Corporate Governance and the Global Reach of Chinese Family Firms in Singapore

Henry Wai-chung Yeung and Tse Min Soh [1]

The emergence of Chinese business conglomerates in recent decades has spurned a lot of interesting literature in the field of Chinese business. Much has been attributed to the "bamboo networks" in explaining the entrepreneurial success of ethnic Chinese outside China. In this paper, we examine the international linkages of 157 public-listed Chinese family firms in Singapore. We show that although they conform to some of the characteristics mentioned in the existing literature, public-listed Chinese family firms have forged global linkages directly by means of overseas principal bankers and auditors. These global linkages help to influence the corporate governance practices of Chinese family firms. We conclude the paper with some implications for future research and management policies.

Keywords: Corporate governance, Globalization, Chinese family firms, Singapore, Ownership structure

JEL Classification: G32, L22, M14

*Associate Professor, Department of Geography, National University of Singapore, 1 Arts Link, 117570 Singapore, (Tel) +65-874-6810, (Fax) +65-777-3091, (E-mail) geoywc @nus.edu.sg; Department of Geography, National University of Singapore, 1 Arts Link, 117570 Singapore, respectively. We wish to thank the Korea Economic Research Institute and the Institute of Economic Research, Seoul National University, for kindly inviting the first author to present the paper at the Symposium on Corporate Governance and Restructuring in East Asia held in Seoul National University, South Korea, 25 August 2000. Constructive comments from the discussant, Young-Ryeol Park, and Kwang Sun Chung, Usha Haley, Keun Lee, Young Lee, and other conference participants are gratefully acknowledged. Although every effort has been made to incorporate their suggestions, we are solely responsible for any shortcomings of this paper.
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I. Introduction

In recent decades, a new breed of business conglomerates has emerged in Asia. These up and rising business entities are mostly controlled and/or owned by ethnic Chinese. The sheer diversity and prowess of their economic activities has enabled some of them to become the very foundations of their national economies. For example, Li Ka-shing, whose empire controls about 16% of Hong Kong's stock exchange, the Hang Seng Index, caused the Index to fall by 1.6% on 23 December 1998 with his remarks about the unfriendly business environment in Hong Kong (*The Straits Times* 23 and 24 December 1998). By May 2000, Li Ka-shing's family controlled more than a third of Hong Kong's stock market capitalization and a large chunk of its economy, ranging from ports to telecommunications, supermarkets, and property (*The Economist* 3 May 2000). Besides some successful individuals, ethnic Chinese living in Asia are estimated to have generated a gross national product of about $450 billion, a quarter bigger than China's (Seagrave 1995, p. 2). Their domination in every economy in the Asia Pacific Region (other than Korea and Japan) is apparent: 80% of the corporate assets and four-fifth of the largest 200 enterprises are controlled by ethnic Chinese. They also control 40-50% of corporate assets in Malaysia, not withstanding 90% of manufacturing and 50% of services in Thailand (Wu and Duk 1995; Weidenbaum and Hughes 1996; Yeung 1999a; and Yeung and Olds 2000). In the true economic sense, these Chinese conglomerates are beginning to make a fast foray into the global league where Western transnationals and Japanese *keiretsu* used to dominate.

With the emergence of Chinese business conglomerates, a whole new interest has been rekindled to study their corporate governance, organizational structures, business strategies, and investment patterns. These governance and management issues are also particularly relevant for two other reasons. First, the recent 1997/1998 Asian economic crisis has shown that economic globalization may bring both opportunities and risks for Chinese business (see Yeung 1999b; and Crawford 2000). It becomes imperative for us to understand how Chinese business conglomerates experience internal transformations to cope better with the inherent risks and opportunities associated with globalization. Second, the rise of the so-called "new economy" has raised further questions on the viability of traditional governance and practices of Chinese businesses. As *The Economist* reports in a recent issue on 29 April 2000, "Asia's tycoons are coming under pressure to adopt a more 'western' style of business. The change is gradual, but Asia's companies have started to shift away from their old patriarchal cultures and towards those prevailing in America or Britain" (http://www.economist.com/editorial/freeforall/current/sf7376.html; accessed on 3 May 2000). The validity of this observation remains an empirical issue.

This paper aims to examine the nature of corporate governance among Chinese family firms listed on the Stock Exchange of Singapore (SES). Our argument is that in an era of economic globalization, Chinese family firms are increasingly succumbed to pressures of seeking external capital and finance in order to fund their business growth and development. In this process of "opening up" what have always been closely-knit Chinese business networks, these family firms are compelled to conform to global standards of corporate governance in relation to their banking and accounting practices (see also Olds and Yeung 1999). This argument is particularly applicable to Chinese family firms that are seeking access to finance through such capital markets as stock exchanges. To a certain extent, of course, the reshaping of their business networks and corporate governance is also institutionalized in the formal requirements by those stock exchanges and their regulatory authorities. Our data originate from a study of 157 Chinese family firms listed on the SES in 1996.

The rest of the paper is organized as follow: Section II reviews briefly the nature of Chinese business in Asia and some of the key issues associated with its corporate governance. Section III is concerned with the characteristics of Chinese family firms in Singapore. After a short explanation of data collection methodology, the paper focuses on the key characteristics of 157 Chinese family firms listed on the SES. In section IV, we analyse the distribution and influence of their principal bankers and auditors that serve as proxies of their corporate governance behaviour. Section V summarizes the findings and suggests some implications for our understanding of corporate governance in Chinese family firms in the post-crisis Asian economies.

II. Corporate Governance and Chinese Business in Asia

The literature on Chinese business networks is enormous, especially so in the last twenty years. According to Chan (1992, p. 174), Chinese business networks essentially tap into social networks based on kinship, common dialect, trade association, education, and other common denominators in facilitating and reducing transaction costs of doing business. This form of "social capital" becomes the firm's core competency and distinctive competitive advantage leading to high performance (Luo and Chen 1997). Bourdieu (1986, p. 249) defines social capital as the aggregate of actual or potential resources that are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition, a "credential" that entitles social actors to credit, in the various senses of the word. The ability to tap into the diverse *guanxi* networks by ethnic Chinese is also seen by many as the determining factor in the rise of Chinese conglomerates discussed above.

