opportunity for focused growth. In the nationalist era, mainland China was a closed market for most South East Asian firms. Today, new managers face abundant opportunities in China. However, the lack of a distribution and service infrastructure in China requires considerable investment – another factor encouraging focused growth. New managers typically emphasize the development of core competencies and proprietary assets, which provide a competitive advantage in the marketplace. Where resources permit, these competencies provide a rationale for diversification into closely related fields. However, new managers pursue tightly focused product-market strategies, in stark contrast to the conglomerate strategies of FBGs and CBGs.

New manager asset regimes. Specialized and proprietary assets are essential to the competitiveness of the new managers. However, funding the development and acquisition of strategic assets requires new managers to forgo dividends and retain profits for investment in their core businesses. The adoption of growth goals by new managers suggests a heavy capital investment schedule. As such, new managers may exhibit negative cash flow patterns over periods of high growth. Additionally, a greater proportion of total assets is likely to be funded by outsiders. In many ways, the asset regimes and financial resource utilization patterns of new managers correspond to that of a high-growth firm in Western economies. These considerations suggest that new managers create high market value added (MVA) (the difference between market and book value), and command high price/earnings ratios reflecting their development of proprietary assets.

New manager internationalization. In some ways, new managers resemble the classical asset-protecting MNE, which expands overseas to exploit firm-specific capabilities (Dunning, 1995). However, they differ in one important way. New managers are latecomer MNEs (Hobday, 1995) and must overcome significant obstacles in acquiring and developing proprietary capabilities. In the modern era, South East Asian states have attempted to assist firms by building competence-enhancing institutions such as new universities, science parks and innovation centres. However, new managers have attempted to accelerate the process by purchasing strategic assets in global markets. Therefore, the initial international activities of new managers are essentially strategic asset-seeking via merger, acquisition, joint ventures and a host of alliances (Hobday, 1995). The high cost of this approach contributes to the need for external capital. To the extent that new managers eschew the profitable short-term opportunities offered by regional diversification into unrelated activities, they can focus on developing proprietary skills and resources. A number of South East Asian enterprises have reached this position and are internationalizing to reap the advantages offered by proprietary assets. The pattern of internationalization of new managers is rarely strictly sequential and linear. Rather we may see both asset-seeking investments and, where firms have developed them, asset-protecting investments occurring simultaneously.

CONCLUSION

Managers' and Merchants' Adaptation and Capabilities

Our analysis indicates that distinct corporate forms emerged as responses to the institutional forces that characterized their nascent environments. We show that with major institutional environmental shifts, new forms emerge along side existing forms. Table 1 summarizes the characteristic behaviour of each of the South East Asian corporate forms described above. One theoretical issue arising from the analysis presented here is whether the organizational types identified in this paper are permanent, static forms, or are transitory organizations capable of transforming themselves as environmental conditions evolve. A second issue relates to whether the South East Asian region's legacy of merchant forms of organization is beneficial, or detrimental to the region's global competitiveness.

With regard to the first issue outlined above, the concept of organizational logic suggests that fundamental adaptations occur when organizations are founded and that subsequent adaptations occur around deeply internalized logics of action. For example, in the case of CBGs, the passing of the colonial era prompted many colonial firms to exit or reduce their exposure to the region. CBGs were faced with the problem of how to repatriate their assets. In a more hostile nationalist era, colonial businesses were motivated sellers of assets and were obliged by emerging FBGs who were equally motivated buyers of those assets. In this sense CBG adaptations largely facilitated rather than hindered the emergence of FBGs. For several reasons, FBGs were better adapted to the exigencies of the nationalist era than CBGs.

In contrast, in the post-Cold War period FBGs have not exited from the region. Though apparently less well adapted to the technological and market demands of the modern era, FBGs have strengthened their positions in South East Asian economies. New managers have so far made only a muted appearance in the region in part because FBGs constitute such an important part of their institutional environment.

Since the arrival of CBGs at the beginning of the eighteenth century, firms characterized by a strong merchant logic have dominated large parts of the economies of South East Asia. Indeed, just as the CBGs played a predominant role in South East Asia during the colonial era, family business groups have predominated in both the nationalist and modern eras. In this context, firms characterized by a managerial logic have played supporting, rather than leading, roles in the economies of South East Asia. In this regard, the emergence of the GLE in the nationalist era can be traced to the need to build and provide the infrastructure necessary for economic development rather than as a primary means of industrial organization. The analysis presented here indicates that the South East Asian legacy of merchant corporate forms has a number of important implications with regard to the global competitiveness of the region's firms and economies in the modern era.

