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INTRODUCTION

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THROUGHOUT the Asia-Pacific region national economies have been making remarkable economic progress. China in recent years has been a notable example while all the Southeast Asian countries, with the exception of the Philippines, have maintained their patterns of steady growth. In response to this exceptional economic progress, Japan as well as Republic of Korea and Taiwan have significantly strengthened their relations with China and the Southeast Asian countries. Following the industrial development experienced by these countries during the 1980s, the Asia-Pacific region as a whole is expected to develop even closer interdependence in markets and managerial resources.

Two aspects of this regional development are particularly noteworthy. The first is that the Asian NIEs and Southeast Asian countries are acquiring an increasing influence in the arena of world politics and economics. The second is that business groups in these countries continue to be a leading force that will help sustain the economic strength of this region during the remainder of the 1990s. Since the second half of the 1980s, these business groups have for the most part been able to solidify their respective spheres of growth, thereby ensuring the growth of the national economies involved.

From the second half of the 1980s through the early 1990s, the ASEAN countries (again with the exception of the Philippines) successfully carried out industrialization which accelerated the growth of local business groups, particularly in Thailand and Indonesia. Korea saw its economic growth rate decline in the second half of the 1980s, but the very large role that the huge *chaebol* (conglomerate) groups play in the country's heavy and chemical industries has never diminished. These *chaebol* groups, under the guidance of administrative agencies, are now being urged to redirect their efforts from further diversification through conglomeratization toward specialization in their respective business areas to promote stronger international competitiveness. In Taiwan where local business groups are much smaller than their Korean counterparts, such groups are developing their business through partnerships in ownership and management. Relying on personal networks of entrepreneurs and managers, these partnerships work with ethnic Chinese in ASEAN countries, and have become increasingly involved in the marketization process of mainland China's economy.

The success of China in the Asia-Pacific region has prompted India, the second biggest nation in the region, to open up the country's semi-closed economy and prove its ability to develop as a great economic power. Major Indian conglomerates, such as Tata and Birla, have maintained themselves as the prime movers of the country's private sector. But under the Indian pattern of a socialistic economy, growth of the private sector has been severely restricted. We will have to see how the long-standing Indian conglomerates will be "liberalized" now that further privatization and economic liberalization is sure to take place. In Pakistan the Z. A. Bhutto government (1971–77) drove the local conglomerate groups out of business by imposing socialistic policies. The Nawaz Sharif government, which came to power in October 1990, tried to fully privatize the Bhutto-nationalized enterprises, and it should be noted that under the N. Sharif government not only the old conglomerate groups taken over by the Bhutto government were making a comeback, these were even being joined by new business groups which had been gaining strength.

The foregoing developments make it apparent that privatization and liberalization are contributing remarkably to economic invigoration. The country that carried out the most drastic privatization in the 1980s is Mexico. To overcome the country's debt crisis that emerged in 1982, the International Monetary Fund and the World Bank pressured Mexico into implementing a structural adjustment program. This brought a reduction in the number of public enterprises from 1,555 at the end of 1982 to a mere 280 as of the end of 1990. Particularly noteworthy is the fact that the banks, which had been nationalized in 1982, were reprivatized in 1991–92. Financial groups centered mainly on securities companies obtained these banks through competitive bidding. These groups are now emerging as huge banking and securities giants. In the meantime, other private business groups which had been engaged in import substitution industries and which depended on enormous borrowing from overseas suffered severely following the country's default on its foreign debts in 1982, but these groups managed to safeguard their managerial independence by skillfully maneuvering in their debt settlement negotiations with foreign creditors.[1]

Overall, the shift to market economic systems coupled with privatization in numerous countries of the region has dramatically increased the importance of zaibatsu-type[2] conglomerates (family and kin–controlled business groups) and other non-zaibatsu business groups based on partnerships. It should be pointed out however that generally in developing countries, even non-zaibatsu business groups are controlled by specific families who are allied with influential non-family partners. Thus, the major business groups of these countries are in most cases under the control of one or two families.

For many countries, the aggregate of value added produced by major business groups is not statistically available simply because such statistical information is not recorded. It is therefore difficult to ascertain the portion of GNP that these business groups produce in their respective countries. It is however possible to guess their economic importance by referring to sales figures which are more readily available in company directories and other publications.

In Korea, the *chaebol* business groups have been important not only because of their enormous production but also because they have been the locomotives

[1] Hoshino's paper in this special issue rightly points this out.