Research into various components of *guanxi* is a well-trodden path. These components include *xin* (trust), *yi qi* (loyalty), *yi wu* (obligation and reciprocity), *xinyong* (credibility and reputation), *ker kao* (reliability), *juan jong* (respect), and *gan qing* (sentiment) (Yeung 1998, pp. 138-40). These words may seem to be lifted off from a page of Confucius' *Analects*, but they in fact hold very real meaning within the Chinese business circle and constitute a central part of the workings of a Chinese society. Although not proven empirically, some authors have pointed out a trend between the high concentration of Singaporean investments in the southern coastal areas of China and the similarities in the dialectics (Kanai 1993; Lu and Zhu 1995; and Tan and Yeung 2000). It is probably this untapped *guanxi* and *gan qing* that propels many ethnic Chinese not living in China itself to return in the form of foreign direct investments. Redding (1990, Table 2) lists the ten largest investors in China. Except for China Light & Power (controlled by Li Ka-shing), all are ethnic Chinese, with three-quarters of them coming in through Hong Kong.

The workings of Chinese business networks are best exemplified by looking at the corporate governance of Chinese business conglomerates listed in Table 1. Amongst all, these wealthy Chinese

demonstrate the epitome of what it means to be part of the elusive and secretive network. Information, business or otherwise, is transferred at a very fast speed. Kraar (1993, 1994) after his first-stop interviewing "Overseas Chinese" businessmen in several Asian countries, quotes one classic instance where all the businessmen knew what he was doing and precisely which businessmen he had already met. Besides *xinyong* (credibility and reputation), cooperation must be seen as the next catchword. These businessmen deal among themselves and informally as well. Sometimes, all it takes is a handshake or a verbal agreement to seal the deal, thus reducing the paperwork and time lag. One's reputation within the network speaks volumes. For example when Sir Kenneth Fung's business in Hong Kong ran into difficulty in 1987 because of his son's over-expansion on borrowed money, it was Sir Kenneth's reputation that helped save his companies (Kraar 1993; and Magretta 1998).

Network creation and maintenance is fostered both at home and overseas, economically and politically. Liem Sioe Liong of Indonesia holds passive stakes in Riady family's Bank Central Asia, and Wijaya family's oil palm and soyabean business. He also owns hotels and commodities business jointly with Robert Kuok of Malaysia. Politically as a group, they are one of the most frequent to rub shoulders with the most powerful elites in the world political arena. The most prominent families in Indonesia (Liem's Salim group, the Soeryadjaya family of Astra group, and the Wijaya family of Sinar Mas group) have to a huge part succeeded on account of the patronage they received. Liem was on close terms with the former President Suharto who landed him a monopoly over the import of cloves for the *kretek* cigarettes. Astra dominates over the car and motorcycle market, whilst Sinar Mas builds on the foundation of producing cooking oil (Yoshihara 1988; and Sender 1991).

To summarise, Chinese business networks are still very much alive in the globalizing era. The above section shows real life examples of the governance and dynamics of Chinese business networks. This in turn also results in a very distinctive organizational structure amongst the Chinese conglomerates that are owned and managed by these Chinese business people. Chinese family business has often been slapped with a few common characteristics like the following (Redding 1995, p. 64; see also Yeung 2000a, 2000b):

- Small scale: relatively simple organizational structuring;

- Normally focused on one product or market;
- Centralized decision-making with heavy reliance on one dominant chief executive;
- Family ownership and control;
- A paternalistic organizational climate;
- Linked via strong personal networks to other key organization such as suppliers, customers, sources of finance, *etc.*;
- Normally very cost conscious and financially efficient. Relatively weak in terms of creating large-scale market recognition for own brands, especially internationally;
- Subject to limitations of growth and organizational complexity due to a discouraging context for the employment of professional managers (There are now some exceptions to this); and
- A high degree of strategic adaptability, due to dominant decision-makers.

Weidenbaum's (1996) study on the "Overseas Chinese" in Southeast Asia reports similar results:

- Dominant individual as the head of the expatriate Chinese company;
- Most if not all top management positions are filled by family members;
- Strong familial control despite holdings that on occasion total billions of dollars and wide ranging in terms of industries and countries of operation; and
- Tendency of these firms to engage in as many of their business relationships as they can with people of similar culture.

To date, however, there are only a handful of empirical studies conducted to verify the nature of corporate governance in Chinese family firms (*e.g.* Silin 1976; Wong 1988; Redding 1990; Menkhoff 1993; Brown 1995; and Zang 1999). Empirical evidence shows that the Chinese family business system still prevails even when the scale and scope of Chinese businesses have expanded. Inevitably, Chinese businesses do adopt some of the practices of western firms like recruitment of professional managers and some degree of public ownership. But essentially, the ownership stakes and control of management are still in the hands of family holding companies and family members. Usually, the conglomerates are formed into a squat pyramid structure with the family holding company at the top, a second tier holding the group's most prized assets, and the last tier comprising of the group's public-listed companies. There are, however, exceptions to this structure. For example, the CP group of Thailand has only four holding companies.

Besides the usual characteristics of Chinese family firms, there is one other trait that differentiates them from usual western business firms. More than often, we see a dominant family member, holding the reins to the vast family empire. These are usually males, a role being passed down from father to son (*e.g.* Li Ka-shing to Victor Li in Hong Kong, the late Kwek Hong Png to Kwek Leng Beng in Singapore, Cheng Yu-tung to Henry Cheng in Hong Kong *etc.*). The patriarch may not be concerned with the workings of everyday businesses, but it is ultimately him who makes the big decisions. He is usually one very good public relations officer who knows and will know all the right people, be it in the political or business spheres. These are the true-blue ethnic Chinese who have proliferated and profited from the synergies of Chinese business networks.

Given its current status in the global business sphere, prominent Chinese businesses (*e.g.* in Table 1) usually have very diverse and varied business activities even though they may not run it personally. Nonetheless, Chinese family businesses as a collective whole are usually concentrated and strong in certain areas of business sectors. Land and property development is still the main generator of wealth for many ethnic Chinese billionaires. Banking and finance comes next and hotels lag behind with a third position. A comparison may be possible later to see if our survey of public-listed Chinese family firms in Singapore conforms to this trend. In the next section, some empirical studies of Chinese family firms in Singapore are reviewed.

