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Social Capital and Business Transformation in Asia

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Report of the APO Basic Research XIII on Social Capital and Its Impact on Productivity (Phase II) [05-RP-GE-SUV-03-B]

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BASIC RESEARCH REPORT

Social Capital and Business Transformation in Asia



ASIAN PRODUCTIVITY ORGANIZATION

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(Phase II) [05-RP-GE-SUV-03-B]

Associate Professor Tan Wee Lian served as the volume editor.

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CONTENTS

Foreword

Research Overview

<i>Tan Wee Liang</i>	1
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Part I. Integrated Report

Summary of Phase II of Social Capital Research Project	
<i>Tan Wee Liang</i>	5
Appendix: Interview Schedule Used in Research.....	12

Part II. National Reports

India	
<i>R. C. Monga</i>	21
Japan	
<i>Yoji Inaba</i>	36
Republic of Korea	
<i>Heon Deok Yoon</i>	50
Malaysia	
<i>Noeline Chanan Singh</i>	63
Singapore	
<i>Tan Wee Liang</i>	81

Part III. List of Contributors	91
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FOREWORD

Social capital – that is, capital that takes the form of norms, trust, and networks – has been the subject of considerable recent research. It has been found to facilitate corporate competitiveness and economic development, enabling individuals and organizations to bond together and bridge gaps. The competitiveness of Asian enterprises is a matter very close to the heart of the work of the APO. Hence, it is both timely and appropriate to commission research into the important role that social capital plays in Asia.

This project was undertaken in two phases. The results of the first phase were published under the title *Social Capital in Asia*. The research was led by Professor Heon Deok Yoon of Soongsil University, Republic of Korea. The second phase, led by Professor Tan Wee Liang of Singapore Management University, followed from the initial work and explored the role of social capital in family firms as the largest category of enterprises in Asia.

Research on social capital in Asian family-owned firms is needed as many small- and medium-size enterprises fall into this category and rely on contacts from within their networks and circles. The close-knit nature of families and the significant level of social capital employed have a significant potential impact on business transformation, which must occur for firm development and growth. If social capital is to be a boon to business transformation and not a hindrance, its utilization should be encouraged. On the other hand, if it leads to less-effective business practices or to a preference for the status quo, it is necessary to become aware of its disadvantages. The research found that in the firms examined social capital played a crucial role in business transformation, and the examples revealed certain best practices that other Asian businesses can emulate.

The APO is grateful to all contributors to this book for conveying the emerging concept of social capital through their studies. It is our hope that this research on social capital will encourage firms and policymakers to examine social capital and its linkages to business excellence and higher productivity. The APO will continue to support research in this area and seek ways in which to enlighten businesses in member countries on the virtues of social capital for business transformation for sustainable growth and greater competitiveness.

Shigeo Takenaka
Secretary-General

Tokyo
April 2008

RESEARCH OVERVIEW

BACKGROUND

The role of social capital has been the subject of much study and research in recent years. The initial interest was on the role social capital plays in society in the form of community development, norms, trust, and social networks. Attention then turned to the role of social capital on business.

It seemed obvious that social capital represented by norms, trust, and various returns would play a role in business. Yet the manner in which it has helped or hindered business growth and development in Asia has not been adequately explored.

To address the question of the role of social capital on business and productivity in Asia, the APO embarked on Phase I of a Basic Research project on the subject. The findings were published in the book *Social Capital in Asia: An Exploratory Study (2006)*. Phase I of the research was headed by Professor Heon Deok Yoon of Soongsil University. The key findings from Phase I were:

All three dimensions – norms, networks, and trust – are present across all the participating countries;

Social capital has proven impact on productivity improvement;

- The impact of social capital on productivity improvement can only be “speculative,” although there is consensus that a high level of social capital appears to be correlated to high productivity;
- Income, education level, firm size/stage growth, etc. affect the level of social capital;
- Different stages of economic and social development result in different levels of social capital; and,
- Adverse effects of social capital can also be found:

Strong group bonds can exclude outsiders and create an undue focus on the group’s needs to the detriment of the broader group. Strong group norms and sanctions may also stifle individual expression and initiative.

Both bridging and bonding social capital are required in the daily operations of firms. *Bridging social capital* is imperative to span gaps between various people from different backgrounds, whereas *bonding social capital* is needed to create a sense of cohesion among workers. However, bonding social capital can be a two-edged sword. Bonding social capital, creating strong in-group loyalty, may also create strong out-group antagonism. For that reason, negative external effects are expected to be more common in this form of social capital.

(Yoon, 2006)

This book embodies the report for Phase 2 of the APO Basic Research Project on social capital.

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(page 2)

PART I INTEGRATED REPORT

Inside Cover for Part I
(page 3)

INTEGRATED REPORT

Prof. Tan Wee Liang
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SUMMARY OF PHASE II OF SOCIAL CAPITAL RESEARCH PROJECT

Relevance

While the first phase of the research indicated that social capital indeed plays a role in business, there was an evident need to explore the manner in which this social capital is generated in businesses, especially in relation to business growth and transformation. Business change is one of the ways productivity improvement can be attained by business. The future competitiveness of businesses in Asia, particularly small- and medium-size enterprises (SMEs), will impact overall national competitiveness. In the face of technological change, entrepreneurial innovation and globalization, the SMEs need to adapt, innovate, and change.

Some of these changes are substantial and lead to major transformation of the business or key aspects of the business. The main question that is being examined in the second phase of the research is the manner in which social capital operates in either facilitating or hindering this business change.

Social capital in the form of networks can be helpful to business transformation if the networks provide access to information about the needed change, access to the relevant resources (say, a consulting firm that has been previously engaged by related businesses and found to be helpful), access to new markets, technology or talent (personnel). On the other hand, if the social networks a business is linked to are not forward-looking, but are inward-looking or resistant to globalization, the reality may be that the social capital in this case might prove to be a handicap to change.

Similarly, trust within a business, if high, can help the introduction of new measures and processes. The employees and managers can move relatively quickly because implementation of new changes is made possible when there is high trust between the internal stakeholders of the firm. Yet at the same time, the high internal trust may mean low trust of outsiders. This situation could easily arise in SMEs where the ties between business owners and long-term employees of the firm are so tight to the exclusion of outside influences.

The role of social capital as a resource (both positive and negative) to SMEs needs to be explored. One cannot assume that the presence of social capital is certain assurance of growth and development. Commentators on attitudes toward trust have noted that Asia is a region that is characterized by low trust (Fukuyama, 1995) and that this characteristic is an impediment to the growth of firms.

Others point to the need to be engaged in the right networks in order for business to be done in Asia (Kao, 1993). While the presence of these networks and their benefits can enable their members, the corollary is not true – that is, that all SMEs are members of these networks. Hence for those not in the networks, the heralded advantages do not accrue. While these examples speak to the role of social capital and inter-organizational

relations, the question still remains: what about social capital's effects on internal organization, change, and business growth?

The positive and negative potential of social capital as a production factor has been the subject of considerable discussion. Svendsen & Svendsen (2004) noted that while *social capital* permits bridging between people, linking them together and enabling human exchange, *boundary social capital* can be seen as being "too much" glue (Putnam, 2000; Svendsen & Svendsen, 2004), possibly leading to the monopolization of networks by cliques or isolated groups. These comments address the larger context of society. There is also a need to answer the question of whether social capital acts as glue or lubricant, or both, depending on the situation. Westland & Bolton (2003) noted that social capital in the community can inhibit or facilitate entrepreneurship. Anderson and Jack (2002) found that social capital performed both roles in entrepreneurial networks.

The Context: Most Asian SMEs are Family Businesses

Phase I of this Basic Research project on social capital found support for the view that social capital could both assist and hinder businesses in their relations and transactions.

As the work of the APO focuses on productivity, the research sought to examine the role of social capital as it impacts productivity. In Phase I, the study examined firms in general. In Phase II, we sought to examine the role of social capital in family businesses and business transformation.

We have chosen to focus on family businesses for various reasons. First, the focus is on productivity and the role of social capital on productivity. Second, the ambition is to explore the role social capital plays in SMEs as these enterprises widely proliferate across much of Asia. In Asia, economic growth is partly the result of vibrant and active small- and medium-size enterprises, where the majority of the businesses are family owned and controlled. The success of these economies does, in large part, depend on the success and growth of the local enterprises within these economies.

Third, we chose to examine family businesses in light of views that Asian businesses suffer from built-in constraints on growth that stem from various cultural factors. For instance, one argument against widespread dynamic growth is that the Chinese family business model, which is present in small and large companies alike, presents an inevitable built-in barrier to growth and restriction to size (Redding, 1990). Redding drew upon data from the Hong Kong manufacturing sector, which showed that they had gradually become smaller (measured by the average number of employees) from 1964 to 1984. He went on to assert that "the first professionally managed and publicly owned Chinese multinational is still waiting somewhere in the shadows, and may, in any case, be a fantasy of the mind which assumes all enterprises contain the same essential dynamics, and are not really cultural artifacts" (Redding, 1990). He posits that the influence and impact of Chinese culture on managerial practices is significant, distinctive, and pervasive. The aspects of Chinese culture Redding refers to are part and parcel of social capital in Asian family businesses.

He is, in fact, not alone in this view. Fukuyama (1995) agrees that the culture of societies steeped in familism affects their economic growth. Fukuyama considers such a culture to present a hurdle to growth, pointing out that "familistic societies have greater difficulties creating large economic institutions." (p.62). If this view is true, the aspirations for Asia might run aground on the sandbars of culture and social capital. If so, social capital in the form of cultural norms and the basis of trust within and between Asian businesses could be a threat to business effectiveness and national competitiveness.

The role of social capital in family businesses

Social capital in the form of trust, norms and networks works in family businesses in various ways. It enables family cohesion in the business. A family business with high trust, clear norms that are upheld, and networks that are maintained might then be expected to have high family cohesion. “Family cohesion” is defined as the degree of emotional bonding among family members (Olson, Russell, & Sprenkle, 1983). It is an indication of interpersonal attachment at the emotional level. Strong family cohesion also motivates a family to stay committed to the family firm (Astrachan, 2003).

Social capital also enables the family to function as a team as they are agreed on norms and trust each other. They also have agreement on goals. Social capital operates as the glue that bonds the core family members, extended family, loyal staff, and business networks together. It also serves as a “lubricant” as it enables the families to bridge across to other family businesses, new contacts, and business opportunities.

These arguments would appear to apply to family businesses in most Asian countries. Japan, Republic of Korea, Singapore, and Taiwan all share roots with the Chinese in Confucianism and Buddhism, while Japanese and Korean family businesses are seen to share many of the same features of Chinese family businesses (Chen, 1995).

Indian nuclear and joint families also have many of the features as the Chinese, Japanese and Korean: they also have patrilineal succession with strong family ties, and friends form part of their social networks (Sampath, 2001; Dutta, 1997). “The patriarch can look back on a good innings only after he handed over a growing business to his sons.” (Dutta, 1997, p.70).

Women, however, rarely play a key role in business. The only instance in which they were found to be active in the family business is after their husband’s death, when they act as stewards or regents until their sons could come of age (Dutta, 1997, p.79). Nepotism exists with a preference for the family members to be involved in the business but in the face of inadequate talent, the Indian family businesses turn to friends and peers within their networks.

In Malaysia, although the Chinese are a minority in society they are quite active in business (Sim, 2004). Muslims in business upholding their religious beliefs are motivated to engage in business for their families (Ismail, 2006). In fact, Islam’s principles require them to do this. They, too, are likely to do business with families and friends in their networks (Ismail, 2006). The Muslims in Malaysia are known for their involvement in the community and neighborliness. Thence, in their business dealings, they can be expected to employ their social capital first with priority on their family, then their friends, and then the Malay community at large, but always are subject to a long-term view with religion being the primary motivation.

Thus, despite the differences in culture, castes, and practices, there are a number of similarities among Chinese, Japanese, Korean, Indian, and Malay family businesses with social capital strongly present and playing an important role.

Research Methods Employed

Case studies were developed in India, Japan, Republic of Korea, Malaysia, the Republic of China, and Singapore. The members of the research team are listed in Appendix 2. The research team was identified by Lee Kia Yoke, Senior Research Officer at the Asian Productivity Organization. A coordination meeting of the research team was held in December 2005 in Kuala Lumpur, Malaysia. The team deliberated on the scope of the research, the issues being examined, and the methods to be adopted.

The research team employed interview methods and each team member identified at least two family-run businesses in their country. A common interview schedule was designed and used.

FINDINGS

Social capital plays an important role in business growth

In all the countries, the research found that in family businesses social capital played an integral role. This included enabling the development of new businesses.

In the Indian case of the company Alpcord, it was noted that a business opportunity was exploited when Mr. Chnader invited his brother who had previously built strong links in the pharmaceutical industry to join him to start a new service catering to the increasing demand of medical tourism. They decided to start Alpcord Meditours to take advantage of growing medical tourism to India and build a business around low treatment costs and excellent health facilities available in private-sector hospitals in India where the standards are comparable to the U.S. and Europe.

In Malaysia, the Barkath Group received advice on business opportunities and decisions over the years from associates in manufacturing and banking, and from close friends and relatives. Their contacts in the Islamic Chamber of Commerce, Danish Business Council, and the Federation of Malaysian Manufacturers also proved to be reliable sources of information on opportunities for new markets, insights into innovative new strategies, product publicity and design, and product concepts to gain a wider market base.

Social capital as trust within organizations

Social capital created by trust between business leaders and their employees enables firms to change, develop, and grow. In Malaysia in the case of Noor Arfa Batik, the element of trust became especially prominent because most of the running of the firm has been turned over to the company's trusted employees and the sons of the CEO. The CEO instead concentrates primarily on business expansion and venturing into new markets, with no need to worry about decision making on day-to-day operations.

To develop such social capital may require the family business leader to change the organizational culture as in the case of Nagase & Co., Ltd. in Japan, a family business in its seventh generation. Upon taking office as the firm's president in 1999, Hiroshi Nagase decided that the corporate culture needed to be changed. He focused on internal collaboration among workers. He wanted to retain the good aspects of the firm's traditional corporate culture based on accrued expertise in chemicals and related products. Promoting collaboration among different divisions at every occasion available, he was able to achieve successful collaboration among the divisions. Employee performance appraisals also took collaboration into consideration although it was found to be difficult to implement. This business transformation ultimately included the company's board of directors. At the same time, Mr. Nagase reformed the way the board conducted its business. Instead of the board members looking after specific divisions, they instead considered matters across divisions and for the company as a whole.

Social capital is transferred upon succession

One of the concerns the researchers sought to examine was whether family firms neglected to transfer their social capital in the form of networks between generations. Research also examined the degree to which family culture was preserved.

Contrary to expectations, it was found in Japan, Republic of Korea, Malaysia, and Singapore that the leaders of the family firms did in fact acquaint their successors with their business contacts and networks. These networks and contacts were not considered the property of the predecessor alone but were felt to belong to the members of the family who worked in the company.

Means of social capital transfer

There was a degree of hands-on involvement of the predecessor and successor in the transfer of social capital. In the PDL case (India), one of the successors had not previously been involved in the business. Yet he was gradually introduced to the networks. According to the interviewer: “Since he had no background or experience in the family business, his elder brother, the founder of the company, guided him personally. He used to sit in the chamber of the founder and participate in all meetings that were held with customers, suppliers, and close associates within and outside the office. The open style of functioning of the founder facilitated to seek his views and guidance on various issues and decisions. He took on responsibility slowly and started sitting in a separate office.”

Business successors augment existing social capital

It had been anticipated that the new leaders might find their predecessors’ business contacts to be a hindrance to business. This situation could easily arise when out of loyalty to old suppliers the new leaders felt obliged to use the same suppliers. Yet there were found to be no such instances of “lock-in” or hindrances.

In cases where the successor transformed the businesses as in the instance of Qian Hu in Singapore, the previous networks were less relevant since the nature of the business had been changed from pig farming to the raising of ornamental fish.

In the case of the Japanese family business of Nishida Corp., its successor, Yoshio Nishida, built upon the firm’s success in exporting high-quality textile products to the U.K. and Australia in the 1950s and to the U.S. in the 1960s. In 1967, Yoshio’s son was able to extend the networks to include Sears Roebuck. The work in building on this social capital saw the firm open an office in New York in 1970.

Globalizing through social capital

In the same vein, two Korean family businesses developed their social capital so as to gain entry into global markets. For instance, the company DGI participated in trade fairs and expositions to earn it a quality reputation among leading firms in world markets.

In SL’s case in Republic of Korea, Hae-Jun Lee, a strong business leader, fostered capable human resources for technology development and the growth of his company. Visiting professionals at every level in relevant fields of the domestic auto industry, he established strong networks and trust relationships. As a consequence, he was able to match the right expert with the appropriate issue, which helped the company make a quantum leap in production. To overcome SL’s technological limitations, Mr. Lee sought cooperation and networking with world-class companies. His efforts led to an alliance with a well-known Japanese firm that delivered a significant competitive and technological advantage.

Discussion and Recommendations

While the researchers were concerned that social capital might be a hindrance to business transformation, the cases from the countries in the study clearly show the positive role that social capital plays. There was transfer/transmission of social capital between generations. New social capital was developed between organizations, individuals, and within firms. Where the social capital in the form of existing organization culture proved to be a hindrance to business by not fostering cooperation across departments and offices in family firms, steps were sometimes taken to develop new culture.

The research is helpful to reveal ways in which family firms have harnessed their social capital, to augment and maintain it for business purposes. In addition to providing indications that social capital assists business development, these cases provide a semblance of “best practices” from which other family businesses can potentially learn. One lesson that they can glean from the cases is the need to seek new and appropriate contacts when entering new businesses or territories. It is also clear from the cases that the decisions to be made lie within the family firms, regardless of the advice received. The social capital may facilitate their choices, but strategic decisions have to be made by the leaders of the family businesses themselves.

From our findings it is clear that the APO should develop SME programs that address the needs of most SMEs for growth and business transformation. The programs should promote the best practices from these country case studies. The specific types of ties that can assist the SMEs, the methods of maintaining social capital, and providing for such maintenance are some of the areas that can be delved into. Forums and study meetings should be organized to help spread an awareness of the importance of this topic.

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APPENDIX:

INTERVIEW SCHEDULE USED IN RESEARCH

PART 1: INFORMATION ABOUT THE BUSINESS

1. Demographics:

- 1.1. Nature of business
 - 1.1.1. industry
 - 1.1.2. size by employees
 - 1.1.3. markets
 - 1.1.4. key success factors for business
 - 1.1.5. brief business history from commencement
- 1.2. Facts about the interviewee – age, educational qualification, gender, date of assumption of leadership, significant contributions to the SME prior to assuming leadership.

2. Name of Business:

3. Which industry category is the business in? *(Tick only one box)*

- | | | | |
|---|--------------------------|---|--------------------------|
| Manufacturing | <input type="checkbox"/> | Recreational, personal & other services | <input type="checkbox"/> |
| Retail/wholesale trade | <input type="checkbox"/> | Community services | <input type="checkbox"/> |
| Finance, property and business services | <input type="checkbox"/> | Other <i>(describe)</i> | <input type="checkbox"/> |
-

4. What is the ownership structure of the business?

(Please tick one box only)

- ☐ Sole proprietor
- ☐ Partnership
- ☐ Private limited company
- ☐ Publicly listed company
- ☐ Other (please specify)
-

5. Do you consider the firm a family business?

- ☐ Yes ☐ No

6. How long has the business been in operation? <input type="checkbox"/> less than 2 years <input type="checkbox"/> 2–5 years <input type="checkbox"/> 6–10 years <input type="checkbox"/> more than 10 years	7. No. of people employed by the business: <input type="checkbox"/> fewer than 20 <input type="checkbox"/> 21–50 <input type="checkbox"/> 51–100 <input type="checkbox"/> more than 100
8. Turnover of the business last fiscal year: <input type="checkbox"/> less than US\$1 million <input type="checkbox"/> US\$1–5 million <input type="checkbox"/> US\$5–10 million <input type="checkbox"/> more than US\$10 million	9. Percentage of export sales (average over the last 3 fiscal years): <input type="checkbox"/> less than 10% <input type="checkbox"/> 10 – 25% <input type="checkbox"/> 26 – 50% <input type="checkbox"/> 50 – 75% <input type="checkbox"/> more than 75%
10. What is the firm's major export region: (Tick one box only) <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div><input type="checkbox"/> North America</div> <div><input type="checkbox"/> South America</div> <div><input type="checkbox"/> Northeast Asia (Japan/Republic of Korea/Taiwan)</div> </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <div><input type="checkbox"/> Southeast Asia</div> <div><input type="checkbox"/> China</div> <div><input type="checkbox"/> Australia/New Zealand/Oceania</div> </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <div><input type="checkbox"/> Europe</div> <div><input type="checkbox"/> Africa</div> </div>	
11. Profit as a percentage of sales, (average over the last 3 fiscal years): <input type="checkbox"/> 0% – 5% <input type="checkbox"/> 6% – 10% <input type="checkbox"/> 11% – 15% <input type="checkbox"/> more than 15%	

PART 2: BUSINESS RELATIONSHIPS

This part of the questionnaire is about the relationships you have developed in the business with groups in society from which you have derived assistance, knowledge or understanding in your venture(s). The relationship may be formal or informal, or it may be of assistance to you at various stages of your business. In your response, please note that while these groups may overlap with each other, the focus is on the main purpose of the relationship, i.e.:

- *Extended family networks* (parents, brothers and sisters, uncles and aunts, cousins);
- *Social networks* (e.g. sporting clubs and social groups);
- *Industry networks* (manufacturers, wholesale, finance);
- *Professional networks/associations* (e.g. accountants, engineers);
- *Informal networks* (random meetings, people one is normally unconnected with)
- *Other* (any other networks not included above)

12. Social capital

12.1. What do you normally do for your leisure?

12.1.1. [probe for clubs, clan associations, etc.]