TABLE 1
CHARACTERISTICS OF SOUTH EAST ASIAN ENTERPRISE

	Colonial Business Groups	Family Business Groups	Government Linked Enterprises	New Managers
Nascent era	Colonial era	Nationalist era	Nationalist era	Modern era
Organizational logic	Merchant	Merchant	Managerial	Managerial
Forces which characterize nascent conditions	Following the flag Capricious home demand and pioneering spirit	Diaspora Discrimination Nationalistic economic policy	Nationbuilding	Managerial availability Pro-business ideology New technology
Strategy formation	Short-term profitability and generation of positive cash flows Slow growth rates in terms of both sales and assets	Near-term profitability and family wealth preservation	Externally imposed mandates and must balance profitability with goals aimed at contributing to the home nation's industrial capacity	Organization-building strategic goals related to growth in assets, revenues, and technological leadership
Product market scope	Broadly diversified across a range of downstream retailing, service and commercial industries	At the level of the family group, the FBG is widely diversified At the level of the firm, narrowly focued	Narrowly focused on industries deemed strategic by the state	Pursue tightly focused product market strategies

	Colonial Business Groups	Family Business Groups	Government Linked Enterprises	New Managers
Assets regimes	High levels of intangible assets (such as goodwill) and financial assets (such as property investments) Low levels of captial expenditure in property, plant and equipment	Use of generic, rather than specialized assets	Over-investment in fixed assets relative to the firm's scale and the size of its potential market	Create high market value added (MVA) (the difference beetween market and book value), and command high price/earnings ratios reflecting their development of proprietary assets
Internationalization	Outside their core activities in trading and franchise holding, consist mainly of passive investments in foreign assets	FDI activities consist of investments stemming from the firm-specific advantages of relational contracting and the management of labour intensive production processes FDI activities consist of passive investments in foreign assets	Typically domestically focused. International activities are limited to resource seeking investments In countries with more active industrial policies, are strategic asset (technology) seeking	Both strategic asset seeking and proprietary asset protecting

Merchant forms of organizations have certain inherent advantages and disadvantages relative to their managerial counterparts (Carney and Gedajlovic, 2002). The prevailing logic of managerial enterprise is based upon organizational growth through hierarchical coordination (Chandler, 1990). This managerial logic manifests itself in policies of sustained capital expenditures in efficiently scaled production facilities, in distribution and marketing assets, and the managerial and functional expertise needed to effectively coordinate the two. Hierarchical organization is particularly effective when specialized investments have clear productivity advantages over generic assets (Williamson, 1991). Similarly, many high-productivity dedicated investments such as those required in resource extraction and primary processing, and in knowledge-intensive industries, require patient equity capital. Safeguarding such assets demands an attendant rational-legal governance structure (Williamson, 1991). On the other hand, the relational contracting propensity of merchant forms provides inadequate governance capacity for many specialized assets.

If the core component of a managerial logic is hierarchical coordination, its equivalent component in the merchant logic is reputation. A conferred status, reputation may be defined as trust in a firm's capacity to deliver on hard-to-enforce and unenforceable agreements. Reputation is embodied in many intangible assets such as brand equity and technological know-how, but it is also a firm-specific quality that need not attach to a particular product or process (Hall, 1992). As defined here, reputation is a generalizable imputation of trust that may be applied to a variety of non-standard and non-routine transactions.

Firm reputation may fill institutional voids (Khanna and Palepu, 1997), such as in economic sectors where production is ill-suited to hierarchical organization, or the use of specialized assets, and in countries with weak or non-existent protection for property rights and proprietary assets. Chapman (1985) notes that this is the role played by CBGs in the colonial era. Specifically, Chapman notes poor manufacturing performance by CBGs, but points to a genius for mercantile organization based upon their reputation as reliable customers, suppliers and business partners. Such business structures are particularly well suited to operating in highly uncertain environments. FBGs played a comparable role in South East Asia in the turbulent post-Second World War nationalist era and in the modern era in overseas investments located in countries with weak protection for property rights. However, like the CBGs before them, FBGs have discovered that their reputational assets are not portable beyond the Asian region, a factor that inhibits their ability to globalize. Consequently, FBGs' participation in global markets is limited to low value added manufacturing and trading in upstream stages of global commodity chains (Gereffi, 1994).