III. Public-Listed Chinese Family Firms in Singapore

Studies of Chinese family business firms in Singapore are by no means exhaustive. It is practically impossible to list all Chinese family businesses in Singapore where ethnic Chinese make up close to 80% of the population (Department of Statistics 1991a). Ethnic Chinese in Singapore have been estimated to control about 81% of Singapore's listed companies by market capitalization alone (East Asia Analytical Unit 1995, p. 69). This study focuses more on prominent Chinese Singaporean families whose businesses have gained regional or even worldwide recognition for their excellence.

The existing literature provides very little comprehensive data and information on the topic.

There are, however, a few points worth noting. First, these large and wealthy Chinese family businesses are successful stories of ethnic Chinese making it good outside China. They may possess substantial clout in the business sector, but they may fall short representing all ethnic Chinese businesses in Singapore. Second, most of these Chinese family businesses have listings on the Stock Exchange of Singapore. The term "public-listed Chinese family firm" may appear contradictory in minds of many since the purpose of public listing is to gain access to financial resources via public issuing of shares. As shown later in the next section, Chinese family firms tend to dominate even in the arena of public-listed firms. This domination of Chinese business firms is not necessarily a bad thing, although some management experts believe that it disrupts the free market and leads to cronyism and bribery. The issue of corporate governance becomes paramount in the context of this predominant role of Chinese family firms in local stock exchanges.

A. Research Methodology and Data

Chinese business networks are often discussed synonymously with the notion of "Chinese family firms." What exactly constitutes a Chinese family firm? In this paper, the term "family" is taken to mean persons related by blood or marriage. The most commonly found relationships are usually that of father-son/daughter, husband-wife, and brother/sister-brother/sister. This will form the core family unit that consists of husbands, wives and/or their children. Other relationships may include family relatives related by blood or marriage, *e.g.* cousins, uncles, aunts, and so on. In this paper, sole or substantial shareholding ownership of a particular public-listed company, be it deemed or direct interest, will be included in the study of Chinese family firms in Singapore.

There are three criteria for identifying a Chinese family firm listed on the Stock Exchange of Singapore. The first and most obvious condition stipulates *Chinese ethnicity* for the family or the individual in question. The determination of ethnicity was done through two ways, firstly, by examining the names on the board of directors and substantial shareholdings. If the names were of

Chinese origin, for example having a surname of Chen, Tan, or Lee, the criterion was therefore satisfied. The second way was to confirm through telephone conversations with personnel in the respective public-listed firms. The secretary or personal assistant to the chief executive officer or general manager was usually approached to obtain information about the relevant board of directors and, at other times, to confirm relationships between several members on the board of directors. The second criterion in relation to *family ownership* was the most important condition without which no evidence could be presented for a public-listed firm to be constituted as a "family firm." Substantial shareholdings listed in annual reports were considered in this case. The family or sole individual must be one of the largest substantial shareholders (be it deemed or direct interest) in the respective public-listed company. The third criteria states that the occupancy of important *executive positions* must be in the hands of the family or an individual, *e.g.* chairman, the chief executive officer, or managing director. This was not a necessary condition because some public-listed firms might satisfy the second without the third. A most probable reason is that professionals might be employed to take care of the diverse interests, whilst the parent firm concentrates on its core activities.

With the above three criteria, we went through the whole pool of public-listed firms manually. The pool of selection came from a total of 355 Mainboard and Sesdaq firms listed in *Companies Handbook 1997, part 1-4*, published by the Stock Exchange of Singapore (1998). *Companies Handbook 1997* has relevant information on all public-listed firms from 1 January 1996 to 31 December 1996. There are two reasons for choosing 1996 as the period of analysis. First of all, data on these companies for the year of 1996 were readily found in the form of bounded books and journals. More recent data might not be available due to the lag time in publication and data collection. Second, the 1997/1998 Asian economic crisis might have a significant impact on the corporate organization of these public-listed companies. Since the study is concerned with the corporate governance of Chinese family firms, it will be useful to consider their governance status before the arrival of the Asian economic crisis. This helps us to ascertain the validity of the common myth that poor corporate governance (*e.g.* cronyism and corruptive practices) among Chinese family firms allegedly led to the Asian economic crisis (*cf.* Backman 1999).

With the above stated criteria, the pool of public-listed firms available in *Companies Handbook 1997* was collated manually and a database was set up to facilitate our empirical analysis. Variables were identified and data collection could be considered as raw and secondary in nature, *e.g.* consulting annual reports, and making references to *Companies Handbook 1997* and *Singapore's Corporate Family Tree* (Datapool 1999a). The database yields substantial data on the internal organization of public-listed Chinese family firms in Singapore. Although the database covers only a certain percentage of the whole group (*i.e.* excluding non-public-listed Chinese family firms), the findings and observations gleaned from this kind of analysis can still enrich us about the realities and governance of Chinese family businesses in Singapore (see also Zang 1999). Altogether, the manual exercise of going through 355 public-listed firms (available from *Companies Handbook 1997*) yielded a total of 157 Chinese family firms. These family firms made up about 44.2% of the total listed on the Mainboard and Sesdaq of the Stock Exchange of Singapore in 1996. About 91% ($n=143$) of these them also satisfied all three criteria.

B. Characteristics of Public-Listed Chinese Family Firms in Singapore

In this paper, the industrial activities of public-listed Chinese family firms are grouped according to guidelines provided by the *Singapore Standard Industrial Classification 1990* (Department of Statistics 1991b). This exercise produces 13 business categories shown in Table 2. Manufacturing clearly accounts for about one third of all 157 public-listed Chinese family firms. Four interrelated sectors (property, investment holding, hotel, and construction) also constitute an important cluster of sectors in which Chinese family firms operate. Together, these four sectors account for another one third of all 157 public-listed Chinese family firms in Singapore.