12.2. Have you found it necessary for your business to be part of formal or informal networks?

12.2.1. How have these networks benefited you?

13. Are any of the following networks useful for your business? (*Circle the number that most closely corresponds to the level of usefulness.*)

	<i>Very Useful</i>	<i>Moderately Useful</i>			<i>Least Useful</i>
• Extended Family Networks	1	2	3	4	5
• Social Networks	1	2	3	4	5
• Industry Networks	1	2	3	4	5
• Professional Networks/Associations	1	2	3	4	5
• Informal Networks	1	2	3	4	5
• Others					

14. In what ways are these networks useful? (*Tick any of the boxes that are relevant to your business*)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital					
• Help in meeting production targets					
• Help in sharing costs in marketing strategy					
• Help in obtaining special knowledge					
• Share customer base					
• Help in overcoming barriers (legal, political, etc.) to market entry					
• Other (please specify): _____					

15. Use of Social Capital

[When asking the CEO or owner]

15.1 Who would you normally turn to for advice in making business decisions?

15.1.1 Look at the various answers the person provides and probe further for reasons.

Why would you consider these individuals in seeking for the assistance that you required?

[For each type or group of people used in assisting the business-owner, find out the bases/reasons he/she trusts them or relies on them. E.g., how long did you know this person?]

15.1.2 Nature of the social capital

[Was it transferred from his predecessor/father/family members?]

How did you get involved with this group?

15.1.3a Did your predecessor/father/family connect you to any networks/contacts/friends?

Can you tell us how your predecessor/father/family linked you to these contacts?

What did you do to further develop these links?

Why did you develop these contacts/ties?

15.1.3b If your predecessor/father/family connected you, please tell us what were the reasons for this not taking place?

Would it have made a difference had you been so linked to these networks? In what ways?

15.1.4 How have these relationships [N.B. not just those handed over, make sure you try to differentiate between the ones they developed and the ones they inherited] proved to be helpful to your business?

15.1.5 Have there been instances where the relationships, their advice or assistance turned out negatively?

15.1.6 [Now we ask the interviewee to look at the people/networks he/she resorts to for other things; like resources.]

Do you rely on different contacts for different resources? We are curious as young business students how you size up the usefulness of your networks and ties.

Note: We repeated some of the questions above because sometimes the use is different.

[When asking a subordinate]

15.2 Who do you observe the boss/top manager turning to for advice; for example, in the area of appointment of consultants, advisers, business contacts, and major business decisions?

Do the bosses turn to friends?

- Business contacts?
- Key trusted employees in the company?
- Existing professionals?

Can you tell us a little about the relationship between the boss and the networks/friends/etc.?

We repeated some of the questions from 3.1 [suitably modified]

16. Trust

[When asking the CEO or owner]

16.1 Would you say that there is a lot of trust between the family owners and the management as employees?

16.2 If the business leaders/management were to introduce a new measure, what is the likely reaction from the employees? Would there be a lot of suspicion?

16.3 Has the firm been able to develop a corporate culture that enables trust to be developed between owners and the managers and employees?

Could you please elaborate how this has been done? Or how is the process going [if there is one]?

16.4 Looking back to the time when your parents [or the original founders] started the business, would you describe the level of trust in your firm has changed? Can you tell us about the changes you perceive?

17. Social Capital and Business Transformation

[When asking the CEO or owner]

17.1 Can you tell us what major business change has occurred in your firm in the last few years?

- operational: processes, routines
- strategic: decisions, plans, processes/routines
- structural: new units, new subsidiaries
- leadership: personnel change
- mindset/values

How did the business transformation [the change; for each change exploration] come about? [please use the appropriate wording depending on the transformation; e.g. if the firm brought in a professional manager then ask about that.]

What was the critical incident that led to the transformation, if there was one?

Did it arise from a suggestion from one of your friends/contacts/networks? [explore links to social capital]

If so, who suggested it?

Tell us more about the relationship/tie that you have with this person? [if he has not mentioned it earlier]

What made you decide to take up the suggestion?

Was this influenced in any way by the relationship, by the experience/status of the person recommending etc.?

17.2 Routines & Procedures

On reflection, what processes and routines were altered as a result of [the change, or whatever its actual name is]?

What was the previous approach that was used?

How different was the new process? Why was it necessary?

Was there resistance to the adoption of the new process? What was the source of the resistance?

[*When asking a subordinate*] You need to vary the questions on the nature of the relationship.

- How did the business transformation come about? [Please use appropriate wording depending on the transformation; e.g. if the firm brought in a professional manager then ask about that.]
- What was the critical incident that led to the transformation, if there was one?
- Do you know if it arose from a suggestion from someone in the bosses' networks, friends or contacts?
- Would you happen to know why the boss opted to take up the suggestion?
To what extent did the bosses' friend/contact [if the suggestion was from one of these] help with the business transformation?

PART II NATIONAL REPORTS

Inside Cover for Part II
(page 19)

INDIA

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INTRODUCTION

Modern family businesses in India, which can be said to have had their origin in the establishment of a steel mill about 100 years ago by what became the now-famous Tata Group, are truly the backbone of the Indian economy. Due to the mixed economic policies of the Government of India, many big organizations are public sector undertakings. As such, within the top 100 or 500 companies, the share of family-owned companies is relatively small compared to global data. However, given the fact that most small businesses and start-ups are family owned, their overall contribution to the national economy is very high (Jain, 2006).

While statistics on all family businesses are difficult to obtain, it has been estimated that family businesses contribute 71% to Indian market capitalization, 65% to GDP, and 75% to organized employment (Chakrawartti, 2007). Of Business Today's "Super 100" companies, 66 are family run (Piramal, 1999). According to the Ministry of Small-Scale Industries, about 11 million small-scale industries, primarily family run, were operating in India during 2004-05 employing about 28 million workers, and contributing about 40% of the nation's industrial output. Ninety percent of the employment generated in manufacturing in the small-scale industry sector is represented largely by family firms (Jain, 2006). According to the annual report of the Indian Ministry of Company Affairs, more than 20,500 companies were registered from April 2004 to October 2004 as private limited companies. Most were identified as family-owned businesses. As well, more than 80% of an estimated 12 million retail outlets in India were run by families.

However, myriad changes that include increasing competition, both local and global, and increasing integration of the Indian economy with the rest of the world, reduced government controls, increasing focus on public private partnerships, and the fast pace of technological change are forcing family businesses to embrace change to respond effectively. Widespread shifts from a seller's to a buyer's market, family wealth to shareholder value, growth to economic value-added, family succession planning to attract managers, and diversification to core competence are some of the notable changes in this regard (Piramal, 1999). Their ability to change quickly, plan for succession, manage conflicts among family members, balance family and business objectives, move toward greater market orientation, professionalize management, and diversify to take advantage of emerging sunrise areas such as biotechnology and IT are all major challenges that must be tackled to survive.

The culture of family businesses is shaped by the Indian culture, joint family system, and the need to adopt emerging business paradigms. Managements are constantly struggling to strike a balance among these various requirements. Over a long period, these family businesses, particularly their founders, have accumulated a strong resource base in terms of expertise, knowledge, contacts, and relationships. However, it must be stressed at this stage that various families have their own unique values, culture, skills, and ambitions

which lead to different strategies, management styles, and practices. The changing economic and business environment is influencing these attributes while a common thread can be discerned across many family businesses. The core of the family business culture, trends and challenges, in the context of the objectives of this study, can be generally characterized by the following:

- Respect for elders leading to strict adherence to hierarchy and chain of command;
- Multiple roles for family members as owners, senior managers, professional colleagues, and relatives;
- Respect for traditional values that includes strong family ties, integrity, hard work, food preparation habits, and religious beliefs, among others;
- Reluctance to retire resulting in long-term tenures for most family leaders, and the need to provide guidance to other family members while some families are formalizing the role of the family members in the business, including retirement age;
- Tendency to keep control of the business within the family, and preparing and inducting family members into daily operations of the firm;
- Developing sound interpersonal relations and trust among family members on one hand and with professional managers and employees on the other;
- Propensity to name the eldest son as the successor, though daughters are being given increasing importance and being inducted into some family businesses;
- Family dynamics leading to conflict between the interests of various working and non-family members and managing their expectations;
- Higher education level of the next generation and the resulting differing ideas and values;
- Managing family splits with a growing list of claimants in each generation.

In the context of the above-mentioned trends, social capital has assumed greater importance. Passing on wisdom and social capital to family members joining the business later is a major challenge for the leaders of the family. Families are realizing the importance of people and relationship issues along with professionalizing management to facilitate productivity improvement and enhance competitiveness. “When business is not good, the resultant stress affects relationships. When relations are not good, the resultant conflicts affects business growth” (Jain, 2006). Sound relationships facilitate the implementation of change and can act to pull together the collective effort essential for achieving higher productivity (Monga, 2006). The accumulated wisdom including the social capital of the business founder/leader needs to be passed on to the chosen successor to ensure not only the success and growth of the business but also to preserve the basic values of the founders. When business moves from the founder to siblings, and from siblings to cousins, social capital transfer becomes an even bigger challenge. Presently, informal methods are more prominent in transferring social capital. The successor works with the leader on a day-to-day basis under his guidance, and learns and internalizes his ideas and contacts and relationships. The emerging role of the founder and his management style is critical. He needs to “walk the talk” in terms of motivating, tracking, guiding, and inducting the successor. Trust among the family members is critical in choosing a successor and smoothing business splits whenever they are inevitable. Laying down house rules and formation of a governing council including the role of the family in the business are some of the organized ways to nurture relationships among family members.

Further, some family businesses are showing keen interest in acquiring firms in India and abroad to achieve inorganic growth and so they need to be even more sensitive to issues relating to social capital in order to achieve smooth integration with the acquired firms.

CASE STUDY NO. 1: PARSVNATH DEVELOPERS LIMITED

Selection Criteria

Parsvnath Developers Limited (PDL) was selected for the first case study because of its phenomenal growth in the relatively short span of 15 years since its inception followed by its successful initial public offering (IPO) in November 2006. It started as a family-owned business by Mr. Pradeep Jain, a first-generation entrepreneur, and is currently being managed by Mr. Jain as chairman, with his brothers Sanjeev Jain as managing director and Rajeev Jain as a full-time director. Professional managers and experts were inducted into the management team as it expanded. Success of the transformation from a family-owned small business to a pan-India corporation as a well known real estate developer can be attributed to, among others, the vital role played by the accumulated social capital and the importance attached to it by the chairman of the company.

History and Profile

This is the story of Parsvnath Developers Limited, which has emerged as one of the leading real estate players in this fast-growing market in India in recent years. The real estate market in India is essentially fragmented and controlled by the unorganized sector that caters to regional and local markets with a primary focus on the residential sector. Only a limited number of large, organized players have emerged in this sector. The current market is expected to grow exponentially and increase from current levels of about USD10-12 billion to about USD50 billion by 2010. The rapid growth of the economy, the booming middle class, and reforms initiated by the Government of India are the engines of the expansion of the realty sector. These reforms include allowing foreign direct investment, rationalization and simplification of laws, and permitting real estate investment trusts.

PDL is well poised to take advantage of the expected continued growth of this sector. PDL is the flagship company of the Parsvnath Group and has its roots in a real estate marketing firm started by its present chairman Pradeep Jain in the 1980s. The business was gradually expanded to cover construction, development activities and so on over the years. It came out with a highly successful IPO in November 2006 offering equity shares to retail and institutional investors including a first-time offer to foreign institutional investors in the realty sector in India and has since become a USD2 billion market cap company. It was among the first few companies in the real estate sector to come out with a public issue and the first to be traded in the futures and options market. In a sense, it has become a kind of trailblazer for other companies including some of the largest names in this sector.

From December 1997 to August 2006, it completed eight commercial projects while nine residential properties were completed from January 2003 to August 2006. Today, PDL employs about 630 employees and has implemented a very flexible corporate strategy and business model to cater to practically all segments of Indian real estate. PDL also works on the principle of “build, operate, and transfer” wherever required. It has achieved a diversified and healthy project portfolio of nearly 80 projects that include

residential buildings, integrated townships, and commercial buildings including malls, multiplexes, office complexes, special economic zones, and information technology parks. It also has plans to develop hotels both as part of commercial complexes and as stand-alone properties. Further the company in cooperation with Delhi Metro Rail Corporation is developing 11 properties around metro stations and depots. As of October 2006, the firm directly owned or had development rights for an estimated 108.64 million square feet of saleable area. Parsvnath formulated a planned strategy of moving into non-metro smaller cities earlier than many others which is reflected by the fact that 88% of its revenue in the fiscal year ending June 2006 was derived from projects in these smaller cities. This strategy is intended to enhance its capacity to take advantage of the emerging trend to shift many BPO companies to smaller towns and cities to save on costs. As a result of this expansion, PDL has projects spread across 41 cities in 14 states of India which has given it a pan-India presence that has accorded a better and greater brand recognition to Parsvnath Developers.

Along with expansion of its activities, the company has also professionalized its management by recruiting experts in various fields essential for its business model, and has enhanced its commitment to society through implementing and adhering to relevant international standards. Professionalizing management was undertaken to enhance and build its capacity throughout the cycle of project management starting from identification of the right building locations, evaluation of applicable laws and obtaining various approvals, design, construction and monitoring of projects and handing over to customers, and marketing.

The major milestones of the history of the company that signify its commitment and concern for society, quality, and professionalism include:

- Incorporation of the company on 24 July, 1990 under the Companies Act with an investment of INR1,256,000;
- Received the first of its kind in the real estate sector a DR3 ICRA – NAREDCO RATING from ICRA Limited indicating moderate project development capacity in March 2002. This rating was upgraded in September 2005 to DR2-ACRA – NAREDCO which indicates strong project development capacity;
- Received ISO 9001:2000 certificate from International Certificates Limited (ICL) for development, construction and marketing of infrastructure;
- Received certificate from ICL certifying compliance with the Environment Management System Standard ISO 14001 in December 2005;
- Received integrated management system certification comprising ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999 certification from RINA for design, development, construction, and marketing of infrastructure;
- Public issue of 33,238,000 shares at a face value of INR10 (USD0.22 app.) at a premium of INR300 (USD6.6 app.) to stock investors and institutions including foreign institutional investors that accounts for 19.7% of the total equity share capital, with listing on the Bombay Stock Exchange.

The financial performance of the last five years gives a clear picture of its growth story. It has achieved a compound annual growth rate of 121% and 139% in revenue and profit after taxes respectively, since 2002. The average return on net worth was 48.73%, 64.65%, and 53.27 % respectively during the fiscal years ending March 2004, 2005, and 2006.

Clearly, the company has traveled a long journey since its establishment in July 1990 to emerge as a professionally managed firm that is sensitive to stakeholder needs including

those of society and the environment. PDL has emerged as an integrated project development player in various sectors of the economy from its beginning as a mere marketing company with its present capabilities to design and execute projects all over India. Its competitive strength can be attributed to the following factors:

- Main focus of its strategy is on identifying the needs of target customers/users and satisfying those needs through customizing design of a range of projects within prevailing laws and taking into account the environment and other considerations of the community. It has developed an internal team to analyze both qualitative and quantitative factors through extensive market research to understand the needs of its target customers, and its projects provide amenities such as gymnasiums, gardens, pools, and recreational areas. In short, the main focus is to build customer-friendly properties that enhance their higher quality of life.
- Reflecting its commitment to environmental and other societal needs in the design and execution of various projects;
- Diversifying a project portfolio that provides multiple sources of revenue streams that come from different sectors of real estate;
- Ability to identify potential areas/locations for development earlier than others, thereby giving it a “first mover” advantage;
- Brand value and goodwill built over the last 15 years;
- Strong marketing network;
- Effective project development and monitoring system for controlling costs and completion time of projects;
- Networking for building sound relationships with stakeholders and others, and outsourcing various operations including planning, design, and construction wherever required to reputed professionals.

Background and Perception of Social Capital by PDL’s Chairman

Pradeep Kumar Jain, chairman of PDL, became a successful entrepreneur at just age 18 and has accumulated rich experience from two decades in the real estate sector. Now 42, he belongs to a community that is well known in India for its business acumen and entrepreneurial abilities. He is actively involved in various capacities in many professional associations and local chambers of commerce (15), educational/sports (4) and other social organizations (9). Mr. Jain has received 24 awards from government organizations, professional bodies, industry associations and other organizations for his personal and professional achievements, and for building an excellent organization.

As chairman, Mr. Jain sets the company’s strategic vision and direction, provides guidance, and manages the decision-making process. His business philosophy rests on the following five pillars:

- Thinking big;
- Constantly learning;
- Commitment to customers;
- Concern for society and implementation of international standards, and ethical behavior;
- Building relationships with all stakeholders.

At the beginning of his career, he was advised by his family and friends to establish contacts and interact with top leaders and people in the real estate business and since then he made it a practice that he follows till today. The first thing he learned, he said, is to

“think big” and develop a mindset that is focused on becoming the best by being quality conscious and always trying to think differently. All his actions are guided by this philosophy. This thinking made it possible for him to seek ideas and solutions to many problems from people who have gathered valuable experience over a long period of time. Learning has been the fundamental mantra of his life. He looks at building relationships also as a part of this learning process. He has internalized this process of learning from others. For instance, he tells of a particular incident to illustrate his focus on learning. He was attending a business meeting along with Mukesh Ambani, the chairman of India’s biggest private-sector corporation, Reliance Industries. During this meeting, he observed closely how Mr. Amabani conducted the meeting, how he obtained cooperation from others, his ideas and style, etc. As a consequence, Mr. Jain said he has strived to learn from others in his interactions with everyone, and that building relationships has been crucial in this process.

Mr. Jain has a very out-going personality and is an extrovert for whom interacting and building relations seem to come naturally. He narrated two incidents in his life that illustrates this personality trait. He happened to have a seat in the same train compartment in which Dr. Manmohan Singh, the present Prime Minister of India, was traveling a few years back. (Mr. Singh eventually became the Finance Minister and the initiator of many economic reforms in India.) At the time of this particular meeting, he was not the Finance Minister and was sitting in the opposition benches in the Indian Parliament. Mr. Jain recognized him and went up to him and introduced himself, which was the start of an important relationship. Another similar incident happened when he happened to meet and converse with the now-Chief Minister of Uttrakhand, one of the states of India. These two incidents indicate his strong desire and strategy to build relationships with people and share ideas that have been a key catalyst in the development of PDL through exploiting opportunities in the fast-expanding real estate sector and enhancing the company’s brand value. Building relationships is not incidental to, but has been the core of, his philosophy which helped to enhance social capital. Building these relationships has not been confined to just customers but has included suppliers, employees, and a range of others. He also has emphasized the need for ethical conduct at a personal as well as organizational level to build trust and transparency. His willingness to help and provide advice to his associates, friends, customers and employees, he emphasized, has played an important role in this process of building trust and for relationship building because he believes this means he can then expect better help from others. Remaining in touch with others, as well as giving to charities, making donations, giving gifts, and interacting with many people is second nature to him. “Give and take” is an important strategy in this regard, he pointed out.

This organization has been to a very large extent shaped by his personality and business philosophy. His basic philosophy to run a business is to do whatever it takes to enhance trust with customers through building sound relationships and having transparent dealings with them. He believes that his business is to help his customers “realize their dreams” which is reflected in the vision of PDL “to thrive and transform innumerable dreams into reality.” This, he feels, builds a foundation for ensuring the long-term success of the business. He has also internalized this philosophy by clearly laying down the rule that a customer must be refunded all the monies he has paid for the purchase of properties if he wants it, without seeking any reasons for it. The company has strived to adopt international standards of quality, environmental preservation, safety and others as Mr. Jain feels PDL should be second to none. Designing and developing properties around

customer and societal needs is therefore fundamental. Timely delivery of properties at top quality is the cornerstone of PDL's company policy

Importantly, Mr. Jain also maintains and nurtures good relationships with the employees of the company and treats them like an extended family – as *sahyogi* rather than as just employees. *Sahyogi* is a Hindi word that means a partner with whom you join to undertake various endeavors and actions. In so doing, he takes special pains to locate and recruit employees of exceptional quality and values their input in the decision-making process. He regularly meets and communicates with them. Creating a vision for PDL and job satisfaction among employees is his primary role, he said. Mr. Jain is known for mixing and exchanging views with employees on various social occasions as well as company functions and meetings in addition to the communication activities of an in-house journal called “Privar” (Family) and other mechanisms of information sharing. This kind of approach helps him obtain feedback directly from employees. He believes in empowering employees by giving them a free hand in their daily activities and delegating them all authority required for their jobs. For instance, he cited a recent incident to illustrate his philosophy in this regard. He located a manager with exceptional abilities and invited him to join PDL as part of his top management team. This manager had not been from the real estate industry but was otherwise highly accomplished and had rich and wide-ranging experience in various sectors at senior level. He was given the authority, responsibility, and freedom to transact business deals right from his first day on the job.

During the interview conducted for this research, the chairman was asked about the various recognized social capital networks (i.e. extended family, social, industry, professional, and informal) and the extent to which he personally found these networks useful. His responses were as follows:

- All networks were thought to be “very” or “moderately” useful while none was rated by him as “least” useful.
- Professional networks and informal networks were rated as “very” useful while social and industry were found to be “moderately” useful.
- Extended family network was in his view of lesser importance compared to other networks. (While interpreting these responses, the fact that he is a first-generation entrepreneur should be kept in mind.)
- Extended family, social and professional networks have helped in raising capital.
- Professional and customer networks have helped in meeting production targets, reducing marketing strategy costs, increasing market share, and overcoming barriers.
- Social and professional networks have facilitated in obtaining special knowledge.
- Social and professional networks have helped him understand the latest trends in industry and marketing.