[2] In this paper, "zaibatsu" is used to denote a multi-business and oligopolistic group of enterprises whose ownership and management are controlled by a family and its kin.

and formed the core of the government's heavy and chemical industrialization programs. Business groups in Taiwan have followed a different pattern. For historical reasons they rarely enjoyed government support and instead grew on their own until they finally stepped into a core position in the private sector. But Taiwan is the exception. In most countries, the bigger the business groups grow, the closer their relationships to the powers that be. In other words, the major business families[3] tend to cultivate close personal ties with the presidents, prime ministers, cabinet members, politicians, bureaucrats, and military leaders of the country, thus entering into a patron-client relationship with them. This patron-clientism eventually results in high cost economies. It can have other ramifications as well. The breakdown of crony capitalists in the Philippines due to the change of government and patrons caused an abrupt break in the continuity of agents of economic development. In Pakistan politics has been characterized by frequent change of governments largely because the leading families have utilized their privileges to control business groups, and this practice has triggered political conflicts which have shortened the political life of each government. The patron-client relationships generate particularly complicated situations if the patron and client are affiliated with different ethnic or religious tendencies. The politicization of the economy, for instance in Malaysia, appears to be a case in point.

Positive or negative, the roles of business groups in the Asia-Pacific region and the influences they exert have been increasing. This paper focuses on the diversification of business groups (Section I) and the transformation of their ownership and management structures (Section II) from the latter half of the 1980s through the early 1990s, in order to better understand the impact these groups have had on the economies in the Asia-Pacific region.[4]

I. BUSINESS GROUPS AND INDUSTRIALIZATION SINCE THE MID-1980s

Three simultaneous processes characterized Southeast Asian countries during the second half of the 1980s: (1) an increase in foreign direct investment linked with both import-substitution and export-led industrialization, (2) further progress in import substitution industrialization, and (3) establishment and planning of large-scale infrastructure. Consequently, the industrialization process became compressed into a shorter time frame, encouraging business groups to pursue diversification strategies. This trend has carried over into the 1990s and will certainly cause these business groups to expand which in turn will likely to aggravate the conflicts between the requirements of this expansion and their family-based ownership and management practices. First, let us examine the relationship between the business groups and foreign direct investment, the factor that certainly had the greatest impact on their development during the latter half of the 1980s.

[3] "Business family" means a family and its kin who play the core role in a business group.

[4] Concerning the roles played in industrialization by large Southeast Asian business groups, see the opening article by McVey, "The Materialization of the Southeast Asian Entrepreneur," in *Southeast Asian Capitalists,* ed. Ruth McVey (Ithaca, N.Y.: Cornell University, 1992).

During the second half of the 1980s, direct investment by Japan, Korea, and Taiwan in Southeast Asia experienced phenomenal growth. This was because the outward-looking industrialization strategies of the Southeast Asian countries coincided with the rise of internal pressures including overseas investment by these three countries. As is well known, several factors emerged during this period to accelerate the flow of capital to Southeast Asia—the yen's appreciation following the Plaza Accord in 1985, the strengthened positions of the Taiwan dollar and Korean won, the termination of the generalized system of preferences for NIE products, the chronic labor shortage in Japan, Korea, and Taiwan, and the so-called economic "bubbles" in these three countries generated by overheated securities and real estate investment.

The direct investment committed in this period can be roughly categorized into two types—import-substitution type and export-led type. Under the first type, foreign firms generally formed joint ventures with local enterprises. Joint ventures were required because during this period Southeast Asian governments still adhered in principle to their traditional policy of majority participation by local capital. Import substitution industrialization during this period moved beyond final consumer products to include selective local production of intermediary and capital goods. In the automobile and home electrical appliance sectors, assembly plants were expanded and reequipped, and in some cases whole plants were rebuilt and equipment modernized. Under this type of import substitution involving final products, foreign investors set up partnerships primarily with those local business families who had already diversified their business lines during the period of import substitution industrialization. In the period under review these families incorporated high-tech businesses by establishing a number of joint ventures producing high precision parts and semi-finished products for local markets. Thus, they succeeded in growing into much larger business groups.

Typical of foreign investment related to export-led industrialization in this period was the establishment of overseas production posts by Japanese and U.S. transnational corporations in line with their global strategies. As the host governments permitted the establishment of 100 per cent foreign owned companies where their exports were to be above certain ratios of production, most of the large-scale plants set up by foreign firms for the manufacture of final high-tech products, semi-finished products, and parts, such as home electrical appliances and electronic goods, ended up being wholly owned by foreign investors.