If we compare the finding in Table 2 with earlier studies of the main business concentration of Asian ethnic Chinese (*e.g.* East Asia Analytical Unit 1995), a number of interesting observations emerge. First of all, it is seen that in both instances, most Chinese businesses are in the property, hotel, investment holding, and construction sectors. These sectors are well preferred by ethnic Chinese in Southeast Asia because they are seen as long-term "cash cow" industries (Redding 1995; and Lim 2000). The

TABLE 2
INDUSTRIAL SECTOR OF CHINESE FAMILY FIRMS LISTED IN THE STOCK EXCHANGE OF SINGAPORE

Business Sector	No. of public-listed Chinese family firms	% of public-listed Chinese family firms	Ranking
Manufacturing	58	36.9	1
Property	17	10.8	2
Investment-holding	15	9.6	3
Hotel	13	8.3	4
Construction	9	5.7	5
Shipping	9	5.7	6
Finance	8	5.1	7
Retailing	8	5.1	8
Retail Trade	8	5.1	9
Banking	5	3.2	10
Securities-investment	4	2.5	11
Insurance	2	1.3	12
Transport	1	0.6	13
Total	157	100.0	-

Source: Authors' survey

importance of these sectors in Singapore's case is further reinforced by the strong presence and dominance of public-listed Chinese family firms in *Singapore 1000*, an annual publication that ranks the top 1,000 companies in Singapore in terms of their sales performance, total assets, and shareholder's funds (Datapool 1999b). Within the hotel sector in *Singapore 1000*, public-listed Chinese family firms account for three of the top five ranked companies and 46.7% of all companies in the sector. In real estate, public-listed Chinese family firms account for five of the top ten companies and 37% of all companies in the sector.

Second, in the East Asia Analytical Unit's (1995) sample, manufacturing is estimated to account for about one third of the core competencies. This percentage is relatively similar to the Singapore case. Third, a difference in the importance of the banking sector is notable. Banking achieves a low representation of 3.2% in the Singapore data, whilst it is placed second (6.5%) in the East Asia Analytical Unit study. This does not, however, negate the importance of public-listed Chinese family banks in Singapore. Indeed, they make up more than half (55.6%) of all establishments in the banking sector in *Singapore 1000*. Together, the Overseas-Chinese Banking Corporation, United Overseas Bank, and Overseas United Bank constitute three of Singapore's "Big Four" banks (the other being government-owned Development Bank of Singapore), with each tracing its origins to financing trade among the Chinese community in both Singapore and the rest of the world (Sender 1991).

What are reasons for the concentration of Chinese businesses in certain business sectors and their implications for corporate governance? According to the East Asia Analytical Unit (1995), ethnic Chinese entrepreneurs avoid some business sectors because they are usually perceived as not profitable enough. In Singapore's example, the most profitable firms are often in the property, banking, manufacturing, and shipping sectors. This is consistent with the main business concentration discussed in Table 2. As shown by Redding (1995) previously, ethnic Chinese usually prefer such long-term "cash cow" industries as hotels and banking because of the relatively low risk and high returns involved. The second reason cited is that Chinese businesses were traditionally prohibited from owning land in many of the Southeast Asian countries. In Singapore's case, the lack of land and space inhibits the formation of an agricultural sector that explains the absence of such a sector in Singapore.

The distribution of the shareholding of public-listed Chinese family firms is presented in Table 3. Most (22.3%) of the public-listed Chinese family firms are found in the 50.01-60% shareholding category. About half (49.1%) of all public-listed Chinese family firms own controlling stakes of more than 50%. This implies that public-listed Chinese family firms in Singapore are still, to some extent, controlled and owned by families or their family members. For example, hotelier Tan Sri Khoo Teck Phuat owns two firms (Central Properties Ltd. and Hotel Malaysia) out of the 157 public-listed Chinese family firms. In the two instances, he accounts respectively for about 85% and 90% of the total substantial shareholdings. Marco Polo Developments Ltd. is 74.5% owned by Wheelock and Co. Ltd., which is in turn controlled by the late Y. K. Pao's family from Hong Kong.

The selection of personnel for such key positions as chairmen, chief executive officers, and managing directors is another way

TABLE 3

DISTRIBUTION OF FAMILY SHAREHOLDINGS IN CHINESE FAMILY FIRMS LISTED IN THE STOCK EXCHANGE OF SINGAPORE

Family Shareholdings (%)	Number of public-listed Chinese family firms	Percentage of public-listed Chinese family firms
1-10	0	0
11-20	11	7.0
21-30	24	15.3
31-40	17	10.8
41-50	24	15.3
50.01-60	35	22.3
61-70	21	13.4
71-80	13	8.3
81-90	7	4.5
91-100	1	0.6
NA	4	2.5
Total	157	100.0

Source: Authors' survey

through which family control of the firm is maintained. More than 90% of public-listed Chinese family firms have family members holding key positions and/or having family members on the board of directors. The remaining 8.3% employ professionals to manage their firms. For these firms, however, the family in question normally owns a majority portion of the shares. This ensures that the authority and importance of the family in the firm is not compromised. For example, out of the 8.3% of all Chinese family firms, about 50% have shareholdings in the range of 54.7-83.3%. To illustrate, 83.3% of Centrepoint Properties Ltd. is owned by Fraser & Neave Ltd., in which the Overseas-Chinese Banking Corporation has a substantial stake. Other examples include the Overseas-Chinese Banking Corporation (owning 77.7% of Focal Finance Ltd.) and the United Overseas Bank (owning 77.7% of Hotel Negara).

In sum, substantial shareholdings and holding key positions by family members are mechanisms whereby the family can assume control and ownership over the public-listed firm in Singapore. The two variables (substantial shareholdings and holding key positions) are, more often than not, interrelated. Of the 157 public-listed

Chinese family firms, 84.7% have family members holding key positions of chairmen, chief executive officers, and managing directors. The leading families also hold controlling stakes (*i.e.* more than 50%) in 49.7% (n=78) of all 157 public-listed Chinese family firms. 42.7% (n=67) of them therefore fulfil two conditions stated above. The remaining group of firms at the other end of the spectrum, *i.e.* firms with minority shareholdings (no controlling stakes) and firms with no family members holding key positions (but sitting on board of directors), constitutes only a small presence of 6.4% of all 157 firms.

Generally, Singapore's public-listed Chinese family firms can be categorized into three main groups: (1) strong family control; (2) moderate family control; and (3) weak family control. The first group consists of firms in which the family has majority shareholdings and holds key positions in the firm. These firms are said to have strong family control. The second group consists of firms in which the family has either majority shareholdings without family members holding key positions, or minority shareholdings with family members holding key positions in the firm. These firms are said to have moderate family control. Lastly, we have firms with neither family members holding key positions nor substantial shareholdings. In this case, they are considered to have weak family control.