Social Capital as Perceived by Another Family Member

To understand and provide further explanation of the role and transfer of social capital, another member of the family who joined the business in later years was also interviewed. Dr. Rajeev Jain, who quit his job as a doctor at a prestigious hospital, joined the family business about six years ago. He entered the business as a full-time director and is presently responsible for marketing functions. He emphasized that positive intentions, mindset, and hard work, in addition to a favorable environment, are among the most important factors that have driven the growth of PDL. Good intentions, in his view, is a broad term that includes fairness, truthfulness, and transparency in dealing with other

family members, customers, and other stakeholders. He perceives that such intentions have built a foundation that has allowed him to effectively perform multiple roles as family member, director, and owner. This has helped him in building healthy and high-quality relationships that enhance trust among various stakeholders including family members, customers, and employees. He believes the social capital of the founder has definitely been a boon for the company particularly in building an effective organization, locating joint venture partners, and accessing capital. Get-togethers and regular meetings among family members have helped them share experiences and resolve issues that confront the business. Since he had no previous background or experience in the family business, his elder brother as founder of the company guided him personally. During the early months after joining, he would sit in the office chamber of the founder and participate in all meetings held with customers, suppliers, and close associates within and outside the company. This open style of functioning by the founder facilitated seeking the more experienced brother's views and guidance on various issues and decisions. In this way he could assume responsibility gradually and eventually moved into his own separate office. Even today, he remains in direct touch with the founder to obtain his advice on various issues and to keep communication channels open. Dr. Rajeev Jain has himself also adopted an open style of management that encourages employees and clients to approach him directly to obtain information and guidance.

In these ways, social capital has definitely played a positive role in building an effective and dynamic company that contributed significantly to PDL's phenomenal growth. The quintessential feature of the process of social capital transfer can be identified as "hands-on transfer" rather than any formal system.

Social Capital as Perceived by Top Management Team Member

Dr. B.P. Dhaka, one of the company's five chief operating officers, looks after corporate governance and all activities in the Indian state of Madhya Pradesh. He has accumulated very rich and wide experience having worked in the private sector at senior level and heading the local Chamber of Commerce in addition to being a well known expert of productivity in the country. He agrees that the chairman's motto "Good ethics is good business," treating customers as business partners, and a strong desire to build relationships with all concerned are at the heart of the success of PDL. Social capital enjoyed by the chairman and concern for society are two things that are very dear to the chairman, according to Dr. Dhaka.

During the interview for the research, Dr. Dhaka responded that:

- All types of networks have been "useful" while none was rated by him as "least useful."
- Professional networks have been "most useful" while extended family network was rated as of "lesser" importance.
- Family and customer networks have helped in raising capital
- Professional and customer networks have helped in meeting production targets and reducing marketing costs.
- Industry and professional networks have facilitated in obtaining special knowledge.
- Social and professional networks have helped in overcoming barriers.
- Social and professional networks have facilitated better understanding of the latest trends in management style and philosophy.

CASE STUDY NO. 2: ALPCORD NETWORK

Selection of the Case Study

This case study captures the story of Alpcord Network, a family-owned business started by first-generation entrepreneur Chander Mansharamani who has accumulated very rich experience and wide-ranging contacts in the travel industry over the past 30 years. Alpcord Network has expanded into new business segments that have synergy with the travel industry and has recruited professional managers to achieve this expansion in just a short span of about 5 years. This company was selected for the research because social capital has played a critical role in the process of decision making for its establishment and expansion.

History and Profile

Alpcord Network was established in 2003 but the story of this young company really begins in the mid-seventies when its present managing director joined as a junior executive in a large, well known travel company of that time called Travel Corporation of India. Alpcord Network was eventually started as a typical travel house based in Delhi, with associate offices in all important towns of India. It is a recognized member of the Department of Tourism Government of India, International Air Transporter Association, Pacific Asia Travel Association, and Indian Convention Promotion Bureau, among others. It provides services relating to business travel, hotel bookings, holiday travel, and similar activities. It presently employs about 25 people and has an annual turnover of about Rs. 10 Crores (Rs. 100 million, or about USD2.5 million). While Alpcord does not export any products but earns foreign exchange from its clients abroad, about 25 to 50% of the firm's total income is in foreign exchange. The profit as a percentage of sales is about 5%.

During his early professional contacts with Amarjit Singh who was working in a public sector organization, Mr. Chander noticed his exceptional contacts and relationships that he had developed with his clients and others. Sensing a business opportunity in the rising demand for organizing international conferences in India, Mr. Chander broached the subject with Mr. Singh of exploiting this business opportunity that also had synergy with his own business as a travel agency. Mr. Singh decided to join him in the new venture and together they started Conferences Management Services or SUMMIT, a new department devoted to promoting, implementing, and executing international conferences and exhibitions with a full range of backup support services. SUMMIT is the brand under which these services are offered, including marketing, secretarial, and public relations assistance. The company quickly developed extensive experience in organizing and managing a wide range of conventions, conferences, symposiums, and seminars, both in India and abroad. Apart from normal travel services, this department provides value addition for its clients by facilitating practically all activities that allow the clients to concentrate on the business aspects of their event. It facilitates social functions, inaugural and valedictory ceremonies, sight-seeing tours, registration management, web site management, exhibition organization, and AV systems, among others. The success of this venture has its roots in the network that Alpcord has built up with a variety of services providers including hotels, rental car and tour bus operators, exhibition booth fabricators, outdoor media, graphic designers, and publishers among others. This helps in saving cost and effort for its clients.

Another business opportunity was exploited in a similar fashion when Mr. Chander invited his brother who had previously built strong links in the pharmaceuticals industry to

join him to start a new service to cater to the increasing demand for medical tourism. They decided to start Alpcord Meditours last year to take advantage of rising medical tourism to India because of low treatment costs, excellent health facilities in private sector hospitals comparable to the U.S. and Europe, and the well known, excellent expertise of Indian medical and paramedical staff. The main objective of this new service is to promote medical tourism in India by acting as a one-point service provider to persons who wish to visit India for medical treatment. As a company, Alpcord does not work for any particular hospital or medical facility but facilitates the information flow between the medical fraternity in India to help patients choose the best hospital or clinic, and aims to provide pre- and post-treatment services. These services include recommending hospitals/clinics, arranging pre-departure consultations, online chats and videoconferencing with doctors, facilitating treatment in India and other essentials such as travel, local transport, telephone, local coordination, and arranging interpreters.

These services particularly focus on elective procedures such as cardiology, dentistry, oncology, ear, nose and throat, ophthalmology, and cosmetic and plastic surgery, to name a few. “Rejuvenation therapy” packages include Ayurvedic treatment, yoga, balanced diet consultations, and individual health counseling, among others, particularly in Goa and Kerala which are popular tourist destinations with a long history of such treatments. Alpcord facilitates combining medical treatment with vacations in several exotic tourist spots in India. With its network and rich experience of two decades in the tourism industry, it is able to combine these two aspects effectively.

Social Capital as Perceived by the Founder

Mr. Chander, 53, joined the travel industry when he was 22 years old in the mid-seventies just after finishing his education. From the very beginning, he had an ambition to start his own travel business one day. It is worthwhile to mention that he belongs to a community that is well known for its entrepreneurial and business skills in India. This innate desire motivated him to put in extra efforts beyond the normal call of duty to learn the “ropes” or “tricks” of the trade. He cited an example to illustrate this point. At a very very early point in his career, he was asked by his seniors to obtain visas for some clients. He went to the necessary embassy and on discovering that the embassy was closed for a holiday, he found out the home addresses of the embassy official responsible for visa affairs and his assistant. He went to their homes and after a lot of persuasion was able to convince them of the urgent need for visas to be issued to his clients that very day. They all then went to the embassy, opened up the visa section, and the visas were duly stamped. This was perhaps the first instance of this kind in the history of the well known travel company. He said he learned the following lessons from this and similar experiences in the early days of his career:

- Satisfying customer needs in this service industry is paramount;
- Developing relationships with all concerned, including customers, other service providers such as hotels, embassies, and transporters, to meet the expectations of various customers is essential;
- Hard work, honesty and sincerity in business dealings all help to build relationships.

After working for eight years in that first job, Mr. Chander was invited to join as a director when his colleagues decided to start another travel company in spite of his inability to contribute any financial capital. The other partners sought his participation because of his

ability to network with customers and suppliers of various services (i.e., social capital) while the financial capital to get the company up and running was provided by them. This invitation underscores the importance of networking and social capital and paved the way for Mr. Chander to become an entrepreneur.

Today, Mr. Chander is an active member of all major industry associations such as the Indian Association of Tour Operators, of which he was elected association secretary. He is also a member of the Country Club and Welfare Association of the area in which he resides. He is an active member of the SKAL Club, an international association of the top executives in this trade which limits its membership to only two members from each country. He is also a member of the governing body and secretary of the Indian Promotion Convention Organization, which is based on the idea of public and private partnerships.

Over the years, Mr. Chander has made it a practice to develop and maintain a strong network with customers. He goes beyond building and maintaining normal business relationships but nurtures these relationships through focusing on building personal rapport and social relationships. He visits and meets his customers regularly to remain in touch with them which helps him understand their needs. During one of the meetings for this interview, he received a call from an employee of one of the major Chambers of Commerce. This employee wanted to do a business travel deal with Alpcord for a forthcoming conference. After the telephone call, Mr. Chander explained that while Alpcord was not the designated service provider for the chamber, the employee had previously used his travel services at another job. This was yet another example of how social capital is useful in obtaining business.

Mr. Chander indicated that he makes special attempts to build sound and transparent relationships with various service providers. As a business practice, he said he always discusses the special requirements of his major clients with the embassies of various countries in Delhi. Through these discussions he seeks their convenience and combines it with his and his clients' needs to obtain visas, special help, etc. This, he claims, convinces the concerned embassies of the professional approach of his workstyle which has helped him to maintain good relations with them. He considers his role as that of a facilitator and a link between the client and the service providers. He goes out of his way to meet his clients needs with what he calls "One Plus Service." As a result, his credibility and trust with clients and service providers goes up which in turn enhances his capacity to do business with them. He makes an effort to understand the problems of others rather than merely providing these services, which in turn facilitates providing better services to them. The name that was chosen for this new venture contains the word "network" which reflects the importance that is attached to building trust and relationships. He develops these contacts by participating in trade fairs and meetings with various concerned persons. He also organizes monthly lunch meetings that help him maintain and nurture these relationships.

He builds and maintains good relations with his employees also. He encourages them to take the initiative and grants them freedom to make decisions on operational matters. He maintains an open office style that increases trust and credibility with his employees and as a result also promotes teamwork to provide fast services to the customers. He perceives his role as that of a problem-solver and leader. He also encourages his employees to build their own relationships with clients. He believes that in the travel business, experience and social capital departs with the employees when they leave the company. So he takes special care to provide a good working environment which, along

with other practices, helps him retain his people and hence their accumulated social capital.

A notable practice that has facilitated the expansion of Alpcord is that he always looks for people who have built strong links and have high social capital in businesses that have synergy with his present business and develops partnership with them to start new services. He started Conference Organizing Services and Meditours in this fashion.

During the interview, the entrepreneur was asked about the various social capital networks and the ways in which he personally found these networks to be useful. His responses are given below:

- All networks have been “very” and “moderately” useful while none was rated by him as “least” useful.
- Social networks, professional networks and industry networks were rated as “very” useful while extended family and informal networks were rated as “moderately” useful.
- Extended family networks were in his view of “lesser” importance as compared to other networks. (While interpreting these responses, the fact that he is a first-generation entrepreneur should be kept in mind.)
- Extended family and social networks have helped in raising capital.
- Industry, professional and customer networks have helped in meeting production targets, reducing marketing costs, sharing customer base, overcoming barriers and facilitating the acquisition of special knowledge.

Social Capital as Perceived by Another Member of Top Management

The second top management executive to be interviewed was Amarjit Singh Talwar, who looks after the conferences division and is one of the company directors. He has accumulated much experience in the hospitality sector having worked in the hotel industry for a number of years. He rose from the ranks to the top level in a public sector hotel chain. He had built and documented wide-ranging contacts during his stint at this public sector chain. He said he learned from his seniors that attitude focused on providing the best possible service with a human touch is the most important element of success in the travel business. Further, he judged that direct, face-to-face contact with customers is critical in this e-Age. He also had a mind to start on his own travel services company and said that Alpcord provided him that opportunity. He feels that the strength of Alpcord is its focus on customer service and building long-term relationships with customers, employees, service providers and others. He emphasized that social capital is responsible for his present position in Alpcord.

During the interview, he was asked about the various social capital networks and the extent to which he personally found them to be useful. His responses were:

- Social, industry and professional networks were rated as “very” useful while extended family and informal networks were rated as “least” useful.
- Social networks have helped in raising capital, sharing customer base, and overcoming barriers.
- Professional networks have helped in meeting production targets and obtaining special knowledge.

KEY OBSERVATIONS FROM THE RESEARCH

A careful perusal of this research reveals that a common thread runs through the two organizations' focus and strategy as regards social capital. While the two companies are of different size today, both started as a family-owned small business in different segments of the Indian economy. It is not an easy task to transform an organization in a competitive emerging economy for a first-generation entrepreneur. They need all the advice and assistance they can get from others. Relationships they build with others equip them with knowledge and ideas that have proved helpful to them to embark upon a course of growth and transformation. Social capital, among other factors, was a driving force to build vibrant and dynamic organizations poised to take advantage of the opportunities thrown at them by a fast-expanding Indian economy. Social capital is not incidental but a core component of their strategy.

The founders of the two organizations played a key leadership role in harnessing the potential of social capital. They were both members of not only professional and industry associations but also contributed to social causes in their own ways. Clearly the contacts and relationships built by being members of these associations proved highly useful to them in their strategy formulation and operations. Both founders had an innate desire to be an entrepreneur and early in their careers realized the fundamental importance of building and nurturing relations with all stakeholders and others. Building relations and networking with others clearly came naturally to them. They focused not only on understanding and satisfying the needs of stakeholders, but nurtured those relationships by being useful to them and helping anticipate and solve their problems. They built positive relations with all stakeholders including customers, employees, professional associates, friends, and family members. "Empathy" is perhaps the word that best describes this approach. This approach, they emphasized, facilitated building trusted and credible relationships. They learned and borrowed ideas from others. Meeting and visiting stakeholders regularly was a part of the strategy to enhance social capital. Documenting the details of their contacts helped them in keeping in touch. Recruiting employees with proven social capital in terms of networking capabilities is a strategy that helps to achieve inorganic growth and needs to be considered in the formulation of business corporate plans. None of the persons interviewed save one mentioned that any network was "least" useful. Industry, professional and social networks were found by all to be "most" useful. Family networks were not found to be particularly useful which must be understood in the context of both founders being first-time entrepreneurs. Usefulness of building relationships and networking with customers was particularly highlighted which could perhaps be due to the nature of the business of the organizations.

CONCLUSIONS

From the above discussion, it can be clearly surmised that social capital contributes significantly for transforming SMEs into dynamic firms and facilitates growth and competitiveness. It even catalyzes development of new ventures. It is not incidental but a core component of business strategy.

Social capital has an interactive influence with potential conflicts among family members that in turn can negatively impact the social capital. Mistrust among family members is a major hurdle for achieving smooth succession and conflicts. Interpersonal

and relationship issues need to be resolved to ensure transfer of social capital and build strong and effective firms.

However, one of the key issues for family firms is how to transfer this social capital to successors. Transfer of social capital depends on the willingness of the founder/leader to share information with other family members. Presently, the methodology adopted is mostly informal and is a part of on-the-job training. The quintessential element of this process of social capital transfer can be termed to be “hands-on transfer.” Good intentions, transparency, honesty, and truthfulness in dealings with each other build trust and positive relations, and enhance social capital. This confirms the conventional wisdom that intangible factors including business values play a critical role in enhancing productivity and competitiveness. Meetings both formal and informal on social occasions among family members along with an open management style and a willingness to share information hold the key in this process of transfer. A willingness to learn and internalize this learning on the part of the successor is a prerequisite. However, the need to adopt formal practices that build trust among family members cannot be overemphasized. Formal and semi-formal mechanisms such as governing councils, policy frameworks, house rules, and formal monthly meetings to discuss broader issues affecting business are being increasingly adopted by some businesses families, and provide communication channels to create a greater understanding of various viewpoints that in turn enhance trust. It is important to evolve policies relating to succession, retirement of the family leader, and the role of active and non-active family members. Further research on “what and how” of these and other formal mechanisms can help in understanding the process of transfer of social capital. Recently some management institutions have started special programs on family businesses in India but these efforts needs to be strengthened by developing greater and direct focus on social capital.

The contacts and relationships that first-generation entrepreneurs build with others are of help to them in starting new ventures, coping with problems, and obtaining information as and when required. In this context industry, professional, and social networks are of great help, since there is no history of family business in the case of first-generation entrepreneurs.

Transfer of social capital becomes more important as the family expands with successive generations and management is passed on from siblings to cousins. Clear demarcation of responsibilities, development of collective leadership, succession planning, fair treatment to all family members along with the measures mentioned above can help to avoid and minimize the impact of conflicts which in turn can impact social capital. In cases in which a family achieves inorganic growth through acquisitions, social capital assumes a key factor in integrating the two organizations. The cultural context of both firms needs a better understanding to achieve synthesis of social capital.

With the increasing use of information technology and e-networking in SMEs, further studies would be helpful to explore and understand the special role of the new technologies in transferring the social capital of founders to the next generation of corporate leadership.

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CASE STUDIES: FAMILY BUSINESSES WITH A SUCCESSFUL HISTORY OF OVER ONE HUNDRED YEARS

Preface: the Family Business in Japan

In Japan, businesses started by entrepreneurs tend to be run by family members. Indeed, many of the big businesses originated as family-owned entities. Major Zaibatsu conglomerates such as Mitsui, Sumitomo and Mitsubishi, which together formed the basis of Japan's corporate systems, had been originally family businesses.

As of the end of fiscal 2005, there were more than 2.7 million business entities in Japan. Of these, 57%, or 1.5 million, were small businesses with paid-in capital of less than ten million yen (USD90,000). These small entities accounted for 11% of the value-added and 17% of employment in the corporate sector. Most of these small businesses are run by family members.

According to "2007 White Paper on Small and Medium Enterprises in Japan" published by the Small Business Research Institute (Fig. 1), 55% of companies that have gone through a change of their CEO saw the leadership assumed by other family members. Even for large companies, 13% of retiring CEOs were replaced by family members. This ratio increases as the size of the entities decreases: 48% for medium- and 72% for small-size enterprises. Therefore, it would be safe to assume that approximately one-half or more of Japan's existing business entities are based on family businesses.

As shown in Fig. 2, the performance of these family-run businesses in terms of employee growth rates and sales is lower than that of non-family businesses. Moreover, many family businesses have experienced difficulties in finding successors. In short, family businesses in Japan are at a new turning point. Their family ties (or social capital) sometimes limit the scope of their business. However, there are examples of family businesses that have been enjoying prosperity for a long period of time based on their own networks regardless of their size. The following pages introduce the cases of two family businesses that have successfully weathered challenges for over 100 years.

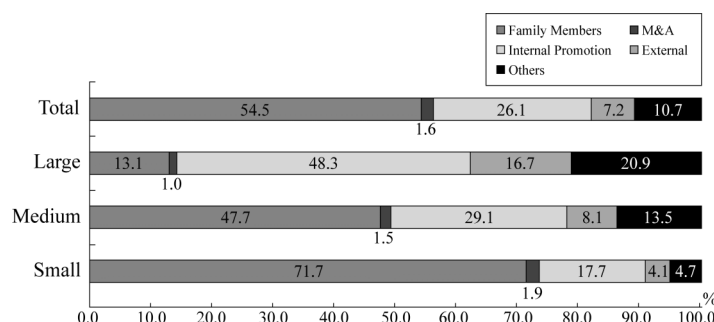


Figure 1: Background of New CEOs by Company

Source: Small Business Research Institute "2007 White Paper on Small and Medium Enterprises in Japan"

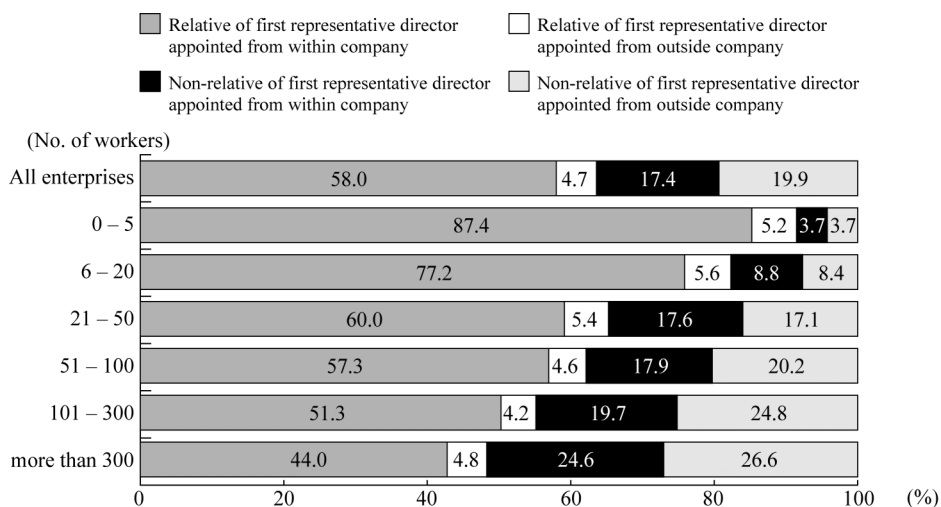


Figure 2: Relationship of Successor to Representative Director

Over 70% of small enterprises appoint relative of representative director as successor

Source: SME Agency, Fact-finding Survey on Business Management Strategy (November 2002).