Japanese firms are now shifting much of their production to Southeast Asia and China. They are increasingly procuring materials and parts from their overseas posts under their outsourcing strategies. They are rushing to produce offshore goods destined for the Japanese market in order to win in the intensifying price competition inside the country. Japanese electrical appliance manufacturers are expanding the production capacity of their large and advanced plants in Malaysia and Singapore to supply semi-finished products and parts to assembly plants in Japan, other Asian countries, and Europe. The proliferation of Japanese plants has even caused a shortfall of labor in some areas where these have been set up.

But the problem with 100 per cent foreign owned firms is that they have little to do with local business groups. Where the number of such firms increases gradually, they may give rise to local supporting industries. But even in such cases, the industrial zones thus created are foreign enclaves in the host countries. The 100 per cent foreign owned firms differ in this regard from joint ventures for import substitution production. It can be argued that even in 100 per cent foreign owned firms local managerial staff can be trained and produced. But for the creation of local entrepreneurs and the development of local business groups, it is better that export-oriented operations be grafted to the import-substitution type of joint ventures.

It is understandable that the investing foreign firms prefer to have full control over the management rights of their overseas subsidiaries: if the latter should produce too many defective products or be plagued by frequent accidents, the investing firms would not only suffer from a poor product image but would also have to meet the high costs of product recovery or pay large compensations. Moreover when it comes to distribution and repatriation of profits and other aspects of implementing global business strategies, wholly owned subsidiaries are certainly ideal from the standpoint of the investing firms. Nevertheless, is it not more appropriate for them to participate in their host countries' export-led industrialization in such a way as to allow the import-substitution joint ventures (which they may have already committed themselves to as foreign partners) to be connected with their export-oriented business? This type of combination is considered particularly appropriate at a time when the ASEAN Free Trade Area (AFTA) is getting started and when Japanese electrical appliance manufacturers and car assemblers are seriously planning to organize an intra-regional division of labor to cater to domestic consumer demand within the ASEAN countries.[5] Were this to be done, technological transfer and product quality control would be more seriously undertaken, local staff would become more cost-minded, and the benefits of economies of scale would be more fully enjoyed. More than anything else, this formula would help local entrepreneurs who could manufacture for the world market to take roots in the soil of the host countries.

In sharp contrast to wholly-owned foreign manufacturing, export-oriented agribusiness has developed endogenously and depended mainly on local resources. In Thailand entrepreneurs stepped into this area of business at an early date, and today several business groups which had their origins in agribusiness have now become firmly established.[6] In Indonesia, a country of vast tropical territory and

[5] Matsushita Electric Industrial Co. Ltd. has worked out a new strategy whereby its plants producing import-substitution goods throughout Southeast Asia will specialize in designated products and serve as the firm's export outposts (*Nihon keizai shimbun*, October 22, 1992).

[6] It should be noted however that even agribusiness companies often depend on foreign transnational corporations for their supply of high-yielding variety seeds, processing technology, and marketing in advanced countries. See Akira Suehiro, *Capital Accumulation in Thailand, 1855–1985* (Tokyo: Center for East Asian Cultural Studies, 1989), p. 270; and Akira Suehiro and Makoto Nambara, *Tai no zaibatsu: famirī bijinesu to keiei kaikaku* [Zaibatsu in Thailand: family business and management reforms] (Tokyo: Dōbunkan-shuppan, 1991).

endowed with rich natural resources, the Salim Group, Southeast Asia's largest local business group, is entering into agro-industry in a big way. The group is going to make agribusiness an important component of its diversification strategy.[7]

Agribusiness in Asia produces a broad range of agricultural, forestry, and marine products, and the processed products made from them; these include table luxuries, furniture, leather products, ornamental articles, handicrafts, flowers, and a great many other goods. In the production of finanl products, agribusiness firms go to great lengths to supply high-grade goods of excellent designs and elaborate finish. They also organize effective marketing networks and explore new markets. They can thus be expected to increase exports and further increase value added of their products. Demand is also steady for raw materials such as palm oil and coconut oil. Unlike minerals, the products of agribusiness are from renewable resources. At a time when worldwide trends are toward diversification and internationalization of our ways of eating, living, and dressing, agribusiness is attracting renewed interest as a highly promising field, although for it to further develop, the region's agricultural infrastructure needs to be drastically improved. Ethnic Chinese business groups in Southeast Asia will continue moving into agribusiness for some time to come, particularly in view of the potential of the mainland Chinese market.