In Singapore, we find that family control still features quite strongly in public-listed Chinese family firms (see also Zang 1999). The moderate (49.0%) and strong (42.7%) category make up about 90% of all 157 firms. Within the moderate category itself, an interesting point can be made. Out of the 77 firms in the category of moderate family control, an overwhelming number (86%) have minority shareholdings with family members holding key positions in the firm. One of the reasons why Chinese family firms choose to list their family businesses on the Stock Exchange of Singapore is to gain access to the funds available in capital markets. Public listing ensures that they have a large potential amount of funds (their authorized share capital) ready to be realized for purposes of expansion and diversification, or even for financing research and development (Weidenbaum 1996).

However, public listing entails potential disadvantages to Chinese family firms as well. With public offering, the dilution of family control may occur that may probably account for an overwhelming number of those firms (86%) with moderate family control. Besides holding substantial shareholdings, Chinese family firms are also characterized by having a dominant family member in charge of the diverse businesses in which the family is involved. The family member is usually male, and more often than not, his role is passed down from his father or uncle. Kwek Hong Png, founder of Hong Leong Finance Ltd. and City Developments Ltd., left his business to his son, Kwek Leng Beng (see also Yeung 1999a, 2000d, 2001). Wee Cho Yaw's banking business was inherited from his father. Cheng Yik-hung was the founder of Wing Tai Holdings, which is now managed by his sons, Cheng Wai Keung and Edmund Cheng Wai Wing. Tan Sri Khoo Peck Phuat left his hotel business to his two sons Khoo Ban Tian and Eric Khoo.

IV. The Global Reach of Public-Listed Chinese Family Firms in Singapore

The above data on the ownership and management of public-listed Chinese family firms merely reiterate what many researchers have found in relation to the nature and governance of Chinese family business. On their own, these data say nothing on the dynamic nature of Chinese business in a globalizing era (see also Olds and Yeung 1999; and Yeung 2000c). This section aims to reconsider the whole concept of Chinese business networks. We attempt to link the realm of Chinese business networks in Singapore with the globalizing world economy via banks and accounting firms. Chinese business networks are no longer perceived as "closed" or "inward-looking." They are in fact situated and (re)shaped in a global web of actor-networks that are constantly evolving and changing.

Based on a survey of corporate data published in various annual reports by 157 public-listed Chinese family firms in Singapore, we demonstrate that these firms are increasingly adopting global standards in their corporate governance. Using their principal bankers and auditors as surrogates for corporate governance practices, we argue that these Chinese family firms are compelled to adopt global standards of corporate governance through the role played by their global bankers and auditing firms. The institutional requirements of these global bankers and auditing firms show that

Chinese family firms have moved beyond traditional close-knit social and business networks for both capital and management practices. In an era of globalization, it is clearly possible that Chinese family firms are capable of professionalizing their governance systems in order to gain credit and legitimacy in the international business community.

A. Principal Bankers and Corporate Governance

Principal bankers are often indicated in the corporate data section of various annual reports. By examining their global geographies and country of origin, we can infer much in terms of a firm's core activities, corporate governance, and global spread. This is because if a firm's operations are global, it needs to employ principal bankers beyond that of its home country. As shown in Table 4, the majority of public-listed Chinese family firms usually have one to five principal bankers. In terms of absolute numbers, The Development Bank of Singapore (DBS) tops the list, with the most number of citations (56 firms) by public-listed Chinese family firms. Such other Singapore banks as the Oversea-Chinese Banking Corporation (OCBC), United Overseas Bank (UOB), and Overseas Union Bank (OUB) are respectively in the second, third, and fourth positions. Since 90% of the public-listed Chinese family firms originate from Singapore, it is hardly surprising that these firms should use Singapore banks when doing business in Singapore and abroad. Public-listed Chinese family firms may overlook smaller banks on the basis of their size and reputation and are in favour of the "Big Four" in Singapore, *i.e.* OCBC, DBS, OUB, and UOB. This may explain the poor results of Chung Khiaw Bank (four firms), Bank of Singapore (four firms), and Four Seas Bank (one firm) whose main forte may not be in corporate finance. We also observe that all the firms citing the above three banks have more than one principal banker. Usually, these other banks are from the "Big Four."

One interesting result is the Hong Kong and Shanghai Banking Corporation (HSBC), a U.K.-based bank, which clinches the second position serving as a principal banker for 36 Chinese family firms. Headquartered in London, the HSBC Holdings plc is one of the largest banking and financial services organizations in the world. Being one of the most accessible banks in terms of its global reach

TABLE 4

PUBLIC-LISTED CHINESE FAMILY FIRMS IN SINGAPORE AND THEIR PRINCIPAL BANKERS (PERCENTAGE IN PARENTHESES)

No. of principal bankers	No. of public-listed Chinese family firms
No indicated principal bankers	46(29.3)
1-5	84(53.5)
6-10	19(12.1)
11-15	6(3.8)
16-20	1(0.6)
21-25	0(0.0)
26-30	1(0.6)
Total	157(100.0)

Source: Authors' survey

may explain its popularity among globalizing Chinese family firms. As compared to Citibank (more than 600 offices in 40 countries), HSBC's international network comprises of more than 5,000 offices in 78 countries, operating under well-established names in the Asia-Pacific region, Europe, America, the Middle East, and Africa. The HSBC group is strongly represented in 23 countries in Europe, 21 countries in Asia-Pacific, and 15 countries in America. The Pan-Asian focus of the HSBC is seen very clearly in the geographical distribution of its assets (HSBC Holdings Plc. 1996, p. 84). In 1996, Hong Kong and the rest of Asia-Pacific (including the Middle East, India, and Australasia) accounted for almost 44% of its total assets, followed by the U.K. (37.2%), America (14.8%), and Continental Europe (4.2%). In terms of net assets, Hong Kong and the rest of Asia-Pacific region accounted for almost 50% of the total. The U.K. came in second place with 35.1%. America and Continental Europe accounted for another 11.4% and 4.4% respectively.