Note: Survey of the route to appointment of successors to enterprises where a handover had been made from the first representative director.

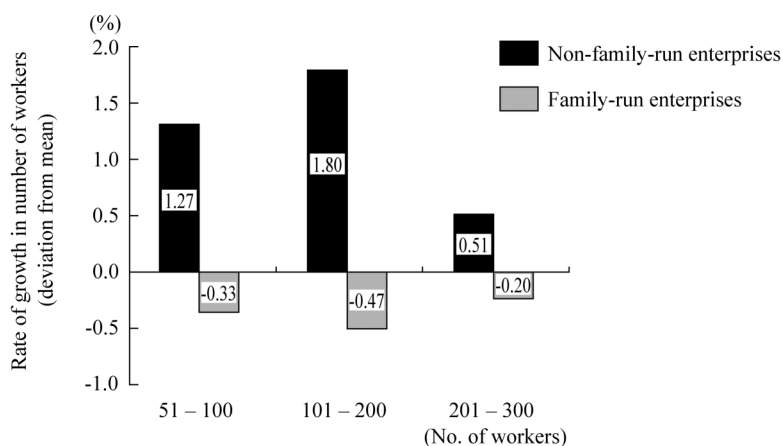


Figure 3: Rates of Growth in Number of Workers of Family-run Enterprises and Non-family-run Enterprises (Manufacturing, Wholesaling, Retailing)

Non-family-run enterprises have higher growth than family-run enterprises

Source: METI, Basic Survey of Japanese Business Structure and Activities (2000); SME Agency, Fact-finding Survey on Business Management Strategy (November 2002).

CASE NO. 1: Y. NISHIDA & CO., LTD.

History of the Firm

Y. Nishida & Co., Ltd. is a textile trading firm in Yokohama with an annual turnover of approximately three billion yen (USD25 million). It directly employs 29 workers.

The firm was established in 1905 by Yoshikata Nishida, who successfully made it into one of the three major silk trading houses in Yokohama. He also moved into silk textile manufacturing for export in 1920. In 1922, he was elected as a member of the City Council of Yokohama.

Due to the catastrophic earthquake that took place in the Greater Tokyo area in 1923, the Port of Yokohama lost its function as the trading hub of silk textile exports. The firm's head office in Yokohama was burned to the ground. As with many other textile firms in Yokohama, it opened a temporary office in Kobe to keep in business. However, as a businessman based in Yokohama, Mr. Nishida assumed an active role in revitalizing the business activities of the stricken city during the recovery effort. He mortgaged his personal assets to reconstruct the destroyed offices for Indian merchants to relocate them from Kobe back to Yokohama. Later during the Great Depression in the early 1930s, these actions helped him keep his business alive since the Indian merchants became his major customers until they closed their offices in Japan in 1941 due to the Second World War. He assumed the chairmanship of the Yokohama Silk Textile Merchants Association in 1940. He died in 1945 at the age of 73 as one of the casualties of U.S. air raids. Thirteen years later in 1958, the City Council of Yokohama gave the late Mr. Nishida permanent honorary membership. He had presided over the operations of the company for as long as 40 years. Due to his efforts, his firm, Y. Nishida & Company, had become deeply rooted in the local business community of Yokohama as an indispensable member for economic development.

Upon the death of the founder, the operations of the firm were passed to his son, Yoshio Nishida. The new president expanded textile wholesale business for domestic customers, opening offices in Osaka, Kyoto, Kobe, Nagoya, and Tokyo. He also sought to diversify the scope of business by dealing with furniture and some interior goods. Although the operations of its domestic business left much to be desired—being forced eventually to close most of these domestic offices—the firm was successful in exporting high-quality textile products to the U.K. and Australia in the 1950s and to the U.S. in the 1960s. In 1967, the firm obtained a huge order for 1.5 million yards of textile materials directly from Sears Roebuck Co. mainly due to the sales efforts of Yoshihiro Nishida, son of Yoshio Nishida, a third-generation member of the family firm. The firm expanded its export business to North America and opened an office in New York City in 1970. It even made a direct investment in the U.S. by establishing a textile manufacturing venture in Augusta, Georgia, in 1974 together with two Japanese partners, Toyobo Textile and Seiren, and Rosewood Fabrics of New York. This joint venture created as many as 380 jobs at its peak.

Yoshio Nishida died in 1979. The operations of the firm were handed over to his son, Yoshihiro Nishida, a graduate of Kentucky State University, who was quite active in expanding exports of sophisticated textile materials overseas, particularly to North American customers including Calvin Klein, Ralph Lauren, Liz Claiborne, and Victoria's Secret. This business also helped the firm to start imports of sophisticated foreign apparel items into Japan.

During this period, the firm obtained approvals from the Chinese government that gave it special recognition as a “friendship trading house” in 1977. As a result, the firm dealt with as much as 40% of silk imports into Japan in the mid-1980s. It also expanded its furniture-related business. Although the firm has created niches in various sophisticated textile products over the past 60 years, it still maintains its origins as a specialist in silk materials. Currently silk-related business still accounts for 15% of total sales. Y. Nishida & Company celebrated its centennial in 2005. Prior to the anniversary, Yoshihiko Nishida, a fourth-generation family member, was promoted to directorship of the firm. Throughout the years, all of the firm’s presidents have served in numerous official honorary positions in the local community. Both the second and the third presidents served as vice chairmen of the Yokohama Chamber of Commerce. In addition, the Japanese government awarded them official recognition for their service to the community and the trade industry.

Social Capital as Perceived by the President of the Firm

Mr. Nishida believes that networking with the clear intention of profit-making will not bring about the best results in the long run. Carrying out business in the local community provides a natural screening process for his social network. Members of personal networks should be limited to those who share the same values or personal touch (*aishou*, in Japanese). This does not exclude those with different backgrounds. In fact, according to Mr. Nishida, “personal touch” covers three different aspects: commonality, differentia, and complementarity. These elements can coexist in each individual. He says, “It goes without saying that in daily business contacts, you may have to deal with people whose personal touch is different from yours. However, if you try to put yourself in a position in which others need you, it makes things much easier. If you have the right products and a steady mind, you can create proper business networks.”

The firm’s earned trust among local community members, created by Mr. Nishida’s predecessors (his father and grandfather), sometimes results in pressure from old obligations that he in effect inherits. Yet Mr. Nishida strongly feels that he must observe a norm of reciprocity. This is especially the case since most local firms that used to be highly esteemed in the local business community are no longer in existence. Thus he has had to assume numerous local honorary positions in addition to tending to his own business. This may be the negative side of local business networking.

Additionally, a trading house, the operations of which are classified under “wholesale industry,” has to seek out business niches one after another. As a small trading firm that always requires new niches, workers of the firm should be specialists. “However,” Mr. Nishida points out, “if you depend upon one particular person too much, he or she might create a castle of his or her own, which denies access from other members of the firm—thus making it sometimes difficult for divisions to share information. This may cause a difficult situation in assessing total business risk.”

This is true in not only intra-company but also inter-company relations. An excessive dependence on one particular source of income may put the firm in a vulnerable position. As mentioned, Mr. Nishida (the current president) was able to secure orders as large as 1.5 million yards per deal of fabrics directly from Sears Roebuck in the U.S. in the latter half of the 1960s. This deal accounted for the bulk of the company’s business at the time. However, the buyer at the Sears head office abruptly notified his intention to cancel the deal in spite of the fact that all export arrangements had been completed based upon Sears’ specifications. The firm might have been at the edge of bankruptcy if the arrangement with Sears had been completely cancelled. Fortunately the deal eventually went through, due to

the efforts of Mr. Nishida with strong support from an officer at Sears' Tokyo Office. In fact, that officer even wrote to the executive officers of the head office to rescue the contract with Y. Nishida & Co. so as to maintain Sears' reputation as a reliable and fair business partner. Asked about the business transformation over the years, Mr. Nishida recalled that the experience with Sears was his most memorable incident which deeply affected the way he conducts business.

As for business decision making, Mr. Nishida respects advice from his subordinates, mostly directors in charge of specific trading deals, who are most knowledgeable about the markets. Besides the intra-company networks, reflecting his long career as the head of an entity highly esteemed in the local community, he has various other networks with local business people, customers and suppliers, members of alumni associations, and so on. Although most of the current networks, especially those with overseas partners, are of his own creation, he inherited from his predecessors certain intangible assets such as trustworthiness and reliability as a business partner.

With regard to personal matters, he believes the family network serves best. He counts his wife as his best adviser together with his brother-in-law, whom he considers a steady and reliable source of advice.

After all these years, he strongly believes that trust between individuals is indispensable in both personal and business life.

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>		<i>Moderately Useful</i>		<i>Least Useful</i>
• Extended Family Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Social Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Industry Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Professional Networks/Associations	<input checked="" type="checkbox"/> 1	2	3	4	5
• Informal Networks	1	<input checked="" type="checkbox"/> 2	3	4	5
• Others					

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital					
• Help in meeting production targets					
• Help in sharing costs in marketing strategy					
• Help in obtaining special knowledge			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
• Share customer base			<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry				<input checked="" type="checkbox"/>	
• Other (please specify): _____					<input checked="" type="checkbox"/>

Social Capital as Perceived by Another Member of the Firm

Hiroshi Miyazono joined Y. Nishida & Co. in 1969 upon graduation from university. He was promoted to the board of directors in 1994 and currently serves as both the firm's general manager and as a member of the board. He feels difficulties in sharing certain values, which are different from those of the U.S., with young colleagues. He notes that sometimes those who gain strong business connections with trade partners can end up quitting the firm to set up their own business. Although the firm has no recognized labor

union, those employees below section chief level have regular meetings with the management in which they discuss work conditions and salaries.

He noted that Mr. Nishida depends upon intra-company resources, including directors and those in charge of similar products and business, when he needs advice. He also obtains professional advice from the firm's accountant, lawyer, and bankers. Mr. Miyazono has worked for two presidents over the years. Although the current president has adopted a more modernized and open style, basically he perceives no big change between the management styles of these two presidents.

As was the case for many other Japanese companies, the firm carried out business reforms four years ago to help it survive a prolonged economic downturn. As part of that reform, four directors resigned at the same time. The president began holding regular monthly meetings with his reorganized board. Prior to the reform, he used to hold meetings with his executives only. But while the previous board meetings had more of a ceremonial significance, as opposed to operational, at the new meetings, viewpoints from people in charge of markets are now solicited and acted upon.

Currently, the president maintains good relations with his workers. The workers do criticize the ideas of the president that do not fit their understanding of the market. However, if proper explanations and communications are secured between the president and the workers so as to share the same ideas, the staff do trust Mr. Nishida and support his basic attitude: "Let's see how it works first. If it doesn't, you can correct it."

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>		<i>Moderately Useful</i>		<i>Least Useful</i>
• Extended Family Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Social Networks	1	<input checked="" type="checkbox"/> 2	3	4	5
• Industry Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Professional Networks/Associations	1	<input checked="" type="checkbox"/> 2	3	4	5
• Informal Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Others					

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital			<input checked="" type="checkbox"/>		
• Help in meeting production targets			<input checked="" type="checkbox"/>		

• Help in sharing costs in marketing strategy				<input checked="" type="checkbox"/>	
• Help in obtaining special knowledge				<input checked="" type="checkbox"/>	
• Share customer base			<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry				<input checked="" type="checkbox"/>	
• Other (please specify): _____					

CASE NO. 2: NAGASE & CO., LTD.

History of the Firm

Nagase & Co., Ltd. is a large trading firm specializing in chemicals, plastics, and electronics materials. Fiscal 2005 sales amounted to 648 billion yen (USD5.5 billion). Including subsidiaries, the company employs 3,465 workers. Its business philosophy is “Take the high road with sincerity.”

The firm’s origin goes back to 1832 when Denbei Nagase opened a wholesale business to deal in dyestuffs and starches for local textile makers in Kyoto. The fourth-generation Nagase, Denzaburo Nagase, moved the company’s head office from Kyoto to Osaka in 1898, where he could deal with larger industrial customers.

Denzaburo Nagase sent his brother, Denjiro Nagase, to France in 1900 to tap the potential opportunity for direct trade with European manufacturers without having to depend on the several European trading firms located in Japan. At the age of 19, Mr. Nagase left Japan for Lyon, France, where he opened the company’s first liaison office. He succeeded in securing direct distribution rights with Basel Chemical Co. of Switzerland, (now CIBA Specialty Chemical, Ltd.) and thus provided the company with the foundation of growth in the new century. Mr. Nagase incorporated the operations as Nagase Shoten Company in 1917 after the First World War. (The Japanese word *shoten* literally means “merchant shop.”)

After the war, the firm went through a series of difficulties caused by the post-war recession, the catastrophic earthquake in the Kanto area in 1923, widespread bank-runs in 1927, and the worldwide Great Depression from 1929. However, in these difficult years the firm’s fiscal conservatism saved it from bankruptcy. It did not take any speculative position in commodity markets. It did not make any large-scale investments based on debt. Instead, it created various relatively small manufacturing enterprises directly related to its core businesses based on its own internal reserves. Tokutaro Nagase, husband of the second daughter of Denzaburo Nagase, strengthened the partnership with Basel Chemical Co. In addition, he obtained distribution rights for the Japan market from several major Western manufacturers including Eastman Kodak and Union Carbide. These relations brought about further prosperity to the firm. In 1938, after the death of Denzaburo Nagase, Tokutaro Nagase became the next in succession for the presidency of the firm.

During the Second World War, the firm lost its contacts with its U.S. and European partners. In spite of severe damage caused by the war, the firm succeeded in resuming relationships with CIBA, Eastman Kodak, and Union Carbide after the war. In addition,

the company secured contracts with General Electric Co. (GE) and became a distributor of GE's engineering plastics in 1968.

In the 1970s, partly reflecting the intention of its large trading partners who wanted direct access to the Japan market, Nagase & Co. created manufacturing joint ventures, including Nagase-CIBA, Ltd. (now Nagase Chemtex Corp.) in 1970 and with GE in 1971, forming Engineering Plastics, Ltd. (now GE Plastics Japan, Ltd.). The company was listed on the Osaka Stock Exchange in 1969, thus becoming a public company 137 years after its establishment.

Although there were many trading firms in Japan that assumed the role of business coordinator between suppliers and buyers, such as Mitsubishi & Co., C. Itoh & Co., Mitsui & Co. and so on, the role of trading houses eventually became challenged by direct deals between suppliers and buyers reflecting globalization in the 1970s. At the same time, as the yen appreciated through the 1970s and 1980s, the size of Japan's market expanded rapidly from the viewpoint of foreign manufacturers. Quite naturally, many foreign firms that used to depend on Japanese trading firms to market their products in Japan began to prefer direct sales to Japanese customers. Just like many other trading firms in Japan, Nagase & Co. went through this change in the 1970s and 1980s. As stated in the company's 2006 annual report, major commercial rights were terminated with the expiration of the contract with GE in 2004.

Social Capital as Perceived by the President of the Firm

Current President Hiroshi Nagase represents the seventh generation of the firm's succession of management since its founding and is the sixth president since its incorporation in 1917. He became the president of the firm in 1999. He is the son of the fourth president, Shyouzo Nagase. The former president, the fifth, Hideo Nagase, is his uncle.

As the most recent company head, Mr. Nagase has confronted numerous problems facing modern Japanese industrial society and changing international conditions. As mentioned, the firm lost its distribution rights in the Japan market from major partners such as CIBA, Kodak, and GE, which used to be the driving force of its profits. In other words, its old business networks had deteriorated. Its net sales had been declining slowly but steadily since 1994. The firm's operating profit had been dwindling together with net sales. According to Mr. Nagase's prediction, the firm had expected to start registering losses in a very short period of time. Its stock price had fallen to half in just one year prior to his taking up the position. Yet, being a company with a successful history of conducting steady business for over 160 years, workers had developed a take-it-easy attitude. They did not feel insecure—that is, they lacked a sense of emergency—since, according to the business plan, the firm's profit was always planned to start picking up soon.

Upon assuming office as the president in 1999, Mr. Nagase immediately perceived the necessity to change its corporate culture. He focused on internal collaboration among workers. However, he wanted to retain the best part of the firm's corporate culture, which is based on expertise on chemicals and related products. Over half of the sales force had a natural science background, and thus were quite knowledgeable about the way their products were utilized in the production facilities of their customers. In other words, they were capable of providing consulting services to their customers or were capable of providing solutions to ease difficulties faced by their customers.

The company had three major divisions: chemicals, plastics, and electronics. Members of each division worked separately from those of other divisions. However,

customers of the chemicals division were, in many cases, customers of other divisions. This is quite natural since chemical companies produce plastics as well as electronics products and some of their products are based on the same value chain. In other words, multiple divisions had been dealing with the same customers so the customers tended to overlap each other. Yet information on both ends of the value chain should be valuable for the customers. Unfortunately, as long as these divisions worked separately, they could not provide important information to their customers. Therefore, collaboration among members of different divisions was determined to be crucial to create even more value-added for their customers. Without this value-added, Mr. Nagase saw no future for the traditional commission fee-based business of trading firms.

He consequently advocated collaboration among different divisions at every available occasion. In order to promote intra-company collaboration, he gave recognition to successful cases of collaboration among divisions. He also stated that collaboration would be taken into account in the performance evaluation of workers, although this turned out to be very difficult to implement.

At the same time, Mr. Nagase reformed the way the board conducted its business. The board members had previously consisted of division heads, who acted as representatives of their respective divisions. Thus they were largely indifferent to the activities of other divisions, creating invisible barriers between divisions—that is, sanctuaries of their own. Thus for even vital cases that required thorough consideration by the top management team, the decisions were made based almost entirely on talks between the president and the division head in charge of the case. Eventually Mr. Nagase removed the division head function from his board members so that they would instead have a companywide perspective. The compensation of board members, which had been charged as division costs, was instead charged to overhead costs. He also introduced independent board members to obtain candid opinions on the way the firm conducted its business. Thanks to these reforms, vital business decisions are now made after detailed discussions among board members. In addition, a business strategy committee, which is composed of board members other than the independent directors and the chairman (a former president), meets biweekly to discuss companywide issues. Department heads and section chiefs also meet once a month to smooth the information flow and to encourage internal communication.

Besides encouraging collaboration, Mr. Nagase also sought to change the workers' attitude toward business investments. Nagase & Co. was well known as a firm that refrained from large investments. This attitude had prevailed among workers so much that risk aversion became the corporate norm. Facing the diminishing role of trading firms as middlemen between suppliers and buyers, Mr. Nagase felt it was imperative for the firm to retain some R&D capabilities together with some manufacturing facilities through investment. It was clear, he realized, that the firm had to make investments in order to survive. But the conservative mindset made workers timid about raising proposals that required investment outlays. Mr. Nagase broke this impasse by making an investment of four billion yen in the manufacturing subsidiary, Nagase Chemtex. This sent the executive staff a strong message that the firm had changed its attitude toward investment, and thus helped to change the firm from a norm of risk aversion.

The firm in fact registered a loss of 2.097 billion yen for fiscal 2001. A respected active investment fund led by Yoshiaki Murakami became a shareholder of the firm between fiscal 2001 and fiscal 2004. According to the financial statements of Nagase & Co. submitted to authorities, the fund was the third-largest shareholder, holding as much

as 3.68% of the firm's shares at the end of September 2002. The firm resumed profitability after fiscal 2002. Its after-tax profit has increased steadily for four consecutive years since that time.

As for conducting daily business, Mr. Nagase mainly depends upon intra-company networks as well as external networks with business partners and customers. He also appreciates advice provided by two independent board members. He said he is not especially interested in activities of various business circles except for those of the Japan Foreign Trade Council of which the firm has been a member for a long time. The process of business reforms he has been advocating can be viewed as a partial renouncement of what his predecessors had done. Therefore, he does appreciate their patience with his changes as well.

Although the firm has been perceived as a family business by investors and others, Mr. Nagase denies the idea. He says, "The era of family business is over for us. I will not hesitate in handing over the power as president if there is any person who is more suitably qualified for the position."

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>		<i>Moderately Useful</i>		<i>Least Useful</i>
• Extended Family Networks	1	2	3	4	<input checked="" type="checkbox"/> 5
• Social Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Industry Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Professional Networks/Associations	1	2	<input checked="" type="checkbox"/> 3	4	5
• Informal Networks	1	2	3	4	<input checked="" type="checkbox"/> 5
• Others					

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital			<input checked="" type="checkbox"/>		
• Help in meeting production targets					
• Help in sharing costs in marketing strategy			<input checked="" type="checkbox"/>		
• Help in obtaining special knowledge			<input checked="" type="checkbox"/>		

• Share customer base			<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry			<input checked="" type="checkbox"/>		
• Other (please specify): _____					

Social Capital as Perceived by Another Member of the Firm

Kenji Asakura joined Nagase & Co. in 1978 upon graduation from university. He currently serves as head of the business strategy planning office of the firm, which directly reports to board members. According to his assessment, Mr. Nagase's message of business reforms has been well understood among workers as ideas based on his own initiative. He sees the president functioning at the center of operations, providing proper leadership. Also according to Mr. Asakura, the company provides its workers with a variety of training courses, which may be effective in promoting networks among divisions.

