The Role of Chinese Family Business in Corporate Consulting in South East Asia

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Abstract

Chinese family businesses possess special characteristics not found in other culture. Trust would be the most important part in doing business among the Chinese, whereas “building trust” would be the main emphasis in facilitating relationship. This study is based on a survey conducted in 1999, with 30 respondents from Indonesia, 30 from Singapore and 30 from Malaysia. In consulting Chinese family businesses, consultant companies should not be tempted to force their main thoughts, without any observation on a cultural context. A careful analysis and free from prejudice against potential clients and their environment may give better understanding to any consultant company and may support the achievement of target as well as success.

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Introduction

The pushing machine of growth in South East Asia is mainly contributed to Chinese family companies. For instance, in Thailand the Chinese population represent only 10% of the whole Thai population, but they control about 81% of all private sector capitals. In Indonesia the group of people of Chinese descent; which are only 3.5% of total Indonesians; lead about 73% of private companies registered at stock market (Weidenbaum/Hughes 1996). Backman (1999) confirmed this phenomenon on his research on Chinese Indonesian. The trend expert, John Naisbitt, assumes that they are the “most successful businessmen in the world”, and has opinion that they are going to “raise the Asian continent to become a world dominant economic power”.

More than 55 million of Chinese people in Asia live outside their original country, the People's Republic of China. They are collectively called with the terms of Overseas Chinese, Chinese Ethnic, Foreign Chinese or Chinese beyond the Land. Despite of some atrocities against them in Malaysia and Indonesia, these Overseas Chinese are the trading elite spreading over all South East Asian Countries.

In conformity with the fast Asian economic growth, particularly, international consulting companies increase their activities in Asia. Recently, many representatives are opened in South East Asia (for example Gemini Consulting in Singapore, Roland Berger in Kuala Lumpur, BCG Consulting in Jakarta). Their clients are normally joint companies conducting international activities. Some emerging Chinese family business who are economically potential would be potential clients for consultant companies

Purpose of the Study and Methodology

The purpose of this qualitative study is to seek evidences on how consulting forms may help the traditional-based Chinese businesses in South East Asia. Typical Chinese businesses usually grow from small businesses to large enterprises. It is assumed that the bigger the firm, the more the need for consulting. Therefore, this study is conducted to

provide such exploratory evidences. Questionnaires were spread to respondents in Jakarta, Singapore, and Kuala Lumpur. The respondents were Chinese businessmen in the top management, with a business employing at least 100 employees. Questionnaires contained both open-ended and likert-scale questions.

**FINDINGS:**

**Features of Chinese Family Companies**

This study is based on a survey conducted in 1999, with 30 respondents from Indonesia, 30 from Singapore and 30 from Malaysia. In many publications about Chinese family business, some clear and abundant characteristics are stated. (Wirtschaftswoche /Economic Weekly Magazine No. 10/96). Their excellence is contributed mainly to religious or specific Chinese values such as social relationship of the Clan Structure. Assuming a convergence approach, the Chinese overseas would embrace common attitudes and behaviors despite environmental differences between South East Asia nations. (see: Fig.1). When dealing with consulting firms, Chinese businesses need more time for the first stages to build trust. After they could trust the consulting firms, the process would go smoothly.

Findings of the study confirm that the basic element and power of Chinese family companies lie on the loyalty of each member to the Chinese brotherhood. In Chinese businesses, “networking” is seen as developing individual self-confidence and a high level of dependability to one to another. Putting personal relationship as first priority has been the culture of Confucius. It exists in every aspect of daily life as well as trading activities. Chinese businessmen use network in different values and targets. The main target would be information exchange, business relation (trade) and political power. Furthermore, this Chinese networking includes various groups of languages and goes across country boundaries. The Chinese Chamber of Commerce in Singapore has developed a network

A list of firms in the internet networking (http://www.webn.com.sg) would be expected to support the collaborations among Chinese businessmen all around the world.

According to our respondents, the main determinative element of success of a consulting firm is the access to the Chinese people’s network. Promising marketing methods for consultants would involve processes obtaining the Chinese businessmen’s trust. Once a consultant firm gains the trust, the opportunity of helping the firm in consulting area would be higher.

The management in a Chinese family company is cultured by the family dominance. An internal network consisting of family members, clans as well as prominent friends, occupying important positions, comprises an environment around the patriarchal Founder-Owner figure. Within this so-called “Inner Circle” most important decisions are made and control functions are implemented. The attitude, procedure and leadership structure are generally autocratic and patriarchal in nature. It would be difficult to put clear boundary as far as organization, leadership and planning are concerned.

Most of Chinese family companies have relatively simple structures which refer to the family’s development (more than 80% are small to medium size companies). The consolidation of assets, control and family management within a Chinese family company has contributed to more potential conflicts, compared to business leadership of western companies. In addition to the company’s problems, there may also be family conflicts and disputes.