As a result of these developments, import substitution has moved further into the production of intermediary goods and capital goods. In import substitution involving final consumer products, the constant pressure from governments for greater local content ratios impelled local business groups to move, if slowly, into related upstream areas. In this process, some local groups have finally branched into some of the major intermediate goods sectors such as petrochemical and steel production (including integrated steel mills).[8]

The expansion and enhancement of business diversification processes by major business groups have received momentum from large infrastructure projects, such as electric power generation (nuclear, hydro, thermal, and geothermal power), telephone and electronic communication networks (television, radio, nationwide telephone networks, participation in communication satellite projects), elevated railways, subways, speedways, airports, ports, berths, embankments, land reclamation, large coastal and inland industrial parks, and free trade and industrial zones, to name only a few.

In the past such projects used to be initiated or financed by governments as they required enormous amounts of money and a high level of technology and were public in nature. But in the climate of privatization, private business firms, and particularly large business groups, are increasingly taking the initiative in these kinds of projects also. More and more such projects nowadays are financed jointly by the government, local private business, and transnational corporations (general

7 See Sato's article in this issue.

8 For heavy and chemical industrialization projects in Thailand and Indonesia, see the aforementioned work by Suehiro and Nambara; and Norio Mihira and Yuri Sato, eds., *Indoneshia no kōgyōka: furu-setto-shugi kōgyōka no yukue* [Industrialization in Indonesia: the full-set industrialization strategy] (Tokyo: Institute of Developing Economies, 1992). Concerning steel projects in the two countries, see *Far Eastern Economic Review*, May 30, 1991, pp. 63–67.

trading firms, or *sōgō-shōsha,* and related manufacturers), and within this trio, local business groups are increasingly taking the initiative.

Even in cases where the so-called BOT (Build, Own and Operate, and Transfer) formula has been followed, local business groups participate in the construction and operation together with their overseas partners. Even in cases in which the projects involved are of a strongly public nature or obviously related to national defense, it is not unusual that contracts are sealed on the transfer of the facilities to the government after the lapse of a certain period of time. Negotiations between the government and local partners frequently can be difficult and protracted as they clash over whether the facilities should be transferred to the government or not, or over the division of ownership and operation responsibilities between the parties, or on the length of the pre-transfer period. The bargaining position of the private business groups in such negotiations is far stronger now than in the first half of the 1980s. At that time and for decades earlier most public enterprises in developing countries were unable to maintain themselves, let alone expand production capacities, without ample protection provided by the governments. This situation of dependency was often exploited by politicians, bureaucrats, and military leaders to fill their pockets, and eventually contributed to a high cost economy. But now national consensus has emerged that such practices are no longer tolerated. This consensus has strengthened the negotiating positions of private business groups.[9] Also backing private business groups, particularly those with high business credentials, in their dealings with governments is the strong pressure applied by the IMF and World Bank in favor of private initiative. Another factor favoring the private groups is that public corporations can hardly prevent their capable personnel from moving to private firms. The privatization of existing public corporations, though, will not be an easy and smooth process, and such privatization causes a major rearrangement in the power relationships among private business groups; nevertheless, those successful in taking over heavy and chemical or other big public corporations stand a good chance of outrival competitors.

II. OWNERSHIP AND MANAGEMENT OF BUSINESS GROUPS

There are basically two types of ownership and management among Asian business groups: the family-kinship type and the partnership type. There also exists a hybrid pattern, but in none of the examples of this pattern that were examined by the authors of this study were ownership or management completely dissociated from the core family or core partner. The partnership type is based on the collaboration of a few core partners. A typical group in this type is the Salim Group of Indonesia which owns and has been skillfully managing the hundreds of firms under its control.[10] The family and kinship type is dominant in India,

9 For Thailand, see *Far Eastern Economic Review,* June 27, 1991, pp. 48–52; June 25, 1992, pp. 10–11; and July 16, 1992, p. 55. For Indonesia, see *Far Eastern Economic Review,* April 30, 1992, pp. 54–58.

10 In her paper contained in this issue, Sato showed that both types exist side by side in Indonesia.

Korea, Thailand, and the Philippines, although in the case of Taiwan, some observers hold that the partnership type is more influential.[11]

In both types, a member of the owner family or the main partner himself (herself) directly engages in management as the owner-manager of the group. In family-kinship type groups, when the owner retires or dies, the owner family rarely hands over their managerial rights to an outsider; in other words, they are not willing to become mere shareholders in the group. Such a practice is rare even for the second and third generation business family. In spite of their rapid expansion and huge presence, leading Asian business groups, when compared with modern corporations, are still at an initial stage of ownership and management based on family and partnership control.