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>	<i>Moderately Useful</i>			<i>Least Useful</i>
• Extended Family Networks	1	2	3	<input checked="" type="checkbox"/> 4	5
• Social Networks	1	<input checked="" type="checkbox"/> 2	3	4	5
• Industry Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Professional Networks/Associations	1	2	3	4	<input checked="" type="checkbox"/> 5
• Informal Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Others					

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital			<input checked="" type="checkbox"/>		
• Help in meeting production targets		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
• Help in sharing costs in marketing strategy		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
• Help in obtaining special knowledge		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		

• Share customer base			<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry					<input checked="" type="checkbox"/>
• Other (please specify): _____					

OBSERVATIONS

Preserving a family business for over a century is not an easy task by any standard. In that sense, these two firms made phenomenal achievements. By the same token, social capital passed down from predecessors can be a debt as well as an asset. It can hinder further development of business or as intended, provide future seeds for progress.

In any case, successors cannot be completely free from social capital created by their predecessors. This is particularly true in family businesses. In many cases, they inherit bonding social capital from their ancestors, which provides a certain amount of security for the business. However, it can also be a restraint because the scope of bonding social capital is limited to within the members of their bonding networks. Thus, information available for them may actually be quite limited. In addressing the changing socio-economic environment, too much emphasis on bonding social capital can cause a delay in taking proper measures to cope with changes in the markets. Therefore, successors always have to make efforts to transform the bonding social capital into bridging social capital without causing deterioration of the desirable parts of social capital such as trust and norms. In this respect, it is very appropriate that both Mr. Nishida and Mr. Nagase pay high respect to their intra-firm networks.

For preserving business, a clear concentration of power is of vital importance. Creating redundant networks only confuses workers. A new president should not leave any room for intervention by his predecessors or any other family members. In the case studies, generally speaking, the power has been transformed from one generation to the next upon the death of the predecessors. An excessive and overlapping family network could ruin the business. Therefore, there should be predetermined rules or clear understandings to avoid abuse of family networks. This is also important in order to keep up the morale of workers. In both of these companies' cases, they have a history of successfully concentrating power in the head of the family.

Keeping the entrepreneurial characteristics of the founder of a family business is almost always difficult. Although it is not applicable to the two firms in our case studies, the generations after the founder are typically spoiled and lose these characteristics. Proper substitution is occasionally required. In the history of Nagase & Co., Ltd., out of the nine leaders of the family business, four of them were adopted into the family through marriage with daughters of the family. This might have effectively the same impact as accepting professional management from outside the family.

Although in both cases, while their subordinates have been more active in making networks, this does not necessarily mean the presidents are less active in making networks. In fact, the presidents are likely to have potential networks on which they can rely in the case of emergencies. In that sense, the scope of the networks of the presidents thus may be much larger than what they stated.

ACKNOWLEDGEMENTS

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INTRODUCTION

Phase I of APO's Social Capital research project sought to understand the concepts of social capital, define its underlying framework, attempt to measure trust, social norms and networks, and study its linkages with productivity and economic growth.

Following upon on the findings of the first phase, Phase II examines specifically the ways in which social capital has helped or hindered business transformation, innovation, productivity improvement, and enterprise development in Asian SMEs.

The second phase of the project also explores the manner in which the social capital identified in Phase I impinges on productivity mechanisms in firms; namely resource exchanges both inside and outside firms, innovation, team effectiveness, introduction of professional managers, and typical management practices.

The research found that social capital in the form of networks, interaction between managers and employers and interaction between the corporations and external parties, played varying roles in the productivity of the firms studied. Internal norms and cultural artifacts were observed that facilitated work and organizational goals. These norms and cultural artifacts were observed in the case of India, Japan, Republic of Korea, and Thailand. In each of the countries, social capital was found to alter the cost of entering into contractual obligations, including reducing the cost of contract enforcement and the possibility of expensive litigation. It also reduces transaction costs. Within firms and with external parties, it improved cohesion and enhanced the probability of reciprocity. Social capital took the forms of bridging social capital, eventually progressing to bonding social capital. In Japan, high-tech research-oriented companies require light bridging social capital among researchers.

Research Settings and Focus

While we were able to better understand the role of social capital from Phase II, there is clearly still much to learn about the transformation of firms. In the West, about 70% of all change initiatives by firms are said to fail. Lacking the right supporting social capital, it was believed that transformation by Asian firms would be even more difficult and challenging. So we needed a better understanding of why certain firms in Asia do succeed in their transformation while others do not, and how different these successful transformations by Asian firms are compared to those of Western firms from a social capital perspective.

Some of the main questions that needed to be answered were:

- Did productivity matter in the transformation processes of Asian firms? If so, why?
- On which aspects of the transformation process did social capital resources especially focus?

- What characteristics of social capital did the Asian firms have that were key to successful transformation?
- What were the processes or stages of transformation, and what was the role of social capital in each?

Business transformation is defined widely to include efforts to improve productivity through new product development, innovation, organizational learning, and team building. Central to the research is the role of the organization culture, industry norms, and managerial processes.

It is of course important for Asian countries that their firms continue to be competitive. To be competitive, firms need to survive the negative effects of the external environment, overcome internal constraints, and grow. To be competitive, business transformation and adaptation are often needed. These changes may include:

- Introduction of professional management practices
- Introduction of professional managers
- Introduction of new processes
- Development of new products/services
- Enhancement of productivity

It is useful to determine how Asian firms have been able to transform themselves and the role that social capital plays in this.

Summary of Findings from the Korean Cases

The trust-based relationships, norms, and networks that make up social capital are expected to contribute to the efficient functioning of small- and medium-size enterprises (SMEs) in Republic of Korea. One way in which social capital can play a role in business transformation arises from the potential for SMEs to use their social network ties to gain access to resources. This is relevant because business transformations invariably involve the SMEs requiring access to finance, new markets, information, manpower, and technology. It appears that social capital in the form of networks is highly helpful to Korean SMEs. If firms need assistance with tasks, network ties with trade associations such as local chambers of commerce may provide that sort of help. SMEs with a need for information about new markets may use their informal networks with business contacts to learn about their experiences in, and special knowledge of, those markets. Among individual buyers and sellers, social networks facilitate the flow of information, and shared cooperative norms greatly reduce transaction costs.

Within firms, networks and cooperative norms facilitate team work, reduce or eliminate potential conflicts between the firm and employees, and improve the flow of information, including crucial and specialized knowledge. These enhance efficiency, promote innovation, and improve the quality of outputs.

Between firms, networks and cooperative norms help to build trust, and reduce the need for expensive and complicated legal contractual arrangements, thus reducing transaction costs. Thus there is clear evidence of the importance of social capital among SMEs in Republic of Korea.

On the other hand, strongly tied social networks can also be a hindrance to business transformation. This situation particularly arises in the case of family businesses in which family ties may preclude the introduction of new management practices. Social capital also implies a need for social interaction that can prove to be a cost rather than a resource. There is also the issue of how social capital is maintained and handed down when there are changes in the business leadership. The network ties depend on relationships. If there

is no introduction to the predecessor's networks or continuity of relationships during the leadership transition, there can be a diminution of social capital and its positive effects.

Similarly, over-reliance on social capital can lead to the wrong sources of assistance being sought out, as well as inappropriate assistance, information, knowledge, or processes. Even the wrong people may be asked to support the transition. This is not inconceivable as friendly contacts, although well intended, can lead to inappropriate leads or misinformation. Especially, certain social networks, such as a hometown-based network or an alma mater-based network, both of which are quite common networks in the Korean business community and culture, can become barriers for business transformation and innovation.

The family-owned SME governance and ownership structure can also serve as a barrier for business transformation and innovative performance. It seems very simple to understand what is meant by the term "family-owned SME," yet when we try to articulate a precise definition we quickly discover it can be a very complicated phenomenon. Actually, a variety of definitions are being used in the field. The choice of definition has significant implications on the way statistics on family-owned business are collected and interpreted. One commonly used definition is: "a business in which the members of a family have legal control over ownership." If we adopt this definition, we must conclude that the family-owned business is in fact the predominant form of business organization in the world. In Korea alone, following this definition, more than 95% of all businesses are family-owned and 99% of all registered firms are considered small- and medium-size enterprises. Despite the predominance of family-owned SMEs, we are seldom provided with a thoughtful analysis of their contributions and strengths. Given both the large number of firms that are family-owned and the large number of families that run small- and medium-size enterprises, it is clear that this form of organization affects the economy and society in highly significant ways.

Previous research and literature clearly suggest that the level of equity held by a firm's management does influence the firm's efficiency, profitability, and capital structure and, therefore, its value. Not only do family-owned and controlled businesses differ in terms of structure, but the dynamics of family businesses are different from those of a public corporation because of the added dimensions of the family relationship and the time horizon. Considering the contribution and importance of family-owned SMEs, the competitiveness and efficiency of these firms significantly affect the economic and social aspects of any country. Of major concern to the success of family-owned SMEs is the degree of dependence on a single individual; i.e., the owner-manager/parent. It has been cited in several empirical studies that family-owned businesses are highly dependent, perhaps dangerously so, on the owner-manager. Therefore, the sound governance of family-owned SMEs is crucial for sustainable economic growth.

Good corporate governance is necessary to provide a positive working relationship between those who own a company and those who manage it in today's competitive global economy. There is much evidence that well-managed companies have a competitive advantage in attracting capital as do firms with a sounder governance and ownership structure, and that strong but balanced managerial leadership typically brings about successful performance. The successful performance of family-owned SMEs is of vital interest to any country.

CASE NO. 1: DIGITAL GRAPHICS INCORPORATION

Digital Graphics Incorporation (DGI) is a manufacturer of inkjet plotters and cutting plotters. DGI has developed its own inkjet printers and cutting plotters based on constant R&D into precision machine manufacturing technologies and digital printing algorithms that span more than 20 years. The company's annual sales are about USD33 million. The company was listed on the Korean stock exchange in July 2001. The firm employs approximately 125 employees.

As an integrated digital printing solutions provider, DGI exports products to 70 countries including India, Europe, Latin America, and the U.S. Its exports account for more than 80% of total annual sales, which placed DGI as number one in world market share for digital inkjet plotters in 2004.

The company began as a drafting machine maker by Kwan-Soo Choi along with a few engineers under the name Illy Industry in 1985. During the 1980s and early 1990s, Mr. Choi focused on producing medium-size inkjet plotters (1.5 to 3.2 meter-wide print size, ranging in price from 10,000,000 to 1,000,000,000 won) so as to avoid competition in markets already occupied by Japanese companies. Japanese competitors already marketed advanced products using CAD/CAM, based on computer technology, for the printer industry globally.

Facing his company's dearth of technology required for producing state-of-the-art machines and its relatively weak market position, Mr. Choi was forced to make a critical decision. His first aim for his new company, from the beginning, was to be recognized as a leader in the printing industry. Now he saw that to do this he had to bridge the technology gap between his company and the Japanese competitors to become a genuine professional and world market leader. His second goal was to ready the company to go global at the earliest possible time.

As his first action, Mr. Choi challenged himself and his staff to learn everything they could about advanced technology in order to localize inkjet and cutting plotter manufacturing, which at that time fully depended on imported parts and components from Japan and the U.S. The company name was changed to Illi Co., Ltd. in 1991 and completed development of a computer-operated pen plotter (a CAD/CAM output device) in 1993. As part of these developments, the company acquired the "Quality-Guaranteed Mark" (Q-Mark) in 1993 and the manufacturing certifications of CE, FCC, and EMI. The company designed a cutting plotter in 1998 and acquired ISO 9001 certification. It further completed development of a new inkjet plotter based on piezo-based printing head technology in 2000.

To reflect the changed nature of its technology, the company changed its name to Digital Graphics Incorporation in 2000 and became listed on the Korean stock exchange (KOSDAQ) in 2001. As it was going public, DGI was awarded the KT (Excellent Korea Technology) Mark in 2001. Continuous quality improvement and innovation by the company has brought several key recognitions, including the Medal of Merit as part of science and technology promotion for the 35th Science Day in 2002, "Superior Engineer of the Month," the first award in the section of small and medium enterprises, "Korean World-class Product Award 2003" for its digital inkjet printing machine, "Digital Innovation Award 2003" in the category of best digital technology and "2004 Science Promotion Merit" from the Korean Ministry of Science & Technology in 2004.

Core competence

Management excellency – Chairman Choi has devoted himself to discovering business opportunities through forecasting what the market exactly wants and then making it into business reality. He has urged employees to study and understand market trends and collect relevant information and then to direct all the energy of the organization toward the target.

Strong financial structure – R&D requires great financial resources. The supply of working capital by DGI has been achieved in large part through seed money subsidized by banks and by government assistance to small- and medium-size businesses. Mr. Choi has one very clear principle, however: the company does not finance through the use of debt. The reason he gives is that a small company focusing on one area is vulnerable to even a simple mistake of capital execution and this directly can lead to chaos. Especially during a company's growth stage, it becomes a huge challenge when there is a shortage of capital.

Outsourcing capability – The company efficiently operates a network through strategic alliances with more than 200 companies throughout the world. DGI focuses on its core technology and internalization of specialized knowledge in inkjet plotter and cutting plotter technology, and replaces other processes through cooperation with outsourcing companies.

Social capital

Mr. Choi deeply realized his company faced a serious problem during its early growth stage. DGI's technological capability was too far from achieving success in the world market. In the industry he sought to enter, the technology level is a highly important factor directly raising a major entry barrier. In response to this situation, the company strengthened its competitive edge through continuing R&D activities and increased capital investment into its manufacturing facilities and thereby sought to satisfy customer needs by offering state-of-the-art printing systems comprised of exclusive print-heads and other key components. It achieved this as well by investing in network formation with technologically leading international companies. Industry trade fairs and expositions were a very effective channel to earn DGI a reputation of quality among the leading firms in the world market.

The next step by Mr. Choi was to focus on globalization with pride and a passionate belief in the products developed by the company's own technology. However, about this time, there emerged one more serious threat in the global market. Chinese manufacturers armed with their low-cost labor advantage began to make inroads into the market with apparently invincible price competitiveness. An enormous change in the plotter market environment was expected sooner or later both at home and abroad.

As one way to overcome this new market challenge, Mr. Choi encouraged employees to develop fresh products and services differentiated from the competitors. As well, the company participated in world printer product exhibitions, such as ISA in Las Vegas and VISCOM in Europe, more than 12 times a year in order to understand the market and to evaluate the competitiveness of products in the global market.

DGI has an extraordinarily low turnover rate, virtually none, among its R&D-related personnel, although shortages of technicians and researchers plague the industry over all. This loyalty by his R&D team is because Mr. Choi strongly supports innovative and creative work by his employees, and provides them with a quite high level of rewards, even compared to larger corporations. Even in difficult times, Mr. Choi has kept a resolute

attitude to ascertain market trends and to constantly accumulate required information through endless R&D. For this, DGI has been investing about 5% of its annual sales into technology development so as to continuously increase quality improvement. All the awards and achievements have laid proof to the efforts of DGI under Mr. Choi's leadership.

DGI has been successful in establishing cooperating networks with more than 200 outsourcing professionals through strategic alliances. Manufacturing of inkjet plotters and cutting plotters is comprised of various technology fields that are combined with various related software areas for data input and output and human resources.

Mr. Choi believes that the sustainable growth of a company as well as survival itself depends on three key factors: human resources, financial structure, and market security.

Cultivating talented employees is most important for a company aiming for an industry leadership position through development of state-of-the-art technology. For this the company's philosophy is as follows:

- Management for the benefit of employees
- Management for human resource development
- Management for fulfilling corporate responsibility to society
- Management for globalization

Human resources management is quintessential, so Mr. Choi emphasizes developing employee proficiency, and sticks to the basic principles of fair and clear management.

The major competitive strengths of DGI are price competitiveness and new product development capabilities. The company's competitive strategy has been achieved through three components: (1) continuous quality improvement; (2) sustainable innovation of systems for efficiency; and, (3) customer-centered management.

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>	<i>Moderately Useful</i>			<i>Least Useful</i>
• Extended Family Networks	1	2	3	<input checked="" type="checkbox"/> 4	5
• Social Networks	1	<input checked="" type="checkbox"/> 2	3	4	5
• Industry Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Professional Networks/Associations	<input checked="" type="checkbox"/> 1	2	3	4	5
• Informal Networks	1	2	<input checked="" type="checkbox"/> 3	4	5
• Others					

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital	<input checked="" type="checkbox"/>				
• Help in meeting production targets			<input checked="" type="checkbox"/>		
• Help in sharing costs in marketing strategy			<input checked="" type="checkbox"/>		
• Help in obtaining special knowledge				<input checked="" type="checkbox"/>	
• Share customer base			<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry		<input checked="" type="checkbox"/>			
• Other (please specify): _____					

CASE NO. 2: SL (SAM LIP) CORPORATION

History of the firm

Since it was founded in 1954, Sam Lip Corporation has been devoted to the manufacture of automotive lamp systems, levers, and chassis. It has been involved in the automotive industry for the past 50 years and has become a specialized manufacturer of auto parts. The company has been widely recognized for its technological capabilities in overseas markets in the U.S., Japan, Australia, and Europe as well as in the domestic market in Republic of Korea. The company's technological competence is unparalleled in its specialty areas.

SL Corporation pursues a strategy as a future-oriented company providing market-leading quality and technology based on respect for human welfare and creative competitiveness. It also strongly focuses on ethical and environmentally conscious management and tries to contribute to society and its customers through the pursuit of world-class technologies. With a shared belief that the workplace should be a proving ground for employees to realize dreams both as individuals and as members of society, all workers strive to create a satisfying environment where they can focus on developing themselves without restriction.

SL Corporation has consistently promised to create high-quality parts for automobiles based on a sense of ceaseless striving toward customer satisfaction, top technology, and highest quality by pouring its management energy and resources into core business areas such as chassis and lighting systems. Initially the company supplied about 10 different items, such as headlamps, clutch discs, tie rod ends, and levers directed mainly at sales to the government.

As one of its three founders, Hae-Jun Lee focused company efforts on quality improvement by investing heavily in new equipment and systems. At that time, although he was convinced auto parts would bring successful results in the coming future, many people in the industry were doubtful. Due to government action against illegal imports of foreign-made auto parts into Republic of Korea, the demand for domestically produced parts increased and SL Corporation eventually developed a strong position as a respected auto parts manufacturer. By installing advanced equipment and with the development of specialized knowledge, SL Corporation reached a level of superior technology through learning efforts step-by-step over an extended period. In 1968, Mr. Lee converted his privately held company into a public corporation. This brought about dramatic growth as SL Corporation's capital increased to 40 million won, with annual sales of 265 million won and to 170 employees by 1970.

Core competence

Stable labor relationship – From its founding, SL has emphasized human resource development, so considering the responsibility and role of each employee is important. Thus, the managers' decisions are followed in respect to the assigned responsibilities of employees. Since Mr. Lee supported establishing a labor union in 1968, the philosophy of the company is based on trust and belief in people. Thus, a sound relationship between labor and the company is considered to be one of the greatest factors for achieving high productivity. All employees conform well to the company culture. A unified and collective chord has helped to support the employee trust toward the company.

Human resources and corporate culture for innovation – Mr. Lee believes people are the most important asset to build and maintain competence, especially for the future. The company has placed investment in human resource management at the highest priority. Managing directors prefer to visit universities to recruit promising young people rather than other sources for potential employees.

SL launched a Six Sigma program throughout the company in order to bring creative innovation to the organization. It helped the company adjust to global standards, so as to increase productivity and quality improvement because the auto industry is affected by so much fluctuation and competition.

Social capital

The company was established in 1954 by three persons, Hae-Jun Lee, Doo-Sung Nam, and Kye-Hee Shin in Chilsung Dong, Dae Goo city. They equally invested 30,000 won and named the company Sam Lip, meaning "built by three persons," as an auto parts company. The executive positions were assigned according to age, with Mr. Nam, the eldest, as president, Mr. Shin as vice president of technology, and Mr. Lee, who is now honorary chairman, as managing director. Although they did not share any family ties, they established a trust-based partnership, which was not very common in Korean business culture at the time. Thanks to stable demand from sustainable government policy and military procurement, the company experienced steady growth during the early years. However, initial difficulties came in the late 1950s when auto parts smuggling began to affect market demand for domestically made auto parts. As conditions worsened, two of the partners wanted to withdraw due to unsold inventory and increasingly unstable operation. When Mr. Lee realized it was becoming difficult to keep the business partnership intact, he decided to continue the business alone, even though the company's future was highly uncertain at the time.

Now on his own, Mr. Lee found it was not possible for a small company to obtain bank loans. So he paid back the investment of his former partners by selling his own property and obtaining personal loans from relatives. He changed the company name to Sam Lip Industry and assumed the top job as president. Under mounting pressure from a lack of capital after the breakup of the partnership, Mr. Lee sought a new product that would require only a relatively small investment and could avoid the weakness in the domestic auto parts industry. His solution was to change the company's focus from cars to bicycles by retooling production lines to the making of hubs and hand brakes for bikes. In this way, the company increased its products for the bicycle industry, which helped Sam Lip overcome the crisis and generate new business opportunities.