The huge interests of the HSBC in Asia may be manifested through its shareholdings in many public-listed Chinese family firms in Singapore. Our research shows that the HSBC is featured very prominently as one of the top ten shareholders of many public-listed Chinese family firms. Of a total of 157 firms, 41.4% (65 firms) have the HSBC as one of their top shareholders. Its shareholding percentages range from 0.27% in Bonvests Holdings

Ltd. to 21.77% in Hwa Hong Corporation Ltd. We also observe that as a general rule, shareholdings held by the HSBC do not automatically indicate its inclusion as a principal banker of the Chinese family firm. In fact, the HSBC only appears in one third of the 65 firms in which it has shareholdings. This implies that even when certain banks have dominant shareholding (as one of the top ten shareholders) in specific firms, they do not necessarily assume the role as the principal banker. In the case of the HSBC, owning diverse assets in public-listed Chinese family firms cannot, however, be seen as an explanation for the high citations achieved by the bank. Much to the contrary of the Chinese business literature, there is a rather clear division between ownership and service (as a principal banker) by leading banks in Chinese family firms.

Table 5 shows that 76 principal bankers are all from different parts of the world. Singapore is ahead with 17 banks and a disproportionately high citation of 223 by public-listed Chinese family firms. 12 Asian banks follow suit. Measured by the total number of citations by Chinese family firms, however, British banks clearly emerge as the second most important group of principal bankers for public-listed Chinese family firms in Singapore. It must also be noted that some of these Chinese family firms are not necessarily of Singapore origin. The parent company may originate from such countries as Taiwan (*e.g.* Huan Sin Holdings Ltd.) and Hong Kong (*e.g.* Wing Tai Holdings Ltd.), which may affect their choice of principal bankers. Generally, Chinese family banks are still the most popular within the bankers' group. To some observers critical of corporate governance in Chinese business (*e.g.* Backman 1999), this may signify the compromising of public-listed Chinese family firms in their reach in to international financial networks. As evident in the latter sections, this view is grossly mistaken.

From Table 5, we see that public-listed Chinese family firms tend to engage with a wide spread of bankers of different nationalities. This serves to reinforce the notion that public-listed Chinese family firms are indeed linked to international networks of finance through their bankers. The usually large number of subsidiaries in different parts of the world necessitate the tapping into international networks of finance to service their funds transfer, acquisition of foreign currencies, and even the most fundamental need of issuing cheques. Their linkages with other major banks around the world

TABLE 5

PUBLIC-LISTED CHINESE FAMILY FIRMS IN SINGAPORE AND THE COUNTRY OF ORIGIN OF THEIR PRINCIPAL BANKERS (PERCENTAGE IN PARENTHESES)

Country of origin	Number of banks	Number of cites by firms
Singapore	17(22.4)	223(45.3)
Asia	12(15.8)	58(11.8)
America and Canada	11(14.5)	59(12.0)
Japan	9(11.8)	21(4.3)
Germany	8(10.5)	22(4.5)
United Kingdom	5(6.6)	68(13.8)
Others	5(6.6)	6(1.2)
France	4(5.3)	24(4.9)
Australia and New Zealand	3(4.0)	5(1.0)
The Netherlands	2(2.6)	6(1.2)
Total	76(100)	492(100)

Source: Authors' survey

also bind the principal banks of Chinese family firms. Setting up overseas subsidiaries is one way to tap into global financial networks. In HSBC's example, subsidiaries are found in Malaysia (Hongkong Bank Malaysia), the Philippines (Hongkong Bank Securities Services Manila), and Australia (Hongkong Bank of Australia).

To understand more of the dynamics between Chinese family networks and the financial system (through their principal bankers), we now examine the role played by these banks in the shareholdings of Chinese family firms. More insights are offered on how the financial system (via overseas bankers) is intermeshed with the increasingly globalizing business networks of Chinese family firms. This also provides more depth from the usually noted one-way relationship in which Chinese family firms are linked to the international networks via the engagement of overseas bankers.

Among public-listed Chinese family firms in Singapore, banks are often found to be substantial shareholders. Banks account for the highest shareholding in about 21% of the public-listed Chinese family firms. Among these banks, the OCBC accounts for 40%. The OCBC has substantial shareholdings in Focal Finance, Fraser & Neave Ltd., Great Eastern Life Assurance, Harimau Investments Ltd., Hotel Negera, United Engineers Ltd., and WBL Corporation

Ltd. This implies that banks have a high degree of control in Chinese family firms. This finding is similar to the corporate governance and financing behaviour found in German firms (Pauly and Reich 1997; Lane 2000; and Lazonick and O'Sullivan 2000). German banks usually play a leading and supervisory role in the boards of these companies. They also effectively control voting rights through Germany's proxy voting system.

This pattern of corporate governance, however, does not necessitate positive relationship between shareholdings and principal bankers in our study. As we have seen in the HSBC case study, two variables mentioned above do not necessarily share a positive relationship. We find that substantial shareholdings by bankers in public-listed Chinese family firms do not necessarily influence their choice of principal bankers. Percentage of double coincidence (*i.e.* banks as both shareholders and principal bankers) is low. For example, among all public-listed Chinese family firms that use the OCBC as a principal banker, only 8.5% have OCBC as a substantial shareholder. Low percentages of double coincidence are also observed for DBS (8.8%) and UOB (10.8%). Such banks as Chase Manhattan, Standard Chartered, and OUB even achieved zero correlation between their ownership of shares and their role as principal bankers of public-listed Chinese family firms.

Table 6 shows the sectoral distribution and the country of origin of principal bankers. The distribution across sectors varies both in the geographical span of countries and the number of banks involved. Property and manufacturing account for the largest share of principal bankers (39.9%; $n=81$) and have a widest geographical coverage across 13 countries. Shipping and finance tie at 9 in terms of their geographical coverage. The least "footloose" sector is transport with only 5 bankers in 2 countries. Within the banking sector, OCBC, OUB, HSBC, and Standard Chartered Bank emerge as the principal banks for Chinese family firms in the most number of sectors. Basically, business sectors in Table 6 can be aggregated into three main groups, showing the global reach in terms of their principal bankers around the world. The first group refers to such sectors as shipping, finance, manufacturing, and property that have extensive international linkages through their bankers' geographical spread. The second group refers to such sectors as construction, hotel, investment holding, and retailing. This group has moderate ties to the global world, with an average of six to eight

countries of bankers spread around the world. The last group belongs to one that has little international linkages with the global economy: retail trade, securities-investment, and transport.