As diversification has proceeded since the 1970s and the number of affiliated firms within business groups has increased, the owner families and core partners have been compelled to carry out a variety of organizational and structural changes in order to keep managerial control over the member firms securely in their hands. Let us first examine the ownership aspects.

A. *Ownership*

For the founding family members or the main partners to maintain firm control over the group, they have to invest in the group's affiliated firms and control significant portions of their stock. (But this does not apply to groups under the management style known as the managing agency system,[12] because under this system the families or partners who set up the group firms obtain the rights of their management by means of an agency contract instead of shareholdings.) As the group diversifies its business and becomes more dependent on external (including overseas) resources in the way of capital, professional managers, technology, and marketing, the range of necessary collaborators providing these resources becomes broader. Collaborators must be recruited not only from among relatives, friends, schoolmates, and fellow provincials but also from among transnational

[11] See Numazaki's paper in this issue.

[12] The managing agency system was applied widely in India around the mid-nineteenth century and spread to Malaya and other British colonies. It was prohibited after 1970 in India. Under this system, the business family concludes a managing agreement with companies which it initiated and invested in, and participates in the management of these companies on the basis of this agreement. By virtue of this agreement, the family (1) serves as exclusive general managers who control all the affairs of companies in the name of the managing agency, (2) enjoys a long-term agency contract, and (3) absorbs a high percentage of the latter's profit in commission. Even if the family's shares in the companies' equity are reduced to nil, the family still not only keeps its management rights in the companies but continues to receive substantial commissions year after year by virtue of the agreement. This author hypothesizes that precisely to enjoy such advantages the business family sets up fictitious agency relationships by concluding such agreements with the very companies it initiates and promotes. P. S. Lokanathan and others have argued that this system has come about and continues to survive because of the scarcity of managing resources in developing countries, but this author disagrees. See Kenji Koike, *Keiei dairi seido ron* [On the managing agency system] (Tokyo: Institute of Developing Economies, 1979).

corporations (*sōgō-shōsha* and manufacturers) with which the group forms joint ventures, from domestic and foreign financial and investment corporations (including government-controlled ones), and from international financial agencies. Another part of this process is that business groups are strongly motivated to go into banking and the investment business to facilitate their own fund-raising and also to earn the high profits generated by such ventures. The number of business groups which have incorporated banks, investment firms, and insurance companies has been steadily increasing. These financial firms have come to act as a network of cross-holding share owners among each of the firms within a group. Those business groups which do not have affiliated financial firms have assigned this mutual shareholding function to their core industrial companies. Thus, intra-group ownership is becoming increasingly complex.

The increasingly complicated nature of intra-group shareholding can be explained in the following ways: (1) compressed business diversification, in which the group aggressively seizes numerous large and small business opportunities as they randomly arise, and systematically, or even unsystematically, adds to its operations new business lines one after another; and (2) the entrepreneurs' "will to unite and control" the financial resources of others is working among these business families or partners of developing countries also. This second point reflects the original owners' desire to keep the whole group under their control with minimum investment of their own and maximum mobilization of external resources; this matters particularly when the firms involved are manufacturing firms which require a large amount of threshold capital. There are also the following additional factors at work which contribute to the complication of ownership relations.

The first factor concerns a ban on holding companies and government regulations on inter-corporate shareholdings and in-group banking, and other juridical regulations on shareholding, which exist to varying degrees in a number of Asian countries. (Depending on national tax systems, the efforts of business groups to minimize tax payments also work to make shareholding relationships complex.) Where holding companies are illegal, loopholes are found. In Korea, cultural and other foundations have been set up to function virtually as holding companies while in India where ceilings are set on mutual shareholding, a vast number of investment companies have been mobilized as holding companies. In India investment companies exclusively engaged in this function are exempt from the ceilings. Taking advantage of this, Indian business groups have been utilizing investment companies virtually as holding companies.

The second factor is related to patron-client relationships. Diverse dummy companies have been created in order to safeguard the anonymity of the patrons. In Malaysia, for instance, so-called nominee companies, which are security trust companies whose investors are not disclosed, are said to be used for this purpose.