In 1975, in response to the introduction of the Pony, the first automobile manufactured by Hyundai Motors, SL established new management centered upon Choong-Kon Lee, as vice president, who was a son of Mr. Lee, the founder. Mr. Lee succeeded as CEO in 1983 to continue the family's second-generation management of the company. In these years, fostering capable human resources was considered as to be the fountain for technology development and the growth of the company. To achieve this, Mr. Lee visited every level of executives and technicians in the necessary fields of the auto industry, establishing a strong network of trust relationships. As a result, he was able to put the right experts in the right place, which eventually led to a quantum leap in sales. SL engaged in widespread cooperation and networking with world-class companies possessing advanced technology in order to overcome his own firm's limitations in technological capability, from which all Korean auto parts companies suffered at that time. In particular, a strategic alliance with Staley Co., a Japanese firm, brought a special competitive technology advantage to SL. The engineers of SL worked together with Staley for training. SL exerted itself not only to incorporate a new work strategy into its own system but also to apply companywide the know-how accumulated through the technological alliances.

SL decided to go public in 1988, and about this time, SL had accepted an offer of a new business tie-up with several car manufacturers. This was for the operation of a specialized factory where SL would produce auto parts conforming to each car model of the manufacturers. Fortunately for SL, the Korean auto industry had reached a fast-growing stage in both the domestic and global markets by this time. The management of SL understood well what was desperately needed by the nation's car manufacturers, so SL expanded its subsidiaries to carry out these special tasks since 1986. More expansions followed, with SL Sung San Ltd. set up to produce headlamps for DaeWoo GM in 1986, and SL Lighting Ltd. established to make reflectors in 1987. These efforts helped SL expand its markets abroad, which increased export volume significantly and eventually promoted the company to global status.

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>	<i>Moderately Useful</i>			<i>Least Useful</i>
• Extended Family Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Social Networks	<input checked="" type="checkbox"/> 1	2	3	4	5

- Industry Networks ☒1 2 3 4 5
- Professional Networks/Associations 1 ☒2 3 4 5
- Informal Networks ☒1 2 3 4 5
- Others

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital	<input checked="" type="checkbox"/>				
• Help in meeting production targets		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
• Help in sharing costs in marketing strategy			<input checked="" type="checkbox"/>		
• Help in obtaining special knowledge			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
• Share customer base		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
• Other (please specify): _____					

CASE NO. 3: SUNSTAR COMPANY

SunStar Co., Ltd. is a sewing machine and auto-embroidery machine manufacturing company. It is located in the city of Incheon, near metropolitan Seoul. The company exports more than USD70 million in products yearly to over 100 countries including the U.S. and Vietnam. The company operates six subsidiaries in the Korean domestic market and five subsidiaries in the U.S., China, Europe, as well as seven other branches overseas.

The company has been a world market leader over two generations: Jung-Soo Park, the founder, and now his son, In-Chul Park, as the present CEO. The company has the top world market share in the sewing machine and embroidery machine manufacturing industry, with annual sales of about USD500 million in 2005, and 2,300 employees.

The firm was established by Jung-Soo Park in 1974. As Korea Sewing Machine Ind. Co., Ltd., the company focused on importing and distributing sewing machines and parts as its major business in the early years. However, the government issued import guidelines for the purpose of strengthening restrictions on imported goods. The company consequently turned its key business from sewing machine imports to manufacturing. Since most Korean sewing machine companies depended heavily on Japanese parts at that

time, the major slice of profits had been going to Japanese companies. Mr. Park thought that the company's only recourse was to localize all parts so as to produce national brand Korean products. This effort to achieve manufacturing independency accelerated when In-Chul Park, the present CEO, entered the company in 1982. Under the strong encouragement of his father, he started efforts to set up domestic localization of all sewing machine parts to realize the company's own manufacturing technology.

In 1985, in order to meet the challenge presented by automated sewing machines, which also were dominated by Japanese companies, Mr. Park turned the company's efforts to developing auto-embroidery machines. The new machines not only allowed his company to compete with Japanese makers but to become a genuine market leader in the sewing machine industry world-wide.

SunStar devoted itself to full-scale development of the increasingly popular auto-embroidery machines. However, designing and manufacturing them was a very difficult process because the equipment requires extremely complex technology, almost at the level of robotic engineering and computer programming. Some of the more complex models required as many as 27,000 separate parts. The firm's R&D team was forced to develop auto-embroidery machines on a trial-and-error basis due to the strong barriers that blocked access to existing technology. To this day the company still invests about 10% of its annual revenues on R&D.

Core competence

Clear corporate vision – The management of Sunstar was handed over in 1983 to Mr. Park's son, In-Chul Park, a graduate of Wayne State University in the U.S. The younger Mr. Park soon became active in developing world-class technology for sewing machines. According to Mr. Park, this was the most difficult and especially critical moment for SunStar's future. There was not any special infrastructure for machinery or engineering capability in this field at the time, so creating it basically from scratch was an extremely tough task for the company. There was almost no one for the company to refer to or obtain help from. Yet Mr. Park followed the belief that one must set a clear objective and do his or her best to achieve it with devotion and perseverance. But at every critical moment, he stuck to one definite and clear objective: "To be a world-class leading company" in the sewing and embroidery machine industry.

Localization of technology – Among the several difficulties facing the company, the lack of technological knowledge was particularly critical. Without any support or help from existing industries and competing companies, the technology development team at SunStar was forced to learn step-by-step and gradually acquired the key technologies for the entire manufacturing process of the products. The localization of parts took quite a long time but the company began to see fruitful results in the spring of 1985. The company's success at localization and the achievement of independency from the high technology eventually changed the world market positions in the industry, with SunStar officially stepping up to number one.

Social capital

Mr. Park has devoted his efforts into seeing that SunStar achieves an excellent quality level, continuous innovation of technology, a globally integrated management system, high efficiency of its Aftermarket Service (A/S) System, and the establishment of trust relationships with customers.

After development of a new machine, the next task is marketing. For a small company such as SunStar had been, a breakthrough and differentiated strategy was desperately needed to compete with giant manufacturers in world markets. A reliable A/S system was considered to be the key factor for competitiveness. SunStar representatives visited every potential factory or customer to introduce their product and specially focused on after-services delivery. A/S was seen as a weak point of most competitors and the company used it as a golden opportunity to “read the customer’s mind.” As well, SunStar provided A/S with a specific principle to follow: “Solve any problem within three days.”

SunStar now has established a global A/S networking system using a built-in computer chip in each machine. The company operates within a 24-hour service system, referred to as the “W24H” system. More than 300 service agents are standing by as part of this network.

Mr. Park, a long-time admirer of the Mongolian ruler Genghis Khan, has his employees learn foreign languages required for global business as well as to instill in them a global mindset and gain international exposure. He believes that a manager must penetrate the market and industry with insight and then prepare with long-term vision. He feels it is also important for a manager to decide the right direction and urge his people forward. He feels that if one truly wants to overcome any challenge from business environmental factors, it is necessary to prepare with a sound system and provide only the highest-value products to the market. Since it takes time, one must prepare with enough time in advance. Sunstar has built Sunstar Global Management System (SGMS) as a strategic system for the 21st century which is an integrated information system establishing networks in the five managerial areas of development, manufacturing, marketing, finance, and human resources. It creates high efficiency through synergistic effects. Mr. Park and top management refer to the system as the company’s “decision-making guidelines.”

Are any of the following networks useful for your business? (Check the number that most closely corresponds to the level of usefulness.)

	<i>Very Useful</i>	<i>Moderately Useful</i>			<i>Least Useful</i>
• Extended Family Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Social Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Industry Networks	<input checked="" type="checkbox"/> 1	2	3	4	5
• Professional Networks/Associations	<input checked="" type="checkbox"/> 1	2	3	4	5
• Informal Networks	1	<input checked="" type="checkbox"/> 2	3	4	5
• Others					

In what ways are these networks useful? (Check any of the boxes that are relevant to your business.)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
• Help in raising capital		<input checked="" type="checkbox"/>			
• Help in meeting production targets			<input checked="" type="checkbox"/>		
• Help in sharing costs in marketing strategy			<input checked="" type="checkbox"/>		
• Help in obtaining special knowledge			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
• Share customer base			<input checked="" type="checkbox"/>		
• Help in overcoming barriers (legal, political, etc.) to market entry		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
• Other (please specify): _____					

THE EXTENT OF SOCIAL CAPITAL IN FAMILY BUSINESS ENTERPRISES IN MALAYSIA

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INTRODUCTION

Social capital is a business concept that binds relationships and develops connections within a group of individuals or business units. This form of bonding creates cooperation that is developed within a network of individuals through mutual or business acquaintance. Through these networks strong ties can be developed and through good communication it may enable businesses to identify problems, find solutions, and even manage conflicts that can lead to constructive outcomes.

These networks are initially formed through shared feelings and voluntarism to pursue a common interest, express values, and assist others. Some of these networks are ethnically linked especially in relation to business within a community of a certain culture or race. No matter how it came about, the element of trust is prevalent as individuals combine their resources and know-how to improve business efficiency. As a result, formal business networks emerge with the responsibility of providing information, legal assistance, and financial advice.

The concept of social capital and how it has benefited family businesses is an interesting area to explore. In Malaysia most family businesses were pioneers in the areas of agriculture, textiles, furniture, food products, and beverages. These businesses were handed down from generation to generation but over time have evolved into separate entities from ownership and running of the business. This was partly due to the lack of interest of family members in carrying on the family business tradition and the fact that many family members prefer to embark on different career paths. In addition, as the business expanded, and to limit liability of each member of the business, these family-oriented businesses frequently evolved into private limited companies while the more successful ones were converted into publicly listed companies.

Quite a number of family businesses in Malaysia are in the Small and Medium Industry (SMI) range. These industries are important suppliers and service providers to other industries. In 2006, SMIs accounted for 96.6% of total manufacturing establishments in the country. Thus, strong and dynamic SMIs contribute substantially to economic growth through efficient use of resources, employment creation, mobilization of domestic savings and investments, and an increase in the number of indigenous entrepreneurs.

Most Malaysian family businesses are characterized by cooperation and close-knit unity to ensure that the business prospers. Family responsibility is shared as each member is given specific tasks to handle. There is usually minimal conflict as the structure of business is organized and most family members are also salaried workers and shareholders with the opportunity for profit sharing, but this does not affect the contribution of the family members to the business.

The general setup of family businesses is usually formal and supported by salaried staff who are not family members. Some of these staff also hold positions of responsibility

and are involved in decision making. This is where the element of trust takes precedence in all aspects of the business. Whether it is a family member or a salaried staff member, the responsibility is usually well defined and each person is responsible for his or her actions irrespective of family ties or position. Nevertheless, many decisions are made collectively based on facts and in consultation with both salaried staff and family members.

To gauge the extent of social capital in family business enterprises in Malaysia as well as their transformation over the years, and their effectiveness in contributing to the economy in terms of growth, productivity enhancement and competitiveness, two case studies on Malaysian enterprises were carried out. These companies are home-grown enterprises and have made a name for themselves regionally and internationally. The companies examined are Noor Arfa Batik and Barkath Group.

NOOR ARFA BATIK

Noor Arfa Batik is a family-owned business engaged in the manufacture of hand-drawn batik materials. It was founded in 1981 as a small business enterprise in Terengganu, Malaysia. Since then, the company has gained a wide customer base, and in 1991 Noor Arfa Batik Sdn. Bhd. was formed as a private limited company with paid-in capital of MYR250,000. It is now a multimillion-dollar industry located on 2.5 acres of land with its own craft complex in the Chendering Industrial Area, 6 kilometers south of Kuala Terengganu. It has expanded over the years to include manufacturing, retailing, wholesaling, and exporting of its own batik line of products under the brand name “Noor Arfa.” With an annual turnover of more than USD10,000,000 the company currently employs over 280 employees ranging in age from 20 to 35. Most of the company’s workers are female with a male-to-female ratio of 20:80. Profits of the company for the last three years have also soared and are in the range of 6-10% of total sales.

The process of batik printing is unique. It involves drawing and tracing the batik design onto a piece of plain white cloth, usually silk, followed by a process in which hot wax is painted onto the design. The design is then hand-painted in colors. After this the material is boiled in water to fix the colors. The finished material is then ironed and sent for packing or sewn into ready-made garments such as shirts and dresses or traditional Malay outfits.

For the past 23 years, Noor Arfa Batik has created a niche for itself as a pioneer and a leader in the batik industry. It has built its reputation as a manufacturer of high-quality batik products which include hand-painted batik materials, ready-made ladies’ and men’s garments, and accessories including purses, photo frames, pencil cases, handkerchiefs, and scarves. It has also established “Noor Arfa” as a designer label to create greater branding strategy in the local and overseas market.

The company’s vision is to be the leading pioneer in high-quality production and distribution of batik products *par excellence* under the Noor Arfa branding strategy. It intends to be a global industry player in the challenging business environment of haute couture and fashion retailing. The company’s mission is to consistently maintain the highest quality batik products through stringent focus on the production of superior and unique designs for which it is already recognized.

With the support of a highly strategic management philosophy, the company is determined to create global business expansion and opportunities toward the promotion of batik as part of a vibrant and elegant lifestyle in fashion retailing. To date the company has

won numerous awards such as the Most Supportive Shopping Outlet (Specialty Store – Malaysia Tourism Award 2003), Certificate for Fair Price Shop Awards 2003, Certificate of Merit for Entrepreneurship, Terengganu 2003 (Small and Medium Industry Category), and a host of other awards.

Product Line and Markets

Apart from having its own batik line of products under the brand name Noor Arfa, with yardage in silk, cotton, and rayon, the company also produces ready-to-wear garments for men, women, and children. Other batik products include scarves, ornamental batik paintings, sarongs, and *pareos* (a wrap-around skirt). Currently, there are more than 200 items being produced for both the local and overseas markets. The company's exclusive hand-drawn batik is now a thriving business with key markets in Cyprus, Mauritius, and Kuwait. Other export markets include the U.S., Singapore, Middle East, South Africa, Europe, Japan, and Germany.

In 1998, the company expanded to the United States and opened Noor Arfa International (USA) Corporation. The company's sales between 1998 and 2006 had been increasing steadily at a rate of 5-10% annually. The company is now concentrating on expanding its franchise business started in 2002. Through franchising the company particularly hopes to expand its business throughout the U.S.

To promote its products overseas the company has participated in various expos and trade fairs outside Malaysia. These include the ASEAN Garments and Accessories Exhibition, Tokyo; Hanover Expo 2000, Germany; and Spring Fair, Birmingham 2003 / Malaysia In-store Promotion, U.K. As a result of its achievement, Noor Arfa earned a place in the Malaysian "Book of Records" as the largest commercial batik sales outlet in Malaysia.

Management Structure

This family-owned company is very much a family-oriented one in which the entire family is involved in the business, namely the father, wife and sons. The owner of the company is also the CEO who was initially employed with a Craft Development Centre. Together with his wife, who is also his business partner, he saw huge potential for the batik designs crafted by his wife. Initially the products were sold via word of mouth and to regular customers. However, the owner was quick on the uptake and transformed their backyard industry into a leading batik brand in Malaysia.

In the early days of the business venture, all decisions were made by the CEO. However, for areas pertaining to business requirements and legal aspects of trade he relied on advice from local chambers of commerce, textile associations, and government agencies. Relatives and friends had little to do with the business and were not part of his business network. The business was unique, and many of his social partners were not attuned to aspects of this type of business and therefore could not offer concrete advice or insight. The CEO was therefore the sole decision maker where running the business was concerned.

As the years passed, the business flourished and the CEO realized that to carry on the tradition of batik printing, more family members had to be equipped with the necessary skills and expertise. Moreover, basic management principles that he had relied on in those earlier days were no longer applicable and therefore the new generation had to be trained and skilled in relevant business areas to take the company to greater heights. With an outlook to the future, he realized that his three sons were the answer. To achieve this, he

ensured that each became qualified in different business fields to complement the existing business structure.

The sons were then respectively educated in the areas of marketing, accounting, and engineering. The son with the marketing qualifications was made responsible for sales and distribution, the son with the accounting background was placed in charge of administrative and financial matters, and the son who studied engineering assumed responsibility for production operations. This ensured that the business was self-contained and guaranteed survival of the family business. However, the CEO was not opposed to any outsider being involved in the enterprise. He was not afraid to share responsibilities and there was no element of mistrust toward any outsiders. Nevertheless, this was limited to the areas of general management and daily operations but did not involve major decision making as this was the prerogative of the CEO.

Being a family-oriented operation, all decisions are made by the family members in charge of the different functions. Each person is responsible for the outcome in the area of his individual responsibilities. The CEO, nevertheless, is still responsible for major decisions relating to expansion or new product lines and financial decisions that involve significant financial expenditures. He continues to be an active member of various trade organizations and associations and is also a member of the Art and Social Sciences Advisory Board. Although he is member of these associations, decisions made by him with regard to company operations are not in any way influenced by these associations except in cases where government requirements need to be followed. It is actually he who shares with them his business acumen to help those in the business line, especially entrepreneurs in his home state.

Management Principles

Current management techniques include delegation of duties and the power to decide the day-to-day operation of the company. These are delegated to each of the owner's three sons. Only policy matters that involve the setting up of new branches or expansion in overseas markets and significant financial investment require the approval of the CEO and the management team.

With his sons at the helm of the business, salaried staff attend to day-to-day functions. For example, at the factory level, a salaried general manager is in charge of operations. Headed by the son (as executive chairman) who is responsible for production operations, the general manager is given a free hand in managing employees and work processes. The management also believes that employees are among the main contributors to the company's success and so maintains an open-door policy in respect to employee communications. It is therefore not unusual for an employee to approach the general manager on work-related issues or problems and suggest improvements to these work processes.

At headquarters level, the batik designer is given full responsibility in making decisions regarding designs, design trends, and fabric quality. Management does not hinder his creativity; in fact he does not even need to consult the CEO when creating new designs. This has made the company's batik designs stand out from those of other batik makers and Noor Arfa Batik designs have gained wide international appeal. However, as a matter of principle his immediate manager is shown the designs and after appropriate feedback and suggestions, if any, the designs are modified and sent for production.

This company is a major franchisor of batik products. It therefore requires its franchisees to maintain stringent rules in business layout and quality of service. Therefore, no outsourcing of products is done to maintain quality and uniqueness.

Social Capital and Trust

At Noor Arfa Batik, the element of trust has become more prominent over time. This is because most of the running of the business is left to the CEO's trusted employees and in the hands of his sons. The CEO concentrates mainly on expansion of the business and venturing into new markets. Trust is something that has to be earned over time and just like in any other business there are risks. Having trained his own offspring and given them education and experience in the right fields, the CEO of this company need not worry about decision making on the day-to-day operations of the business. It is clear that only decisions involving finances or new ventures need his consent.

Meetings between the CEO and managers are also held on a monthly basis to evaluate progress and propose recommendations for improvement where necessary. This company is fortunate as the CEO is open to new ideas and does not hinder the creativity and innovativeness of the staff. Once the CEO and the management team decide that a new idea should be implemented he will leave it to his three sons and staff to carry out the task.

Since involving his sons in the business and setting up a management team, decisions are collectively made and views from all parties are taken into account before a decision is finalized. For example, if there is a request for abstract batik designs as opposed to the usual floral designs in batik, the pros and cons of the change in trend are weighed and the final outcome requires the consensus of the team rather than just one individual alone. This is due to the fact that those involved in production and marketing are more familiar with the latest trends in designs, so their feedback is valued and taken seriously. Social capital therefore exists among family members.

In this company, a single family member does not dominate the running of the business. Their personal ties also do not inhibit the expression of honest opinions. The company members are very trusting of each other and this trait has contributed to the success of the business.

Although the company does not have a formal form of networks, the younger generation has created good rapport with relevant trade associations, dealers, and relevant government agencies that were introduced to them by their father to ensure that they are in constant touch with trade policies, new markets and ventures, and government directives to businesses in the industry. Social capital is therefore present in the company's dealings with outsiders. The sons have formed good relationships with their suppliers to enable them to seize cost-cutting opportunities, ensure sufficient supply of products, and seek prospective outlets for products. Although these suppliers had long been with the company and were mostly introduced by the CEO, new supplier links were additionally developed by the CEO's sons.

Social capital is not only confined to the private sector but has been extended to the public sector and trade associations as well. Networks with relevant government agencies have been formed to ensure that world-class production procedures, such as ISO standards, are followed. In addition, association with trade organizations also enabled the company to keep up with changing trends.

Apart from this, business acquaintances fostered through business dealings have helped the company keep abreast of new business trends and information. Nevertheless, these business associates only have provided insights but do not directly influence

business decisions. The fact that this company has also exhibited its products overseas indicates that the management has created sufficient networks with overseas counterparts to venture into unfamiliar waters. This reflects trust and good business relationships that have enabled the company to take that giant step.

Improving Performance

Productivity improvements at all levels of the organization are crucial to enhance performance. Although this is a batik company that does not face much competition, it nevertheless has prioritized improvement programs to inculcate a productivity mindset among its workers. Among the productivity and quality initiatives are the implementation of 5S procedures, ISO 9000 Quality Systems, and the training of employees in leadership and communication skills.

In ensuring that the company continuously progresses, the firm has embarked on various productivity and quality initiatives such as the 5S Principles, Innovative and Creative Circles, and Suggestion Boxes. These activities have helped management improve both the work environment and the performance of workers.

Basically the company measures its performance based on the profits it makes yearly. Workers are then rewarded in the form of bonuses on an annual basis. Nevertheless, the workers are also evaluated through performance appraisals that stress performing over and above the targets set, discipline, and initiatives taken to improve the quality of work and processes. The staff performance in these areas helps determine the salary increment for the following year.

At the factory level, monetary incentives are given for perfect attendance. For production targets achieved, workers are provided with monetary rewards for each additional piece of hand-painted batik that is produced without defects. Workers are also paid for coming up with attractive and marketable designs. All these incentives are given apart from the monthly pay packet.

For the company's franchisees, sales targets are set on a monthly basis. These targets are based on the value of sales. Commissions are then paid based on 10% of total sales for the month.