Internal organization within a Chinese family company is marked by the uncleerness of the functions, which again reflects the basic cultural values as well as the Chinese leadership style. Some small Chinese firms don’t even have the organization chart and position descriptions. Assignments are given to the employees based on needs, and the way the company is run may be redefined at any time. Interestingly, the respondents’ comments on informal organizational structure vary from “very good” to “very bad”. On the one side, informal structure may boost higher speed of works and bring very high flexibility to the company in responding market fluctuation as well as potential opportunities. On the other side, this ad hoc organization may resist the growth of essential capabilities.
Chinese businessmen often grab any promising opportunity available based on their intuitions. Their main motive would be improving their cash-flow in a short time. By doing this, they believe they are improving their portfolio diversification. This kind of business strategy discards official planning and control instruments.

The status of Overseas Chinese as immigrants / minority groups makes them reluctant to public expose. Some respondents believe that this would be a weakness in developing products and services at international level with higher added value. Typical strategy of Chinese businesses would be focusing more on expanding market share in local market by only acquiring small profit margin in hope of more sales volume.

**Demand for Consulting Services**

Potential demand for consulting services from the viewpoint of Chinese firms would not be properly quantified, due to the large number and kinds of existing companies. The demands are mostly dependent on the influencing factors, which may account to the surroundings such as: politics, economy, globalization, and the internal factors.

The findings show that the external factors have direct impact on for consulting service. Zubaidi et al. (2003) proved that the current accounts of four ASEAN countries (Indonesia, Malaysia, the Philippines, and Thailand) were unsustainable and did not move towards external-account equilibrium. Some Chinese businesses experienced extremely difficult time. This condition would be considered an additional complexity to the already shattered economic frame in South East Asia. Therefore, the need for consulting service would be high.

The respondents point some internal factors influencing the demands for company consulting services such as: organization problems, leadership, finance and the unavailability of enough number of educated manpower. As the Chinese firms grow, they would reach their traditional management method boundaries. The stretch of boundary dimension creates the needs of transparency in Chinese firms, and thus provides good
opportunities for consultants. International consulting firms operating in South East Asia were expected to be equipped with strategic consulting instruments such as portfolio technique. A study conducted by Ward et al. (2002) on Chinese family business after the 1997 crisis in Asia revealed some interesting findings similar to our findings. Their findings demonstrate significant number of value changes. The assumption of the longevity of the Chinese traditional values is questionable now. These findings suggest the emergence of distinct managerial styles in each country, rather than the continuance of more common "Asian" or a Chinese way of doing business.

The external and internal factors we found and discussed above indicate an existing general pressure to change. In the future, by only applying traditional approaches such as networking, Chinese businesses may have difficulties in struggling in the international competition. General views from “external” helps (consulting firms) would help them succeed. Moreover, findings show that positive attitude upon hiring a consulting service mainly contributed to by western educational background of the family members.

Most of the respondents think they could fulfil their increasing needs on information through different kinds of resources such as:

- keeping and building relationship/exchange with colleagues
- employing specialists
- know-how gained from suppliers
- advanced education at professional education centers
- educating prospective successors in western prominent universities
- strategic alliance and partnership
- joint venture
- Chinese Chambers of Commerce
- Institutions close to the country

The above patterns indicate some opportunities for consultants in helping the Chinese businesses to develop knowledge. Founders of Chinese businesses are generally hard-working businessmen. They built their business empires with their own hands and they don’t think they need any help from strangers. They feel reluctant to use consulting

services as such services may not be quantifiable. However, this field research found that after the 1998 crises, many of them are aware of the changes and existence of pressures, and transparency to external consulting would increase.

**Segments Possibly Requiring Consultation**

Demands for consulting services may not be easily deciphered into different consulting fields. The fact from the findings shows that there is a high demand for IT consulting services. There is a high need to replenish what they have missed compared to western countries. Small and medium companies in South East Asia often have little access to recent information technology. In addition to IT, the need for consultation in new development strategies such as production process automation and other latest technology would be also high.

After the Asian crises, financial management consolidation gains the highest priority level in consulting services. The respondents believe that with the increment of globalization and the economic crises, Chinese firms experience more pressure on cost reduction and production refinement, which in the previous years may not be an issue. Most likely, companies offering excellent quality products and services internationally are the ones that survive. Efforts to obtain international certifications on quality management system would be helped by consulting firms. Consultants planning and preparing strategies for internationalization and able to carry benchmarks from other companies, receive orders from certain Chinese family companies targeting new selling market outside Asia.

**Designing an Initial Consulting Process**

In the western culture, there are many standard step models of consulting process. All models refer to strict problem solution and clear. The respondents would expect consulting firms to adjust their models based on the uniqueness of the companies.

The direct comparison between “western style” consulting process and consulting process for Chinese business reflects clearly the basic differences of stages (Fig.3). In doing business with the Chinese, the first stages of building trust would be the most important part of the whole process. Therefore, the time needed for the first stages would be more.