The third factor involves the transnationalization of Asian business group. Southeast Asian business groups have set up subsidiaries in Hong Kong and Singapore in order to reduce tax payments, hedge against business risks, and facilitate financial operations and information collection. When mutual shareholding develops between these overseas subsidiaries and a group's main companies in the country of origin, the intra-group shareholding relations become extremely entangled. A typical case is the Kuok Group originally based in Malaysia. This group had close to two hundred private companies registered in Malaysia, Hong Kong, Singapore, Liberia, and Panama as of 1986. These companies and around 130 individual shareholders and trusts had been bound together in a bewildering array of complex mutual ownership relationships.[13]

The fourth factor pertains to camouflaged ownership of the founding families or partners particularly in countries where the governments effectively regulate zaibatsu-type operations or where public sentiment is hostile to zaibatsu or to ethnic Chinese business operations.[14] As with the Kuok Group, transnationalization also conceals the real nature of ownership. In an effort to keep their systems of control unidentified, the owner families and partners avoid organizing an openly hierarchical structure connecting the owner families or partners directly to the holding or investment company which controls the group's business firms. Instead they prefer labyrinthine intricacies in shareholdings so that who owns what is not at all visible to outside observers. Others, like some major Philippine groups run by ethnic Chinese including former Marcos's crony groups, outrightly refuse to disclose the composition of their shareholders even to the Securities and Exchange Commission, preferring to pay small penalties for this misconduct.[15] But such complex shareholding, when carried too far, breaks down the rationality needed for good management function. For this reason, ownership restructuring through the introduction of business division systems based on independent accounting is now a new task facing many business groups.

B. *Management*

We will now turn to the means that business groups use to control their subsidiaries and other affiliated firms. Looking first at the family and kinship type of group, the top leader generally functions as the "frontline commander." Typically, members of the owner family and/or their kin exert directly decision-making power over the group's member companies. The top leader assumes the presidency or chairmanship of the core firm and concurrently holds the post of chairman in the major affiliated firms whose presidential posts are occupied by his relatives. Usually the boards of the main affiliated firms are dominated by

[13] For an outline of the ownership relations of this group as of 1986, see *Far Eastern Economic Review*, October 30, 1986, pp. 62–63; and for more recent information on the group, see *Far Eastern Economic Review*, February 7, 1991, pp. 46–48.

[14] For Hong Kong–based groups, the scheduled reversion of the territory to China in 1997 certainly will be a factor accelerating their transnationalization. *Far Eastern Economic Review*, March 5, 1992, pp. 56–59, shows the mutual shareholding relationship within the Li Ka-shing Group, but the actual relationship is considered far more complicated than indicated.

[15] Lucio Tan, an alleged Marcos crony, as well as John Gokongwei and Henry Sy who were outside of that circle of cronies, failed to report. As investigation into crony relations continues, even the Soriano Group and others continue hesitating to disclose ownership information.

the top leader's family members or relatives who hold several board memberships. As the group and its affiliated firms grow in size, the presidential workloads grow increasingly burdensome, and so the top leader, though they remain as president of one or two core firms, step down from the presidential posts of one affiliate after another and promote their relatives to presidential posts.

With partnership type groups, the same process leads to a situation where the original major partners alone are no longer able to meet managerial staff requirements. In this event, they seek such staff taking advantage of their personal human relations. The network of their partnership thus tends to expand, linking up with other group networks.

As business diversification develops generating more managerial posts, it becomes more difficult or even impossible to rely on family members and kin alone to fill these posts. The need thus arises to introduce professional managers from outside. As this becomes an established practice, a change is brought about in the family pattern of managerial conrtol. As business diversification progresses further integrating more and more fields of business, it becomes inevitable that the group's businesses start to divide into different categorical units. When this happens, particularly when the group is advancing into high-tech areas where the founding family may have little experience, systematic induction of outside professional managers becomes unavoidable. At this point, the founding family and kin begin to seriously seek after new methods of "group management" in order to more systematically control the inducted experts and the business divisions these new people are now managing. In seeking out new methods, they are eager to learn from the experiences of advanced groups in other neighboring developing countries as well as from American big corporations.

An example is the Siam Cement Group, the top business group in Thailand. This group turned its core cement firm, Siam Cement Co. Ltd., into a holding company in 1975, adopted a group management system in 1976, and introduced a division system in 1983–84. This reorganization has streamlined the group's management to operate along a single line of command—a board of directors of the whole group is at the top; below this is an executive committee of management for the whole group; under this committee are the group's six business divisions; and finally at the bottom of this hierarchy are the individual companies of each division.[16] The group board of directors consists of the core members of the entire group, and the group executive committee of management is made up of the chief division directors.