Business Management Practices

In contrast to other business concerns, Noor Arfa Batik is a highly independent company, relying very much on the owner's instincts and business acumen to make the business succeed. It is a first-generation family-owned company and therefore has yet had no succession of top management responsibility. Having been able to manage the business and ensure its progress is already a notable achievement.

With regard to business decisions made within the company, they have been based on a husband-and-wife team cooperation in which the husband as the CEO has been responsible for running the business and the wife for the original designs and quality control of batik pieces. Most business decisions have been made by this team and they did not rely on anyone else to influence their decisions. However, as far as legal business requirements are concerned the CEO refers to various government agencies and trade associations for advice and direction. These associations and agencies have provided him with the basics of business practices from which he has made his own decisions. These contacts and associates were later introduced to his sons to assist them in obtaining the latest business information. However, decisions on the running of the business are still an internal concern and outsiders do not directly influence such decisions.

The CEO is presently actively involved in promoting good business practices and teaching others to set up their own businesses. He gives briefings and talks on his expertise and involvement in business practices especially to assist other entrepreneurs.

Business Networks

There has not been much competition faced by batik makers as the business is unique. It was therefore found that social networks did not contribute much to business progress. Although these networks had existed for a long time and were passed on from one generation to another they had little influence on internal decisions. Nevertheless, these networks were seen as useful, especially the extended family networks through the sons, the industry networks, and professional networks and associations.

The family networks were seen as particularly useful for business expansion and raising finances through bank loans and grants. Since the sons were directly involved in the business it was easy for them to monitor the financial health of the company and approach financial institutions for assistance as necessary.

Since the daily operations of Noor Arfa Batik are basically run by the three brothers, their interaction with each other has helped them to meet production targets, share costs, develop marketing strategies, and obtain specialized know-how. They have depended upon and consulted each other for insights and inputs to improve the business. As far as industry networks are concerned, these have provided useful information on new production strategies and systems that are relevant for business expansion into new areas in which the company is now venturing.

Where share of customer base is concerned, the company has relied on other social networks such as those developed with suppliers and business franchises to gain access into new markets and increase demand. Industry networks and professional networks that were formed by the CEO and his sons have enabled the management to be cognizant of legal and political barriers to market entry and take the necessary action to overcome these obstacles.

Commentary by Management Staff

The chief batik designer was interviewed as part of the case study. There is good rapport within the company as far as he is concerned as one of the principal staff. According to him, everyone is responsible for his or her own duties and tasks. Managers are answerable to the CEO with whom they meet once a month. However, daily meetings and discussions with the franchise manager are also welcomed. There is no hierarchy when it comes to talking things over with the manager, in fact this kind of interaction is encouraged.

The designer indicated that internal affairs have been going well for the company. There is no mistrust among the management team and they work well together. Most functions are based on team work, so each has to depend on another person to carry out a certain function. The CEO basically handles the bigger decisions and leaves the running of each franchise or factory operations to the respective managers. Nevertheless, the CEO is well informed and provides new inputs from time-to-time on the latest designs, materials used, extension of markets, and factory operations. The designer said that makes the staff feel that he is part of the organization and provides them a sense of belonging. He said the staff feel proud that the CEO is involved and his contribution and presence are much appreciated.

Conclusions

Noor Arfa Batik has carved a niche for itself in the international arena. This was made possible initially through the sheer hard work of the CEO, along with his wife, and by their realization of the potential for the hand-crafted batik industry at that early time. Being open to new concepts and approaches in batik design has also helped the company become a leading batik brand in Malaysia and has given it a credible reputation for being different, unique and stylish, yet consistent and highly focused in its strategic directions and vision.

In essence, the company embarked on its own journey without relying much on friends or social contacts and networks initially. This was a unique industry and not many in those days were in the batik business. Even to this day there are not many businesses that specialize in hand-drawn batik. However over the years the CEO formed the necessary business networks and social capital took effect in terms of enhancing business knowledge, letting the company be aware of the latest trends and government requirements, and creating an atmosphere of good business rapport among suppliers, bankers, and professional associates. The contacts from these networks were then passed on to the CEO's sons who in turn effectively used them to enhance business opportunities.

At the same time through its policies of good interaction with employees and enabling them to participate in areas related to their line of work the company managed to develop employees who are committed and productive. This has contributed to the competitiveness of the company especially among its franchises and branches overseas.

Employees of the company also show respect for their CEO and have good rapport with their managers. This is vital if an organization is to optimize the potential of its employees. With recognition for employee performance in place, employees will be motivated and give their best. Noor Arfa Batik is therefore the epitome of successful *Bumiputra** entrepreneurship that has transcended over time to one that is forward-looking as well as utilizes its own social network to create its own opportunities.

*In Malay, from the Sanskrit word *Bhumiputra*; translated literally as "earth son" or son of the soil.

BARKATH GROUP

This family business began in 1945 as a sundry shop for estate workers in Kulim, Kedah. A second sundry shop set up in Penang has now become the headquarters of the Barkath Group. The store initially specialized in selling confectioneries. With the motto, "We serve you wherever you are," goods would be delivered to the customer's doorstep, even the very smallest items, as part of a home and office delivery system. This helped create good rapport between customers and the owner, which enhanced the company's business opportunities. As demand increased for its products, the business expanded to include establishment of new branches in Butterworth, Penang, Kuala Lumpur, and Singapore.

After a time, the owner decided to seize new opportunities as the domestic producer of Hacks brand sweets, which were originally from the United Kingdom. The owner contacted the confectioner in the U.K. and convinced them that there was a ready market for the British sweets in Malaysia and that the Barkath Group was capable of manufacturing them locally. This led to a joint venture in 1965 for the production of Hacks sweets in Malaysia. In 1987, the Barkath Group acquired the Hacks trademark for Malaysia, Singapore, Brunei, and India. The company also started to make its own lineup

of cough drops called “Kikof.” That same year the company was also awarded the 7th International Asia Award in Indonesia.

The owner was far-sighted and realized that he needed his eldest son to learn the ropes of the trade. So he sent his son to England to learn all aspects of manufacturing and marketing, especially that of Hacks sweets. A year later his son helped launch Hacks Malaysia Sdn. Bhd. At the same time, Barkath stores became the distributor for Sunquick Orange Concentrate which was originally produced by Co-Ro Food A/S of Denmark and marketed to more than 80 countries.

In recognition of the owner’s efforts to promote trade ties between Denmark and Malaysia, the owner was presented with the “Diploma of the National Association for Danish Enterprise” and Prince “Hendrik’s Medal of Honor” in March 1995. In August 1995, the owner was invited by the Penang Government to sit on the Penang Trade Council, which was formed with the purpose of enabling the government and private sector to discuss ways to promote trade. In 1995, the group also won the Asian Management Award for Marketing Management, presented by the Asian Institute of Management.

Product Line and Marketing

In the mid-sixties Barkath Manufacturing Sdn. Bhd. and Barkath Marine Products were established. Barkath Manufacturing now produces a variety of domestically sourced consumer products such as pasta, rose syrup, chili sauce, castor and icing sugar, baking powder, desiccated coconut, and other food ingredients and products. Barkath Marine Products possesses the latest instant quick freezing (IQF) facilities from Denmark, and the processed foodstuffs are exported to Australia, Japan, Europe, and the U.S. In 1970, an agreement was reached to produce Sunquick soft drink concentrate locally with Co-Ro Food A/S of Denmark.

The Barkath Group has grown over the years. It now comprises 22 companies that are engaged in a diverse range of activities that include manufacturing, import/export, licensing, commissioning agents, construction, management consulting in the food industry, plantation-based agriculture, and investment. In 1994, Barkath Co-Ro Manufacturing Sdn. Bhd. was formed as a joint venture with Co-Ro Food A/S. This plant in Penang is well equipped with state-of-the-art machinery from Denmark. It can produce up to 8 million bottles of Sunquick-brand beverages a year for local consumption and export. To further attack the international market, the Barkath Group entered into partnership with the giant Dallah Albaraka Group of Saudi Arabia in 1994.

With 27 products being manufactured under leading brand names, Barkath group is today widely referred to as “The Family Food People.” Brands such as “Hacks,” “Sunquick,” “Kings,” and “ClassFoods” have become household names and have positioned the company as a market leader in food production. To date the company has been awarded the Readers Digest Malaysia Trusted Brand Award (2006), Most Successful Joint Venture Company (2004), and the Productivity Award (2003).

There are about 500 employees in the Barkath Group. The staff is made up of university graduates and those with hands-on experience. Barkath also runs a management service that is responsible for recruitment and finance. The typical age of the staff is between 40 and 45 years old.

Management Structure

Being a family-oriented business, decisions were initially made by the CEO as owner of the company. This included day-to-day running of the business and carrying out negotiations on business ventures locally and abroad. Most of the decisions made by the CEO regarding business ventures were based on his own business instincts and knowledge learned from his father during the management transition. However, as far as the day-to-day operation of the business goes, the CEO delegates the various tasks to a strong staff of around 500 people. The staff are supervised by managers in charge of particular sections. Decisions pertaining to each function, for example sales and marketing, are handled by the manager of that section. The staff also meet regularly to discuss work-related issues and problems and combine efforts to find solutions to overcome problems.

The structure of succession is basically family-based and run. Initially the company was owned by the current CEO's father but after his death it was passed on to the son. In this setup the family members are directly involved in the business; for example, the purchasing department, sales department and warehouse are each run by family members. These family members are responsible for all decisions related to the respective functions. They therefore work closely with their staff to ensure that everything runs smoothly. Consultation with the CEO is only carried out on decisions involving large amounts of expenditure or corporate business policies. The CEO makes frequent trips to the company branches and at the monthly meetings these new decisions or ventures are discussed. However, if a business venture requires immediate attention the CEO can be contacted and will normally go to the branch concerned to discuss the issue at hand.

Management Principles

In this organization, team work is important. Management and staff work together to ensure there is no time lag in meeting customer demand and that product quality is maintained at all times. Although most of the daily, routine functions are dealt with by inhouse staff, certain functions such as accounting and corporate secretarial duties are outsourced to companies that specialize in this area. This ensures that the core business of the company, manufacturing and distribution, is prioritized.

Daily business decisions are usually the responsibility of each manager, whom the CEO empowers to make decisions within the ambit of the manager's responsibilities. Employees are also given the opportunity to make decisions related to their specific functions. Nevertheless, large business deals that require significant capital outlays are determined by the CEO after careful analysis and consultation with the manager concerned.

The CEO of this company is affable and this makes him approachable. The CEO conducts monthly meetings with the staff of each section. This enables him to interact with them and tap the best brains. New ways of doing things are encouraged and at these meetings employees are encouraged to voice opinions and come up with suggestions. Good ideas are frequently implemented, especially if they are related to cost-cutting and productivity measures.

The CEO is also very firm in the decisions he makes. He is not influenced by his business acquaintances or associates when making a decision. Of course, ideas are welcome but the final say is still his and he carefully weighs the pros and cons of any issue.

Social Capital and Trust Factor

In these challenging times it is important that the decisions made do not damage the business. Feasibility of new business ventures is important, and information regarding the viability of these ventures is gauged based on the CEO's experience and knowledge of business trends. The viability of such a business venture is usually studied by the CEO and family members based on their years of experience and connections with others in the same line of business. Through discussions with their business associates they are able to gauge current trends and demands. Most of these business relationships were fostered during the first generation, many of whom still remain close to the current CEO. These long-term associates usually provide the link to new associates as well as other business entrepreneurs who have become friends and business acquaintances making social capital prominent in this company.

Over the years the company has relied on acquaintances, e.g. from the manufacturing line and banking, as well as close friends and relatives for advice on business opportunities and decision making. Individuals and organizations that are experts in their own field and are familiar with the business matters under consideration provide insights into new ventures and strategies. Among the institutions that provide advice on business opportunities and information are the Islamic Chamber of Commerce, Danish Business Council, and the Federation of Malaysian Manufacturers. These contacts have also been a reliable source of information for the business over the years. They have provided information on opportunities for new markets, insights into innovative strategies, product publicity and design, and product concepts to gain a wider market base. Although social capital and trust are prevalent in this company, decisions are only made after careful consideration and discussion with family members.

So far advice or information received from these associations or individuals have largely proven to be invaluable and have had a positive effect on the business. They have also strengthened ties and bonds over the years and have proven to be reliable in providing accurate and up-to-date information.

Improving Performance

Performance of the company is based on target achievement. Targets are set every quarter. Since this branch of the company deals with sales and distribution, sales targets are set according to expected quarterly achievements. By setting these targets there has been improvement in performance and the sales figures improved from 12% to 15% in 2005. Once the target is met a higher sales target is set. Moving targets in this way is quite widely used in manufacturing concerns.

The targets set are team-based so this involves a commitment from every team member. For example, in sales, the staff in charge of documentation and preparation of invoices are also part of the team as the company believes that the contribution from those both directly and indirectly involved make up the total team effort. After all, if sales invoices are not issued on time and debts are allowed to accumulate then the sales personnel will not be able to achieve their sales target. It is this teamwork that ensures the sales personnel are able to achieve their quarterly and annual targets.

The salary structure is comprised of a fixed and variable factor. Incentives and rewards based on targets and performance are paid out quarterly in the form of commissions. Bonuses and other forms of rewards are given on a yearly basis depending on the company's overall performance. The company has also initiated productivity and

quality initiatives such Total Quality Management procedures and has won various productivity and quality awards.

Business Management Practices

Delegation with a personal touch is practiced. Regular budget meetings are held, and targets are reviewed three times a year. The company believes in team spirit and team building. Authority is also delegated to the managers and they are responsible for any decisions made. Meetings with management are held weekly to monitor day-to-day performance and monthly meetings are used to monitor overall progress and set new directions and targets.

Many business ventures foul up because of a lack of trust, either between the CEO and persons responsible in the organization or due to a failure to delegate enough authority to subordinates to carry out day-to-day activities. For the Barkath Group the scenario is different as trust prevails within this organization. This provides ample time and opportunities for the CEO to engage in more important decision-making matters such as planning for the future of the company, identifying new markets, and developing new strategies for expansion.

Since the organization stresses teamwork at all times, it is not unusual to see the CEO interacting with the staff on a regular basis. This is often done through monthly meetings and discussion sessions to provide opportunities for the staff to get to know the CEO better and to present their suggestions on improving the business processes. Through these sessions the company has gained by tapping the ideas and thinking of its employees and turning them into lucrative business opportunities.

At the factory level, most decisions are based on production functions and this is left to the managers responsible. Weekly meetings among managers are held to iron out problems and ensure smooth running of the production processes, whereas monthly meetings are held with the CEO to discuss production and administrative-related issues.

The legalities involving the functioning of the business are left to qualified accountants and legal advisors. The CEO interacts with business associations, business associates, and government agencies to be kept updated on the latest developments. However, the final decision on business ventures is made solely by the CEO.

Business Networks

Barkath Group has gained considerable benefit from business networks. These include extended family networks, industry networks, and professional networks/associations. These ties provide new sources of information with regard to business opportunities, expansion, and regulations that need to be followed. They also provide current insights on the economy which are vital for business advancement. However, social networks and informal networks themselves were indicated as being only “reasonably useful” to the company.

Being very family oriented, the family networks were considered important in securing and raising finances. This is because the family has good rapport with bankers and through these connections has been able to secure loans and advances without difficulty. The business also has relied heavily on family, industry, and professional networks in ensuring that production targets and customer demands are met. Through these networks the company is able to monitor market changes, comply with regulations, and ensure a wider market base for business expansion.

As far as sharing costs in marketing strategies, family and professional networks (especially bankers) have played an important role. Coupled with this, industry networks have been important in expanding share of the market base. It is through these networks that the company has been able to capture new markets both locally and abroad.

The company is also keen on acquiring new knowledge in its business and has found family networks, social networks, industry, and professional networks most useful in keeping the management updated and well informed about advancements and progress in the food and beverage industries. In relation to obtaining first-hand information on legal and political issues that affect market entry and exit, the industry and professional networks are considered to have been most useful. In this context, government agencies dealing with export requirements, importation of foodstuffs, etc. were considered relevant in obtaining necessary information. Employees have also been an important link to business and industry networks and by obtaining information through these networks they have been able to assist in business expansion strategies as they were attentive and knowledgeable in respect to the latest developments.

Commentary by Management Staff

The most senior member of the staff has been with the company for over 50 years. He is responsible for the day-to-day affairs of the business and oversees the main functions when the CEO is not around. However, major and financial decisions still require the approval of the CEO. This is because the CEO controls policy matters and therefore has the final say after taking into consideration the views and opinions of others in management. The monthly meetings with the CEO help iron out any problems that arise, instills confidence, and nurtures individuality in staff members which in turn builds trust and loyalty among the staff.

As a senior staff his opinions are given due consideration by the CEO and he is entrusted to ensure that the business goes on as usual when the CEO is away. As a result he is committed to giving his best at all times and gets the support of all staff. This is because the CEO has explicitly put him in charge and all other staff are aware of this.

The company has been performing well under the CEO so there is no cause to doubt his credibility or any actions initiated by him. He is very transparent in his actions and will inform staff of changes that occur within the business. He is also highly respected in local and regional business circles and through his connections and networking is kept informed on the latest business trends. The CEO is also not afraid to venture into new products and markets and this has expanded the range of products the company produces, for example from producing mainly beverages to producing foodstuffs.

Conclusion

Barkath Group over the years has relied on the instincts and business acumen of the CEO to bring the business to greater heights. Although initially relying on knowledge and experience from the past, it has now demonstrated the effective reliance on business associates, industry, and professional networks to assist the business in terms of expanding the customer base, eliminating barriers to entering new markets, and relying on banking institutions for financial support.

In all instances the family network remains strong, through which family members provide support for decisions made by the CEO. The employees have also been responsible for creating the necessary links and networks between business associates and family members because of their dealings with these personnel in carrying out business

transactions. As such, the business has been able to relate to formal and informal networks and utilize these benefits to further enhance business competitiveness.

The company has been able to ensure continuous improvement. This is evident in the various awards it has won and the cooperation it has acquired with overseas companies. Its product quality has made it a leader of the various brands it produces. The company is also concerned about productivity and has established incentive systems to reward and motivate employees. Through these initiatives the company has been able to sustain its competitive edge and carve a niche for itself at regional and international levels.

SUMMARY AND ANALYSIS

Areas	Noor Arfa Batik	Barkath Group	Analysis
Management Structure	<ul style="list-style-type: none">• Family oriented• First generation business• Trade association assistance for legal aspects of business• Far-sighted in terms of succession• Family involved in business and given the authority to transact daily business transactions• Major decisions and financial commitments made by CEO	<ul style="list-style-type: none">• From father to son inheritance• CEO responsible for overall running of business and major decisions but staff allowed to make decisions and recommend improvements related to job functions• Family members are directly involved in the business and are held responsible for ensuring smooth running	<ul style="list-style-type: none">• These are very successful SMEs run by families. It shows that family-run SMEs are able to perform as non-family-run businesses. The commitment from the owner/CEO has ensured their continued success.• Family members also play an important role in running the business and work closely with the CEO to provide feedback on progress. They are also held responsible for the job assigned to them.

Areas	Noor Arfa Batik	Barkath Group	Analysis
Management Principles	<ul style="list-style-type: none"> • Delegation of duties and empowerment especially in day-to-day running of business • Imparts business skills to other entrepreneurs to assist them in setting up own businesses • No outsourcing carried out due to nature of business which is batik printing • Has ventured into franchising • Entrust to others for business prosperity 	<ul style="list-style-type: none"> • Future plans and advancement of business decided by CEO • Outsources corporate secretarial and accounting functions • Staff allowed to make decisions related to their responsibilities • Led by manager who is responsible for own section 	<ul style="list-style-type: none"> • Delegation of powers is prevalent in both organizations. The fact that the CEO cannot handle every task has made the staff/ family members more responsible and committed to the business. This also provides the staff and family members opportunity to nurture their creativity and innovativeness in running the business.

Areas	Noor Arfa Batik	Barkath Group	Analysis
Social Capital and Trust Factor	<ul style="list-style-type: none"> • Leaves day-to-day affairs in the hands of staff assigned who may be family and non-family members • Open-door communication policy that allows for dialogue on work issues • Workers were found to be more committed through this trust • Business associates and friends are important, but they do not influence major decisions 	<ul style="list-style-type: none"> • Delegation of power to run the company entrusted to staff but major decisions are the prerogative of the CEO • Monthly meetings instill trust and provide opportunities for staff to recommend new ideas • Functions at factory are left to the respective managers who are not family members • Relies on business associates from the manufacturing line, banking, close friends and relatives for advice on business opportunities 	<ul style="list-style-type: none"> • Trust is an important aspect in any business, whether family-owned or not. Too much dependence on the CEO for decision making can stifle the business. Both CEOs were liberal in delegating powers relating to daily tasks. • The social capital aspect in these businesses did not totally influence business decisions. However, it assisted in providing inputs for decision making which were ultimately beneficial to the company.

Areas	Noor Arfa Batik	Barkath Group	Analysis
Improving Performance	<ul style="list-style-type: none"> • P&Q initiatives have helped the organization improve work environment • Performance based on profits and distributed in the form of bonuses • Yearly increment based on appraisal, e.g. discipline, initiative, and targets set • Incentives are given to reward for quality work and new designs 	<ul style="list-style-type: none"> • Sales targets are set quarterly • Functions are team-based and team performance is important • Overall performance of the company dictates bonus to be paid • Quality initiatives are in place 	<ul style="list-style-type: none"> • Both companies are committed to improving performance. They have also won various productivity and quality awards and other forms of recognition. As far as measuring their performance, traditional ways of target setting, profits, and discipline issues are evaluated. However, with a proper structured form of accessing performance that is quantifiable, employees are able to relate directly to the performance measure and improve accordingly.