The meaning of networking as the success factor during the consulting process is inscribed by the placement of all processes into the relational network and the two-way responsibilities. The natural characteristic of the network is different from the classical “acquisition of business relation”. Here they maintain a philosophy of helping each other and conformation of information contacts. Therefore, the maintenance of contacts is at the very front position and shall be seen as a continuous process, or basic attitude. However, in these stages, it is not guaranteed that in a short time there would be some business relation. More often, this relation may arise after a couple of years. Therefore, the meaning of “Chinese networking” would be different than the “acquisition of business relation” stage in western classical meaning.

In many Chinese companies, first contact would be substantial compared to the West, and it may be time consuming. For a Chinese businessman, the trust development would be the most important part of the relationship. Without trust, there will be no consulting contract. The time consumed from first contact until contract is signed would be much longer compared to those in the West, as Chinese businessmen need longer time to be convinced by consultants. After the critical first stage is done successfully, there would be possibilities to start contract negotiation.

The stage of “offering and negotiating” in relation to Chinese businesses would be considered as the starting point of the contract agreement of a consulting project. Consultants may try to affect the process of decision making through arguments and by offering special payment and special condition. However, should the consultants change their style into “hard selling”, they would least likely get the contract at all. The trust and acceptance developed would be eminence when it comes to negotiating. Formal contracts may not exist. In Asia, a contract is something “alive” and should be able to provide
 flexible need, thus it would continuously “be developed”. Due to this culture, an intensive management application consultation is needed in order to fulfil the Chinese businesses’ expectation throughout the consulting process.

Findings show that most Chinese businessmen would prefer small and “more digestible” projects. Therefore, the proposal of modular concepts able to implement independently would be highly recommended. These kind of comprehensive proposals would make them able to judge right away and in compliance with their expectation.

Respondents reveal some facts regarding the use of the “inner circle” in persuading the Chinese firms to use consulting services. Consulting concepts generating family feuds would possibly be rejected. Moreover, the critical success factor would be the respect from the family. In Chinese culture, more close relationships considering social status is more acceptable than organisational efficiency and objective valuation of facts.

Therefore, while interacting with the employees, consultants should consider that the only authority lies on the “managing” family.

Confirming the discussion above, Tan (2002) best described the Chinese overseas would adapt a cross-vergence attitude. Neither convergence nor divergence view is adequate to explain the dynamic interaction of the Chinese culture and the environment where the Chinese do business. However, this study might contribute some thoughts to corporate consulting area in South East Asian countries.

**Conclusion**

This study was conducted right after the 1998 crises. All respondents were Chinese businessmen from Singapore, Indonesia, and Malaysia. Findings indicate that Chinese businesses are unique and mostly based on informal leadership and management strategies. Despite of their tremendous successes, some weaknesses may occur. Following the 1998 turmoil in South East Asia, many Chinese firms were collapsed. This
would be a starting point for the Chinese businessmen to begin to retrospect and find their weaknesses in light of searching for the best solution. One of the solutions that seldom occurred previously would be using consulting services. Consulting services may be needed to assist the continuity of the Chinese businesses. This thought came from the arising need to ask “external” parties regarding their businesses. Influence from the younger generations previously educated in western universities also play a bigger role in the decision to hire a consulting firm.

Consultants should not be tempted to apply their main thoughts, without any observation on cultural context. A careful analysis and free from prejudice against potential clients and their environment may give better understanding for the consultants to deal with Chinese business firms in South East Asia.

References


Sastrodiningrat, Soebagyo (1996): *The Influence Of The Chinese Culture On The Leadership Style Of The Industrial Glass Table Ware In Indonesia*, Unpublished Paper, Jakarta.


**Networking**
- Development and living of mutual relation (“quanxi”)
- Cooperation across country boundaries

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<thead>
<tr>
<th>Organization</th>
<th>Ownership and family management</th>
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<td>Small units or conglomerate</td>
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<td>high degree of reinvestment</td>
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<td>joint participation among companies under family control</td>
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Figure 1: Typical features of Chinese Family Company

**External Influencing Factors**

**Politics**
- State control reduction
- No more Protection
- Social themes impact

**Economy**
- Non-developing market (stuck) or setback.
- Non-guaranteed/instable money market
- Privatizing public sectors
- Development of tertiary sectors.

**Globalization**
- Strengthening of international competition
- Various forms of cooperation
- Inter cultural communication
- Demand for standardization

**Technology**
- Development of technology information and communication
- New technology such as high/sophisticated technology

**Internal Influencing Factors**

**Chinese Family Firm**
- Organization problems
- Patriarch Management Style
- Less awareness of problem
- No strategic orientation
- No enough planning and controlling instruments
- Financial Problem
- Lack of educated workers and middle management
- Low productivity

Demands for services of company consultation
Figure 2: Factors influencing demands for consulting services

Process arrangement in Giving Consultation to the Chinese Family Companies

Consulting process already having standard (Western Countries)

Consulting process for Chinese Family Company

"Networking"

First Contact

Tender and Negotiation

Diagnosis

Action Planning

Implementation

End of Assignment

First Contact

Tender and Negotiation

Diagnosis

Action Planning / Implementation

End of Assignment

Management in defending client’s expectation