By the nature of their business sector, the first group tends to have businesses that deal very much with overseas operations. Shipping, for instance, involves a moveable asset (ship) that travels from one port to the next, involving an extensive coverage of distance. Chuan Hup Holdings Ltd. is one example of a shipping firm whose main activities rest with owning and chartering a fleet of vessels. Property/real estate investment in Singapore *per se* is not possible because of the tight constraint on land and space. It is necessary for them to venture abroad in order to survive. Lastly, finance is no longer confined to any national or political boundaries (O'Brien 1992; Corbridge *et al.* 1994; and Helleiner 1995), as is evident in the recent 1997/1998 Asian economic crisis (see Radelet and Sachs 1998; and Henderson 1999). The setting up of an overseas operation does not only mean the recruitment of workers and sourcing for a suitable site to locate a factory. Even the setting up of an assembly factory plant in, for example, Fujian, China entails more than a transplanting of necessary machinery to the country of destination. It essentially entails the transfer of the entire production chain, involving marketing, distribution, regulation, coordination and control and most importantly, tapping into the regional and global financial system (Dicken 1998).

The second and the last group of business sectors follow the same logic as that of the first one. The logic is essentially predicated upon the necessity of an industry to venture overseas. Transport in this case is defined as the operation of land transport of any kind. Land transport is usually very regional- or country-defined because it has to cater to a specific clientele. Trans-Island Bus Service (TIBS) is one of the two bus companies that provide public land transport in Singapore. One can only find it in Singapore and virtually nowhere else. This thus explains their low international linkages via the global spread of principal bankers. Securities investment is also very much a localized phenomenon because of dealing in local companies' bonds, stocks and shares, and targeting at a specific group of people (*e.g.* Singaporeans purchasing Singapore Telecom stocks with their central provident funds). A securities-holding company does not, and cannot, effectively serve its clients outside Singapore. In short, the empirical evidence provided by public-listed Chinese family firms validates the argument that particular business sectors are indeed related to the global reach of their principal bankers.

B. Principal Auditors and Corporate Governance

According to McKee and Garner (1996), economic expansion in a nation is to some extent dependant on the adequacy of the nation's accounting services. In a highly globalized financial world in which corporate governance standards must be maintained for equity and transparency purposes, full and fair disclosure in financial reports is of utmost importance, particularly to firms seeking to issue shares/stocks. The growth of international accounting firms is directly related to the globalization of capital markets. This is because "as investors worldwide increasingly invest in foreign securities, more comprehensive financial statements will be required, resulting in an increased demand for the auditing and other services of international accounting firms" (Bavishi 1991, p. 428). The globalization of accountancy standards also allows financial management from a distance (see Sassen 1999). Finance and accountancy service are arguably two of the most globalized sectors in the world. By situating our analysis of public-listed Chinese family firms within actor-networks of finance and accountancy (incorporating actors like bankers and auditors), a more comprehensive picture of corporate governance in Chinese family business can be obtained.

Similar to the earlier sub-section, we examine the international linkages of public-listed Chinese family firms through their auditors. The distribution of public-listed Chinese family firms and their auditors is shown in Table 7 from which we can draw a number of meaningful conclusions. First, it is noticed that such international accounting names as Ernst & Young, Coopers & Lybrand, Deloitte & Touche, and KPMG Peat Marwick top the list of auditors for public-listed Chinese family firms in Singapore. They contribute 72.4% of all auditors employed by these family firms. This finding corresponds well with Bavishi's (1991) study of global accounting and auditing trends. International auditors in this case account for about 88% of all auditors employed by public-listed Chinese family firms in Singapore. The need for transparency and reliability of public-listed firms in the eyes of the public and the shareholders

makes it necessary for even Chinese family firms to employ more internationally renowned and more reputable names. This finding clearly invalidates the argument in the Chinese business literature that assumes illicit and insider dealings among Chinese family firms. In fact, the finding supports our argument that in an era of global finance, Chinese family firms (at least those seeking public listing) are compelled to set high standards of corporate governance in order to attract capital and investment.

Even when local accountancy firms are used, 16% of Chinese family firms still prefer a joint-auditing arrangement, for example, naming one local and one international firm as their auditors. Super Coffeemix Manufacturing Ltd. is one such example, with Cheong Khee San & Co and Ernst & Young as co-auditors. We also observe that only 10.2% of Chinese family firms employ Price Waterhouse as their auditor. This finding is slightly inconsistent with the extensive involvement of the auditing firm in Singapore. Here, Price Waterhouse services "a large number of major local and international organizations as well as many smaller clients, public sector entities, nonprofit organizations, and individuals" (Price Waterhouse 1990, p. 162). The firm lists, among its clients, financial institutions, insurance companies, and both multinational and local businesses in the industrial, commercial, and service sectors.

The employment of international accounting firms reinforce the international linkages public-listed Chinese family firms have with the global economy. This interdependence is, however, built on uneven grounds of power relations. In this case, Chinese family firms are basically subjected to two levels of constraints and governance. The first level occurs in the international arena where Chinese family firms are linked up to the international system of accounting and finance. They have to adopt a more submissive position because of the transparency involved in the process of external auditing by international accountancy firms. Gone are the days when financial information is a closely guarded secret (*cf.* the Chinese business literature reviewed Section II). It is now replaced by strict adherence to international accounting rules and regulations, *e.g.* standards set by the IASC (International Auditing Standards Committee). The second level of governance refers to the specific accounting rules and regulations that exist at the national level. Public-listed Chinese family firms have to adhere to a mandatory semi-annual auditing practice specified by the Stock Exchange of Singapore. The Singapore government also plays a role through its public certified accountant ruling and the Singapore Accountants Act of 1987. Public-listed Chinese family firms are in this sense truly "linked-up" locally and internationally.

Table 7 also presents the distribution of business sectors and auditors employed. According to McKee and Garner (1996), accounting service is generally something that has no industry- or firm-specific dimension. Data in Table 7 seem to confirm this observation. Basically, there is no correlation between business sectors and auditors engaged. Auditors are mostly dispersed across all 13 sectors and we observe no concentration of a specific auditor in a particular business sector. Within certain sectors, however, certain international firms tend to predominate. For example, in the manufacturing sector, Ernst & Young, Cooper & Lybrand, KPMG Peat Marwick, and Deloitte & Touche account for 73% of all auditors in the sector.