Areas	Noor Arfa Batik	Barkath Group	Analysis
Business Management Practices	<ul style="list-style-type: none"> • Based on owner's instincts and business acumen • Started from scratch and built firm into a multimillion-dollar business • No influence from outsiders on business decisions, only sought advice from relevant authorities 	<ul style="list-style-type: none"> • Relies on close friends and relatives for advice on business opportunities; however, ultimate decisions come from the CEO • Chambers of commerce also provide advice on business opportunities and information 	<ul style="list-style-type: none"> • It is interesting to note that business acumen in both these companies was the main factor that led to stability and expansion of the business over the years. There were no third-party influences and this shows that SMEs can survive in a competitive environment. The two businesses have also carved out a niche for themselves both domestically and internationally.
Business Networks	<ul style="list-style-type: none"> • Family networks, industry networks and professional networks are useful. They provide useful information and links to create new business ventures. • Social networks do not contribute much to business progress 	<ul style="list-style-type: none"> • Family networks are important as they support the business ventures and investments • Business and professional networks/ associations provide information on business trends and requirements and are therefore useful • Financial connections with finance institutions are also important as this provides avenues to raise capital 	<ul style="list-style-type: none"> • Business networks are important to both these companies. This is especially so in obtaining up-to-date information on new product markets and ventures. The business networks also provide the companies with information on sources of financing, market barriers, and market entry.

THE CONTRIBUTION OF SOCIAL CAPITAL TO SINGAPORE SMES

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Singapore turned 42 years of age as a nation on 9 August 2007. It is a cosmopolitan city-state that boasts skyscrapers and attracted SGD244 billion in foreign direct investments in 2003. It is a multi-cultural country that has sought and still seeks to attract talent from around the globe. Yet, for all its modernity, family businesses characterize a majority of its business establishments, especially when one leaves aside the large corporations (in whose companies are some established family businesses).

The majority of business establishments in Singapore are small- and medium-size enterprises (SMEs). Like many other countries in Asia, most of these are family-based businesses, predominantly Chinese in ethnicity reflecting the population demographics in Singapore where 77% are Chinese and are involved in various industries such as food, transport, travel, retail, and clothing.

Singapore's well known competitiveness is largely responsible for the success and growth of these local enterprises. They well understand if they do not seek growth, do not implement modern management techniques, or cease to be competitive, the Singapore advantage gained over the past five decades will be lost. In this article we examine Chinese family businesses in Singapore and their growth.

SOCIAL CAPITAL, BUSINESS TRANSFORMATION, AND GROWTH

Norms, Trusts, and Networks

The social capital of family businesses can stand in the way of growth of Singapore SMEs. Social capital defined as norms, trust, and networks can hinder the family firms. Chinese family businesses in particular have certain distinguishing features that are potential hindrances to growth.

To examine the degree that social capital could negatively affect the growth of family businesses, the author relied on two studies: a survey conducted by the author for the Fon Kon Tan Grant Thornton (hereafter referred to as the survey) and three case studies of family businesses in Singapore. The survey provided information on the effect of norms, family trust, and distrust of outsiders. The case studies provide insights into the role of networks, the way in which the networks are transferred, if at all, between the succeeding generations and the reliance, if any, on the part of the successors on the social capital developed by the predecessors. They also provide insights into the workings of the families in management, succession, and relations with professionals.

Norms associated with Chinese family businesses – threat to business transformation

One distinctive feature of Chinese family businesses is familism – the predominant focus on family ties in these businesses even at the expense of other social relationships. This familism stems from Confucianism, which has defined the character of social relations within Chinese society for the past two and a half millennia. Nepotism also features in

Chinese family businesses, which favors family members when deciding delegation of control, promotion, and recruitment. Business succession in Chinese family businesses is by lineage to the sons, with the daughters benefitting in exceptional cases.

Authoritarianism is another feature in Chinese family business. Business tends to be conducted in the manner of the leader of the house with unquestioned allegiance and submission by all, employees included. Confucian ethics, emphasizing respect for elders and, hence, age, is a reason for the deep respect for authority figures.

Frugality and hard work, leading to the accumulation of wealth, are two other notable features of Chinese family businesses. *Xin Yong*, referring to the ability to keep one's word, is a key foundation of Chinese business. The reputation and trustworthiness of Chinese entrepreneurs as individuals play an important part in the business. This business ethic means that the family business will honor a verbal contract and operate with others on the basis of trust. Family businesses are also noted for their distrust of non-family members, although this characteristic is not limited to Chinese family businesses. Distrust of non-family members manifests itself in the unity of control and ownership in the family and in conservative management policies.

These distinctive features could hinder growth of Chinese family firms. Prior research on Chinese businesses in other countries have found that they are often reluctant to introduce professional management practices and wary of introducing professional managers who are not family members. Nepotism and distrust of non-family members hinder expansion of operations overseas, when the hiring of home country nationals to watch over the new operations is required. The reliance on one individual with unquestioned authority leads to a situation where the founder or family head is both a strength and a weakness, as all decisions must be deferred to him. His unavailability could cripple the business. Frugality and hard work may be crucial to a business at the early stages of growth, but not when an established business is expanding. These Chinese family business qualities imply possible self-financing for expansion to be sanctioned. *Xin Yong* cannot help in the case of international expansion nor in less-tradition-bound, developing societies; professionalized firms with whom family businesses have to do business are not likely to be satisfied with something as simple as "my word is my bond."

While these potential hindrances were found in other countries, the question was whether this is also the case with Singapore Chinese family businesses?

Norms of Singapore Family Firms and Business Transformation

Despite the majority of businesses in Singapore being family-based, there has not been much research conducted to understand the dynamics and challenges these businesses face. Drawing upon the research conducted on Singapore family business through a survey of local businesses commissioned by Foo Kon Tan Grant Thornton (the FKTGT survey) and case studies and interviews with family businesses, we are able to provide some indications.

In the survey, this author found that 62.2% of the 177 respondents considered themselves to be family businesses. Prior to this, it was generally assumed that around 95% of business establishments were family businesses. Whether the respondents considered themselves to be family businesses is significant because family businesses have been found in other studies to be less dynamic compared to professionally managed enterprises.

There is promise for Singapore as we found that family businesses are concerned about growth. Growth is on their minds. The performance of their business concerns

family business owners as most would like to see their businesses doing better. Of the 177 family-based business owners surveyed, 68% were concerned with the growth of their business. Of those surveyed, 22% were “extremely” concerned with the need to grow their business, while 46.3% were “fairly” concerned. A majority of them indicated they were prepared to make changes to their lifestyles for the sake of business growth.

These attitudes will enable Singapore family businesses to seek ways to develop their businesses, and to realize the need for professionalizing their business practices, systems, and staff.

Family trust and distrust of outsiders as a hindrance

The distrust of non-family members also partially explains conservative management policies in that it leads to a great reluctance to appoint outside professional managers and a disregard of any outside advice.

The survey found that family business owners prefer to retain ownership and control within the family. Of the survey’s respondents, 42.8% were hesitant about share ownership with their employees. In a separate study involving nine case studies of professional managers who worked in Chinese family businesses in Singapore, it was found that professional managers often faced challenges within the owner family. As outsiders, their aspirations for the businesses often differed from those of the family members. One area where this was most evident is the role of family members and old and loyal employees. In four of the case studies, key employees decided to leave the employment of the family firms. As they had been hired as top managers, one possible reason for their departure is over leadership of the business.

While the norm is to consider Chinese family businesses to be inward-looking and stuck in their ways, it is not true of all Chinese family businesses in Singapore. There are other family businesses that have learned how to engage and involve professional managers.

Succession

Family businesses have been traditionally hampered in their growth or even destroyed by the succession issue as firms often falter by the wayside due to failure by the incumbent leader to plan for succession, power struggles between family members, or crises such as a serious illness of the incumbent. Chinese family business owners are also known to prefer that their offspring take over the reins of the firm. However, the survey revealed that a relatively low 58% wanted their children to be involved in the business only if they desire to be. Another 18.8% did not intend their children to join the business while only 13.8% affirmed that they would definitely like their children to be involved in the business.

Furthermore, 65% of them agreed that their children should enter the business at a low level and learn the business from the bottom up, and 50.8% said that the children should receive shares if they join the business.

SOCIAL CAPITAL IN THREE SINGAPORE FAMILY FIRMS

In this section we delve further into social capital at work in three family firms in Singapore with the view of seeing how social capital has been transferred between generations, how it has helped or hindered, and whether close family ties had excluded the introduction of professional managers and management practices.

Guan Sang Company Pte Ltd¹

Guan Sang Company Pte Ltd is a traditional Chinese specialty store. It sells several tonic products under its main house brand, Horse Brand, retailing a wide variety of products including high-quality bird's nest, abalone, sharks' fin, and ginseng. The company has steadily established a wide network of loyal wholesale and retail customers over the years, built upon high-quality products and excellent customer service.

Cheng Tong Low and his friends started Guan Sang Company as a joint venture in 1938. The business initially distributed dried mushrooms, seafood, and pre-packaged Chinese medicinal herbs. In 1962, Low's son, Chin Kok, took over his position, acquired the entire company, and continued to run it as a family business. Deciding that they needed an identity, Chin Kok created Horse Brand in the 1960s. Since then, the brand has established itself as a household name and when brand recall tests are administered, respondents usually associate bird's nest products with Horse Brand Bird's Nest.

When Chin Kok died in 1996, his eldest son, Benny, next assumed leadership. Under Benny's hand, the company has opened two new retail branches in Singapore, and has been diversifying since then. Already in its third generation, this family business has grown significantly since its inception, and Benny Low hopes to hand over the business to his children when the time comes.

Sin Hwa Dee²

Kee Chng started Sin Hwa Dee in the 1970s in the Kim Chuan Road area of Paya Lebar, Singapore. It had its humble beginnings as a producer of soya and oyster sauces, bean paste, and plum paste. Today, Sin Hwa Dee has developed into a high-tech food company based in a modern factory and has widened its product range to include pre-mixes such as Kung Bo Sauce, Black Pepper Sauce, Laksa Paste and its popular chicken rice mix that has some following among local and international clientele. Its customers include major airlines, hotels, restaurants, fast-food chains, supermarkets, wholesalers, and caterers. It counts Singapore Airlines, Pizza Hut and KFC, hotels like the Ritz Carlton, Raffles Hotel and Hilton Hotel, and notable restaurants like Lei Garden and Crystal Jade among its customers. Its products are exported to more than 20 countries including China, the Philippines, Indonesia, Norway, Holland, and Australia, as well as such Muslim countries as Malaysia and the Middle East since the sauces are halal-certified, thus suitable for the Muslim diet.

Sin Hwa Dee presently occupies more than 2,600 square meters in its Woodlands Terrace production facilities and has expanded its employee base from a two-man production crew in the 1970s to over 75 persons today. Its production capacity has also increased to more than 20 tons of sauce per day.

¹ The author is grateful to Dawn Lee Yi, Adrian Loh Chee Kin and Malavika Shanker, students from Singapore Management University, who were research assistants on this case.

² The author is grateful to Eugene Geh, Shashank Nigam and Trevor Teh students from Singapore Management University, who were research assistants on this case.

Qian Hu³

Qian Hu is an integrated “one-stop” ornamental fish service provider that breeds, farms, imports, exports, and distributes ornamental fish as well as manufactures aquariums and pet accessories. It sells to local and overseas customers in Singapore, Malaysia, Thailand, and China.

Qian Hu's pioneers, two brothers in the pig farming business – Tik Huay Yap, the father of the Group's Executive Chairman Kenny Yap, and his brother Hey Cha Yap – saw their pig farm eradicated in 1985 when the Singapore government halted local pig farming to stem pollution and to free up more land for residential development. At that point in time, Tik Huay's three sons, Peng Heng, Hock Huat, and Kim Choon, joined the family business. They converted the former pig pens into concrete ponds and started breeding guppies for local fish exporters. However, a heavy rainstorm in 1989 washed away their entire stock of fish. Kenny Yap, Tik Huay's youngest son and the only one to obtain a university education, returned from completing a Business Administration degree at Ohio State University. He worked as a foreign exchange dealer for three months before heeding the call of duty to do his part in turning the stricken family business around.

Mr. Yap and two cousins, Alvin and Andy, started anew by renaming the business Qian Hu, “A Thousand Lakes” in Chinese. Although knowing little about ornamental fish and loaches (a type of freshwater fish), they ventured into farm-rearing high-fin loaches after the guppy failure. In one fell swoop, their entire stock of 4,000 loaches died. They learned from their mistake of not diversifying risks and learning more about the fish. In fact, this lesson was so valuable to them that the high-fin loach became Qian Hu's mascot to serve as a daily reminder of where they were, and where they never wanted to be again.

Since then, Qian Hu has demonstrated remarkable growth and dynamism in its business transformation. As a result of its drive toward diversification through vertical as well as horizontal integration, Qian Hu's business operations now span four countries in the region. In year 2000, Qian Hu was listed on the Singapore Exchange's SESDAQ. Mr. Yap is presently the Executive Chairman and Managing Director of Qian Hu Corporation Limited.

Business Transformations in the Three Companies

In brief, in respect to business transformations in all three cases, they had in common branding, professionalizing management, and streamlining production processes. Guan Sang created its Horse Brand. Sin Hwa Dee developed and strengthened its brand of sauces and export markets for their products. Qian Hu developed its corporate identity and brand over its products.

Business transformation in one case, Qian Hu, involved getting into a totally new business – from pig farming into initially ornamental fish farming. In considering business transformation in terms of growth, all three family firms have expanded beyond their early businesses. Initially, the family business was a small business with the aim of merely employing some family members and relatives. Self-employment and business survival were their immediate concerns. All three have expanded and now have export markets.

Next, we examine the role of social capital in these developments.

³ The author is grateful for the research assistance on this case rendered by Sng Kok Wee, a Singapore Management University student.

Observations on Social Capital

Guan Sang Company Pte Ltd.

Guan Sang relied on the social networks of predecessors in its business transformation, growing from a small shop to three larger stores.

Already in its third generation of operations, the firm, under the control of the current CEO, Benny Low, has amassed a wide network of customers, suppliers, and manufacturers, some dating back to his father's days, and others on his own accord. Before assuming leadership of the company, the late Chin Kok Low ensured that Benny Low was formally introduced to all his formal and informal networks, which have benefited Guan Sang greatly.

The formal networks that were passed down were those with suppliers from around the region back in the 1960s, and they have been maintained by Benny Low to this day. It is imperative that relations between both parties are well maintained, otherwise the quality of the products and timeliness of the delivery would be jeopardized. Apart from issuing payments on time, Benny deems it necessary to treat them as family. The only other formal business networks are those formed during trade fairs.

Informal networks have contributed to Guan Sang's survival, establishing itself as a household name among the older generation. Benny Low emphasizes excellent customer service, which has allowed him to grow his clientele base without the company having to physically sell its products from door-to-door or advertise aggressively. Word-of-mouth advertising can sometimes work toward one's advantage, but by focusing internally on his products and service excellence, Mr. Low has maximized the full potential of his informal networks.

No doubt social capital has been the foundation on which Horse Brand Bird's Nest product line was built; it is the way in which Mr. Low has maintained these networks along with his keen eye for business opportunities and trends that aided in the transformation of the business. Having had some bad experiences and learning from others, Mr. Low has always stuck to his own counsel, preferring to work things out on his own rather than seek help from others.

Sin Hwa Dee (SHD)

Although born into a family that ran a traditional sauces business, Jocelyn Chng was neither formally trained to take over the business from her father, Kee Chng, nor exposed to her father's business contacts. Rather, she was put into the hot seat immediately upon her father's death, when she was still a university undergraduate. Most of her learning has been informal and through observation and hands-on practice.

Most of Ms Chng's networks, however, were not transferred from previous generations. She cultivated her own contacts finding it much easier to maintain and develop these social networks when all the members are from the same generation. This way, all members are on the same wavelength, and communication is much easier. There is also no generation gap to worry about. In addition, even though Ms Chng remained in the same industry as her father, the business model has changed substantially over time. Now, SHD is into exports, an aspect of the business that her father had not focused on. Hence, it appears that she has not missed out on much in terms of lost social capital and networks from her father's generation because much of it may not have been relevant in the first place.

However, SHD certainly understands the importance of its current social networks and draws upon the expertise of the members in the network as needed. Such networks

certainly play a significant role in business transformation, with regard to SHD. Jocelyn actively utilizes her social network ties to gain access to resources. This access to resources is very relevant because it allows Jocelyn to tap the expertise and experience of other business owners and avoid the pitfalls encountered by them.

For example, she actively seeks advice from her very good friend, Elim Chew, when it comes to matters such as logistics or dealing with Chinese clients. Elim owns a retail chain that requires frequent dealing with import-export officials and also has a retail outlet in Shanghai, China.

At SHD an “open door” policy is followed and employees are generally free to talk with management about the various issues they may encounter throughout the course of their daily work. Employees also do have a say in decisions, although the final verdict still belongs to the owners. We also noted that the decision-making power does not lie entirely in the hands of Jocelyn, but rather, all the siblings running SHD discuss issues among themselves and their close friends and associates before reaching a final decision.

The decision-making process at SHD is thus a good blend of traditional family-oriented decision making combined with useful input from managers. The managers seem satisfied that their opinions are taken into account when decisions are made, while the family members still feel in control as they have the veto powers. In general, family values such as “respect” play a strong role when it comes to protocol. For example, everyone holds Jocelyn in very high regard and the protocol is automatically established, without her having to ask for it.

Qian Hu

Kenny Yap is a firm believer in networking. Hence, he spends considerable effort in establishing, cultivating, and nurturing long-term business relationships in extended family networks, social networks, industry and professional networks, and government networks. Kenny usually turns to his second brother, Yap Hock Huat, and his two cousins, Andy Yap and Alvin Yap, for advice due to their shared childhood and kinship.

Serving as the chairman of the Ornamental Fish Business Cluster initiated by the Agri-Food and Veterinary Authority (AVA) of the Singapore Government and as a member of the Action Community for Entrepreneurship (ACE), Kenny is highly active in community and grassroots organizations. Involvement in these activities serves as a good platform for the company to stay in touch with other businesses and customers from the community. It has also helped to raise public awareness of the firm. Membership in such organizations, especially professional ones such as the Ornamental Fish Business Cluster, also provides Qian Hu with an avenue to provide feedback on government rules and regulations. As well, involvement in associations such as ACE enables Qian Hu to learn from people in different trades. It also enables Mr. Yap to gain access to the right government officials to resolve issues and provide feedback on issues pertaining to the ornamental fish industry.

The social capital has enabled Mr. Yap to recruit talented individuals to strengthen Qian Hu’s management. Several members of Qian Hu’s senior management team are from Mr. Yap’s social networks. Both Thomas Ng Wah Hong, head of Qian Hu’s operations in Malaysia, and Eng Hua Low, Group General Manager, are Mr. Yap’s former schoolmates and continue to be good friends.

As an illustration of the role of social capital, mention should be made of Mr. Yap’s links with the mass media. By harnessing the media, he has been able to access much needed publicity for Qian Hu and the ornamental fish industry as a whole. In 1995, when

he realized there was a need to educate the public and the government about the ornamental fish industry, Mr. Yap gave talks about the industry. These talks spanned several countries such as Germany, Hong Kong, Peru, and Thailand. Through them he met and befriended many individuals in the news industry. When Qian Hu became a publicly listed company, these media contacts were most willing to cover the story, earning the company valuable publicity.

Social Capital Summary

Internally at each of the firms, social capital did not stop with family members in terms of their personal ties. There is communication as well between the family and employees. Good communications were cited by all interviewed firms as being important and key to their ability to succeed. Although not specifically stated, it could be suggested that apart from the family ties, the family members extended the tent of the family to include employees. This is apparent from the frequent mention of open communications and good relations with employees. The social networks also extended to loyal company stalwarts who served alongside the predecessors of the business and who enable the organization to proceed in a state of continuity even in the midst of turmoil; e.g. in the case of SDH, with the sudden and unexpected death of the founder. It also extended to friends and business contacts.

What is apparent in the cases of this study is the fact that the social networks were transferred between generations. However, since the relevance of these networks altered over time as the firms ventured into new regions and new business lines, the older networks may need to be replaced or augmented by new ones. Here are thus two important lessons: inherited networks need to be evaluated for relevance, and new contacts and networks need to be established. In the case of family firms, one thing is obvious: though some network points may not be relevant to current business, friendships built over time do remain.

All three cases indicate that professionalization was necessary for business transformation. In these transformations, the firms had to engage outside professionals to provide the necessary expertise and inputs. At the same time, they have had to recruit professional managers from outside the company. With this, the social capital in the firms had to be adjusted to accommodate the newcomers.

Conclusion

There are clear indications from this research that social capital is a help to small- and medium-size enterprises in Singapore where more than 90% of the business establishments are family-owned and run businesses. There are indications that family business norms that could hinder business transformations do not affect many family businesses in Singapore as the survey data shows a desire on the part of family firms to develop and grow. At the same the cases reveal that there is a desire for development of the businesses and modernization of the business models and processes. In the case of Qin Hu, it ventured into a totally new business area.

Social capital remains important to the continued business of family firms. The three cases revealed a transfer of the networks between generations and the continuation of family business norms but with enhancements, if they could be called that: new network links were developed, professional managers from outside the family circle were introduced, and modern management practices were adopted.

PART III APPENDIX

Inside Cover for Part III
(page 89)

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