The Salim Group of Indonesia carried out a group-wide organizational rationalization between 1985 and 1987. At the top of this new management organization is a board of directors for the whole group; below this are divisions, each of which has a division steering committee that decides basic division policy and a division management committee which supervises division management. Below each division are several subdivisions composed of the individual affiliated firms which are at the bottom of this hierarchic structure of group management decision-making.[17]

[16] See the aforementioned work by Suehiro and Nambara, pp. 61–62.

[17] See Sato's paper in this issue.

At present the steering and management committees operate at the division level because of the group's tremendous diversification and its large number of affiliated firms (now numbering over four hundred). The board of directors at the top of the group is headed by a chairman, presently Soedono Salim. His second son is vice-chairman and his third son president and chief executive officer. The executive directors and lower officers are all professional managers.

The Ayala Corporation, the Philippines' largest and oldest business group, has been following a group management system since around the 1970s. At the top of the group organization is the executive committee of the group's holding company; under this committee is a group management committee set up within the top holding company and composed of the presidents of the main firms within the divisions; the group's affiliated firms fall under these divisions.[18]

As these examples show, the top business groups in the region have absorbed many qualified professional managers into their group management; at the same time however, they have centralized final managerial power in the hands of the owner families so as to ensure transfer of power along hereditary lines.

III. TASKS AHEAD

Business groups in developing Asian countries have thus far enjoyed stability in ownership and management thanks to the strong mutual trust among the owner family members. Particularly in those groups which are based in societies wtih strong patriarchal traditions, the top leaders have played a crucial role by making prompt on-the-spot decisions, energetically working on the front lines, and commanding the entire organization. This style helped them to achieve business diversification in a short period of time.

On the other hand, they face charges that their rapid growth has widened the social gap between the rich and the poor. Criticisms are also voiced of the patron-client relationships they are involved in. Also, the governments concerned have so far been rather lenient toward them, refraining from taking strong regulatory measures against their activities. This is partly because the governments know that their societies still lacked a sufficiently large entrepreneurial class which is very much needed to carry out national industrialization programs. It is also because of the generally satisfactory achievements these business groups have contributed to the overall national good. When business groups break up, however, it can have wider ramifications that affect the broader society. India is a case in point. Since the mid-1970s, a growing number of Indian business groups have experienced splits over inheritance problems. Family-based ownership and management have largely been regarded in India as elements of stability and growth, but they seem to be turning into major causes of disunity. The breakup of a large business group has far-reaching effects beyond the affairs of the group concerned. It can have negative effects on the whole national economy. This tendency for splits is not limited to India. In societies following the principle of

[18] See Koike's paper on the Ayala Group in this issue.

equalized inheritance, generational change entails redivision of ownership (equity) and even redistribution of managerial posts in business groups managed by owner families. In prewar Japan, the Mitsui family devised the idea of collective ownership by branch family members and kin which was known as *sōyū*[19] (literally "collective property") in order to avert problems that could arise over inheritance. Under this collective ownership each branch family was not allowed to claim its heritage. But such an idea is unknown in developing countries today. Various preventive measures are being tried out, nevertheless conflicts can occur over inheritance as have occurred in India, and these can involve the second and third generations in internecine strife, threatening to cause splits and eventually dissolution of business groups.

Let us examine measures that can mitigate against the occurrence of splits. Such measures cannot prevent the redistribution of property and power per se as long as the time-honored practice of equalized inheritance is very much alive. Preventive measures under these circumstances concern only how the division of ownership can be postponed as long as possible and how redistribution is made compatible with economic rationality.

The most effective system preventing division of management seems to be the aforementioned managing agency system. Under this system, the managing agency generally organized as a private company and owned exclusively by the owner family is at the summit of the group's management hierarchy. This agency has complete control over the management of the group's affiliated firms through legal agency agreements. Even if the managing agency's ownership of stock in the affiliated firms is redivided among family members as the result of inheritance, the exclusive right to manage this stock rests with the managing agency. But if the equity shares of the managing agency itself as well as the managing rights belonging to the agency are divided as a result of inheritance, then there is no preventing the split of the group into subgroups each with its own managing agency.

Unlike India where this system was banned in 1970, the Philippines has retained the managing agency system.[20] The Soriano Group and other Filipino groups follow this system. But some of the affiliated firms whose stocks went much more public were compelled to modify or terminate the managing agency contract in the face of criticisms from major stockholders unrelated to the owner family. San Miguel Corp., a core member of the Soriano Group, is a case in point. Here the contract was terminated for reasons other than inheritance issues, showing that this system is no longer reliable even outside of India. Instead, there are now only three companies in the Soriano Group that are still under this system.