V. Conclusion and Implications

Based on the above findings on public-listed Chinese family firms in Singapore, we conclude that some of their characteristics still conform to those found in the existing literature. The business sectors in which Chinese businesses dominate (*e.g.* property and finance) are still quite similar to findings in previous studies. Our findings also show conclusively that in Singapore, the control and ownership of Chinese family firms is usually maintained via substantial shareholdings and holding such key positions as chairmen, chief executive officers, and managing directors. As concluded in Zang's (1999) earlier study of 107 large Chinese firms in Singapore, these firms have "combined Chinese tradition with some modern Western management styles to maintain their class alliance and reduce market uncertainties."

We do, however, see an emerging trend of dilution in family control, possibly as a result of the public listing of their family firms on the Stock Exchange of Singapore. In terms of their global reach, our analysis of the global geographies of both bankers and auditors engaged by these Chinese family firms yields interesting results. We find that the more globally spread their subsidiaries are, the more globally spread their bankers would be. International auditors also tend to be employed by Chinese family firms with more overseas subsidiaries. Our analysis of shareholding and business sectors, however, generates mixed results. We attribute these findings to the peculiar nature of some industries because international auditing firms do not have a specific or industry dimension. Shareholdings held by a bank do not necessarily influence its choice as a principal banker by a public-listed Chinese family firm.

Despite these useful data and findings, however, there are several limitations to the extent of generalizations arising from this paper. First, the lack of comparative studies of corporate governance among Chinese family firms in Hong Kong, Taiwan and Southeast Asia has made it virtually impossible to generalize our findings. Similar comparisons between Chinese family firms and Korean *chaebol* and Japanese *keiretsu* are also difficult to be made. Second, due to our primary interest in the nature of corporate governance in this paper, we are less concerned with the performance of Chinese family firms listed on the SES. A comprehensive study of corporate governance and performance among Chinese family firms requires both lateral and longitudinal data that not only compare them with other non-Chinese and non-family firms, but also show variations in their performances over time. This enormous task can only be undertaken by major future research work. Third, the paper has not linked directly the corporate governance of Chinese family firms in Singapore to the recent Asian economic crisis. As we argued earlier, however, our findings remain highly useful for understanding the nature of the Asian economic crisis by shedding lights on the global linkages of Chinese family firms prior to the crisis (see also Yeung 2000e).

Our study has several important implications for corporate governance in Chinese family firms (see also Yeung and Olds 2000). We want to address three key implications here: (1) access to capital; (2) internal management structures and processes; and (3) sources of dynamic competitive advantage. First, as amplified by the Asian economic crisis, sources of capital play a significant role in influencing how Chinese business firms can meet the challenges of globalization, both as local competitors and/or as globalizing firms. For researchers, it is important to go beyond a study of how Chinese business firms pool together capital based on locally constituted social and business networks. We need to examine how large-scale Chinese business firms are tapping to capital markets locally and internationally. For practitioners in Chinese business firms, we believe a mind-set change is required in order to embrace globalization successfully. They need to go beyond seeing public listing in stock exchanges as a kind of "vacuum cleaner" operation to absorb fresh capital from minority shareholders to fund their own private family businesses (Backman 1999). Increasingly, this kind of operations will no longer be welcome by well-informed investors who demand much better corporate governance standards in an information-intensive era. Rather, Chinese business firms must see public listing as a learning experience for them to gain better understanding and access to global capital markets.

Second, access to local and international capital markets requires Chinese business firms to pay a lot more attention to their internal management structures and processes. During the 1997/1998 Asian economic crisis, many Asian firms failed because they were so poorly managed that even cheap sale of their assets did not attract foreign investors. For example, the Zurich Group, which originally agreed to take a 24.1% stake in Peregrine Investment Holdings in November 1997, decided to pull out by January 1998 as the depth of Peregrine's problems became apparent (Yeung 1999b, p. 18). Many of these ailing Asian firms were also family firms, though the phenomenon might not be exclusive to Chinese family business. Embracing globalization implies more than buying and selling assets in other countries beyond one's home turf. It is also about how they can manage these foreign assets and/or advantages better than their competitors. Being a family business does not necessarily mean that it cannot be professionalized. Indeed, there are no inherent limits to the growth and professionalization of Chinese family firms (see Yeung 2000b). For researchers of Chinese business, the challenge is to identify best management practices that can contribute to the successful globalization of these once highly patriarchal firms. We must also situate these best practices in their social and institutional contexts. For example, is a professional CEO always a good thing for Chinese business firms? Must capable family members participate in business? How much separation between ownership and management is required?

For practitioners, one crucial implication to be reckoned with is that globalization requires much more streamlined operations and management than the kind of "corporate omelettes," defined as "quite flat and with each of the constituent parts intermingled with the others" (Backman 1999, p. 67). True enough, going global requires a lot of entrepreneurship. But this requirement for entrepreneurial decisions and insights does not negate the importance of professional management systems that must be put in place to ensure any sustainable foreign ventures to be workable. In this sense, we agree with Backman's (1999, p. 79) assessment that "in the era of the global marketplace, cultural idiosyncrasies belong anywhere but in the boardroom. Ramshackle corporate structures and patriarchal management might be quaint, but they come at an enormous cost."

Third, the point of sustainability is important in understanding the dynamics of the competitive advantage of Chinese family firms. With globalization, Chinese family firms must actively search for new sources of dynamic competitive advantage. Many of these firms have grown from imperfect and relatively monopolistic domestic markets. They have often enjoyed tremendous advantages in these domestic markets because of their special connections and relationships with ruling politicians and/or key business elites. Special licenses and monopoly rights have been granted to these Chinese family firms that become their major "cash cows." When these firms venture into foreign markets, the scenario is almost completely different. The field of competition becomes much more open and levelled; only the fittest and most competitive firms will survive. This tendency towards global competition has been accentuated by the recent Asian economic crisis. Many Chinese family firms in Asia have not only lost their premium monopolistic positions in their ailing domestic economies, but more importantly, they have to look beyond their home turf for future growth and prosperity of the firms. In this context of growing global competition, we need to carry out more research on policy and pay more attention to understand and cultivate the sources of dynamic competitive advantages for Chinese family firms to establish themselves successfully in the global marketplace.

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