In general, firms in the South East Asian region have failed to grow to a large size, which limits their ability to realize scale and scope economies (Chandler, 1990). While some firms are developing a regional prominence, very few have achieved global scope. Indeed, relative to their northern neighbours in Korea and Japan, firms from the South East Asian region are quite regional in scope and small in size. Given the region's growth, the absence of firms with a global capability is something of an enigma. The merchant and trading logic of South East Asia's first large firms, the CBGs, militated against growth. In the modern era their descendants, FBGs have only rarely established permanent professionally managed organizations. Their entrepreneurial dynamism and use of personal networks have facilitated rapid responses to emerging opportunities. However, such personal networks do not appear to provide the organizational depth required for global operations or for competing in technologically advanced industries.

Forces in the modern era are engendering a new type of firm (new managers), which is better suited to employ the region's available managerial talent and to exploit new technologies. Such firms have often been encouraged by policy-makers who recognize their importance for industrial growth and the creation of a diversified economic base for their countries. However, the growth of new high-technology firms in South East Asia has been impeded because these firms are often easy take-over targets for predatory conglomerates. Relatively undeveloped and highly volatile equity markets and the absence of local bond markets often require capital hungry firms to seek major equity from a single dominant investor. The loss of autonomy in the early stages of their development has often retarded the growth potential of new managers (Carney and Gedajlovic, 2000).

The transformation of the predominantly merchant trading logic to one that supports the development of a broader range of industrial organization is likely to require major institutional-level change. One conclusion stemming from the analysis presented here is that the development of more broadly based economies, and in particular the development of high-technology sectors of efficient scale and scope, will require greater diversity both in terms of corporate ownership and managerial responses than is currently evident in South East Asia. In this regard, the strengths of the family ownership and management of enterprises in certain economic sectors constitutes an impediment to the development of economic sectors where depersonalized patient capital and professional management are required.

In this regard, the Asian financial crisis may have created the impetus for fundamental structural change to the economies of South East Asia. For example, highly leveraged firms with significant foreign currency exposure are vulnerable to bankruptcy. As these firms attempt to reschedule their debts through financial restructuring such as debt-equity swaps, there is an opportunity for investors to demand fundamental changes in a firm's structure and operational practices. Institutional environments are not immutable and are subject to forces emanating from other regions and cultures. More specifically, the integration of world markets as well as regulatory and social changes occurring in the global economy are producing institutional-level forces supportive of an organizational model approximating the new managers. However, the longevity of the CBGs that adapted to institutional change by transferring their agency skills to new product lines is a testament to the fact that 'fossilized' corporate forms may persist in sectors long after the conditions that brought them into being have passed. In this regard, the single largest obstacle to the creation of efficiently scaled and adequately funded globally competitive, high-technology firms (and sectors) in South East Asia may be the region's legacy of successful merchant organizations which emerged and developed to meet the institutional and competitive demands of a previous era.

NOTES

1. For the purposes of this article we confine our analysis to the capitalist economies that founded the Association of South East Asian Nations (ASEAN), namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. We exclude Japan and Korea and Greater China (Hong Kong and Taiwan).
2. Colonial government in Indonesia ended abruptly in 1949. Self-government in Malaya was introduced later and more gradually. The Philippines was a Spanish colony until 1890, when it became a US colony until 1949. Except for a short period during the brief Japanese occupation of the Second World War, Thailand did not experience full colonial administration. Nevertheless, economic activity in Thailand was largely in the hands of organizations we call CBGs. Following the Second World War, Thailand was characterized by a more nationalistic government than had been apparent in the colonial era.
3. For example, Inchcape began life as the Calcutta and Burmah Steam Navigation Company, which developed logging, oil and shipping interests. It later transformed itself into an automobile franchise distributing eight per cent of Toyota's global output (Jones, 1988).
4. For example, since Malaysian interests acquired control and replaced its British management in 1982, Sime-Darby has adopted a strategy international expansion. Indeed, Sime-Darby is often cited as the region's best-known MNE (Ragayah, 1999). Yet in 1994, over 70 per cent of its 120 foreign subsidiaries and associate companies were located in one of three countries: Britain, Hong Kong and Singapore (Sime-Darby Annual Report, 1994). Of Sime-Darby's 1997 revenues, 88 per cent were earned in Malaysia, Singapore and Hong Kong (Sime-Darby Annual Report, 1997).
5. The Shanghai cotton industrialists that relocated *en masse* to Hong Kong in 1949 are an exception in this regard (Wong, 1988).
6. Risk diversification is not limited to Chinese FBGs. It has been observed in Italian, French (Fukuyama, 1995) and British family business groups (Chandler, 1990).
7. In Malaysia, Indonesia and Thailand many enterprises are privately held, but operate under the state's aegis (Suehiro, 1992; Robison, 1992).
8. For example, Singapore Technology Holdings acquired stakes worth US$500m in several Silicon Valley semiconductor firms with the explicit goal of technology transfer.

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