[19] *Sōyū* was a measure especially devised by the Mitsui family in order to keep the original family property within the family as collective property. The family branches had to collectively hold the family property instead of dividing it among themselves when inheritance took place.

[20] See Kenji Koike, "Firipin no zaibatsu keiei: Soriano zaibatsu no 'zeneraru manējā seido' o chūshin to shite" [The "general managers" system of Soriano zaibatsu], *Ajia keizai*, Vol. 24, No. 12 (December 1983).

The Jose Cojuangco family, former President Aquino's family by birth, leads a business group based on sugar plantations and sugar refining business. It is one of the few ethnic Chinese business families favoring the managing agency system. It has so far smoothly overcome inheritance problems. The group's managing agency, Jose Cojuangco & Sons, has been inherited equally by Jose Cojuangco I's six children. The third generation has now begun sharing in the inheritance. The managing agency rights are held by Pedro Cojuangco, the eldest son of Jose Cojuangco I, as representative of all the inheritors. At the moment, there seems to be no plan to divide the managing agency among the family members.

As the above cases indicate, the division through inheritance of equity shares in affiliated firms only indirectly influences the group's stability if it is controlled on the basis of the managing agency system. Inheritance would pose stability risks only when the managing agency rights also become subject to redistribution. By contrast, equalized inheritance has a direct impact on the group's stability, even threatening the breakup of the group, if the right to manage is based simply on the ownership of a controlling share in the affiliated firms. To avoid such a negative eventuality, it is essential that the owner family's stockholdings of the affiliated firms be institutionalized and that at least the family's equity share in the holding company or other summit organizations not be divided among the heirs.

The principle of equalized inheritance is respected in East Asian societies as well as ethnic Chinese communities in Southeast Asia. The danger of group splits is thus always present in Southeast Asia where ethnic Chinese are the mainstay in local business communities. According to Suehiro, Chin Sophonpanit (1910–88), the founder of the Bangkok Bank Group,[21] began to pay attention to inheritance issues at a relatively early time in his life. He decided in 1970 to divide the group's ownership among his six sons and one daughter by awarding an investment company to each of them. This was to encourage an intra-family division of labor. Suehiro observes that the Bangkok Bank and the firms the bank invests in will become increasingly independent of family control. The core firms in the group whose stocks have been opened for public subscription will also become more autonomous. In the meantime, Suehiro predicts that the Chin family members will develop their "mini-family business" independent of the Bangkok Bank and other core firms of the group.

In Korea the principle is that the family line is inherited by the eldest son, but the family property is inherited equally by all the heirs. Under these circumstances, it is often the case with Korean *chaebol* groups that all owner family members participate in management. This practice coupled with the recent government regulation concerning *chaebol* makes the danger of group splits serious. How seriously the government is going to implement its economic decentralization and specialization policies is still unclear, however. Anticipating strengthened regulation, the leader of the Lucky-Goldstar Group declared some time ago that the group's member firms should become "self-reliant." Other *chaebol* groups may

[21] See Akira Suehiro, "Bangkok Bank: Management Reforms of a Thai Commercial Bank," *East Asian Cultural Studies*, Vol. 28, Nos. 1–4 (March 1989).

follow a similar policy of limiting family control to some of the core firms and letting the others go independent.[22]

Indonesian business groups are relatively younger than their counterparts in other Asian countries, and so they do not yet face serious problems of inheritance-caused splits. However the Astra Group, the second largest in the country, broke up following the business failure of one of the family members.

From the above it is evident that even the top-ranking business groups face the danger of breaking up. It is still premature to foretell whether these Asian business groups will soon be subdivided into mini–family groups headed by siblings and/or children of the founders or can survive and maintain group unity and avert splits.

During the last two decades there has been a conscious effort by the large business groups in the Asia-Pacific region to introduce professional managers and technological experts into their business operations. But even the ownership and management of the most advanced and largest business groups, which are the chief promoters of development, remain under family control, particularly in its extended version. The gravest problem that can arise when a huge business group is under family control is the danger of the group being split and collapsing. Natural selection works against those groups which put family logic above corporate logic. This is why the existing business groups are striving to make the two sets of logic compatible. For their survival, they need to place much more emphasis on economic rationality. However, one should not conclude at this stage that their efforts toward economic rationalization and modernization will inevitably weaken the zaibatsu families as the core of ownership and management and lead to their eventual extinction.

[22] For further details, see Taniura's paper in this issue.