THE INTERNATIONALIZATION OF FAMILY FIRMS: CASE HISTORIES OF TWO CHINESE OVERSEAS FAMILY FIRMS

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HISTORIES OF TWO CHINESE OVERSEAS FAMILY FIRMS

ABSTRACT: Internationalization is an important part of the business history of both non-family and family firms. The discourse regarding both is based on the mainstream microeconomic theories of the firm. This paper, through examining the case histories of two successful Chinese overseas family firms, shows that explanations of internationalization need often to venture beyond the confines of existing theories, especially where contextual factors are influential in shaping decision-making. The experiences of these firms point to the role of the state as a major contextual factor. The case history approach is the most relevant in this and other instances where context matters.

KEYWORDS: Internationalisation, business history, family business, Chinese overseas, dialect group, the state, China, Malaysia
Introduction

In this age of globalization, the internationalization of firms has become a major part of business history. Early work on this area has come from the considerable research, theoretical and empirical, undertaken in the context of the rise of multinational corporations.\(^1\) While these firms, by virtue of their size and reach, have been rightly the focus of attention, internationalization matters for all firms as a strategy for expansion and diversification of risks. One group of firms where not much has been written in this area is family firms. One reason for this lack of attention may be that family businesses are more reluctant to internationalize compared to non-family businesses.\(^2\) However, there are also examples of family firms that have successfully gone global.\(^3\)

This research lacuna exists not only with respect to studies on firm internationalization but also with those of family firms. Of the existing research on family business internationalization, almost all have been on firms in developed economies in the West, with little having been written on non-Western family business internationalization.\(^4\) Existing theorization for family firms has also largely been based on, although with some adaptation, mainstream microeconomic theories of the firm. Yet family firms face circumstances, which while not uniquely different from mainstream theories, render them only partially applicable. These circumstances call for an in-depth analysis based on specific business
histories rather than examining large samples of firms using explanations framed by existing theory.

Even of the literature on family business internationalization, family businesses belonging to Chinese overseas have largely been conspicuous by their absence. This group, descendants of one of the largest cross-border migrations in history, number about 40 to 50 million, 80 percent of whom are in Southeast Asia (Table 1) and are estimated to control $1.5 to $2 trillion in assets (Fukuda, 1998).

Right from the beginning, family businesses of this group, much more than many of their western counterparts, were forced by push factors and motivated by pull factors unique to their circumstances to consider internationalization. The main push factor arises from the uneasy relationship of this group with the host state while China, the land of their ancestors, constitutes a major pull factor. Most of the Chinese overseas in Southeast Asia constitute a minority that is resented for their success in business. They thus face a state that, if not openly hostile to them, is certainly unsympathetic to their business activities. With respect to the pull factor, while Chinese overseas firms are joining Western businesses in the rush to take advantage of greatly expanding opportunities in China, they differ from the Western experience in that China is the home of their ancestors with whom they share cultural affinities. China is always there even if their business dealings with China could be influenced by patrimonial as much as profit considerations. These
features, together with their socio-cultural identity, have conditioned to varying degrees their internationalization efforts.

Table 1: Estimated number and distribution of Chinese overseas, 2011

<table>
<thead>
<tr>
<th>Region/ Country</th>
<th>Estimated Population Number (mil)</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Other Southeast Asia</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Other Asia</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>The Americas</td>
<td>7.5</td>
<td>18.6</td>
</tr>
<tr>
<td>Europe</td>
<td>1.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Oceania</td>
<td>1.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Africa</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>40.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>


In addressing this research gap this paper aims to demonstrate, through an analytical narrative of the experience of two successful Chinese overseas family firms, why the existing theoretical discourse on family business internationalization needs to be extended. The specific objectives of this paper are to (1) compare the contexts for the rise of two Malaysian Chinese family businesses, and review the factors which aided or hindered their...
internationalization, (2) analyze the relationship of both enterprises with the state in which they are resident, (3) assess the relevance of the rise of China in these businesses’ internationalization, and (4) bring the experiences of these studies to bear on the adequacy of existing theories of internationalization.

In the next section, we offer a brief critical review of the theories behind family firm internationalization. Given our focus on Chinese overseas family businesses, it is important to understand the specific circumstances they are in and how this context shapes their behavior. This is the task of the third section. The fourth section takes up the experiences of two successful (Malaysian) Chinese overseas family businesses which, while operating within a broadly similar environment, have by deploying different strategies, internationalized. The paper concludes by drawing implications of the Chinese overseas internationalization experience for existing theory.

Theories of Firm Internationalization: A Brief Critical Review

Impetus towards research on the internationalization of firms came with the emergence of Western multinational corporations. Vernon saw international expansion as a way for firms producing mature products late in the product cycle to extend the competitiveness of these products.\textsuperscript{6} Johansson and Vahlne likewise proposed a staged theory of internationalization, arguing that internationalization is
more gradual the higher the risks involved in doing so.\(^7\) Dunning, through his eclectic ownership, location and internationalization (OLI) paradigm saw firms going international to take advantage of available resources, to seek new markets, or to show-case new technology.\(^8\) The last motive, technology, was also the focus of Cantwell who argued that firms internationalize to leverage their competitive edge in technology.\(^9\) More recently, Lee cites economies of scale and access to market niches as motives to accelerate internationalization.\(^10\)

Unlike non-family firms to which the above theories apply, the business behavior of family firms reflects characteristics specific to families. These characteristics include a natural conservatism and risk aversion, and the desire to retain family control so as to preserve family longevity.\(^11\) Family businesses typically have limited resources resulting from being small. This effectively places limits on their strategic capabilities, including the access to technology, finance, and resources required for internationalization.\(^12\)

Models that describe their internationalization draw mainly from adaptations of theories applied to non-family firms. Thus Johansson and Vahlne’s Uppsala model, which sees internationalization as an incremental, evolving process is not so different from Vernon’s product cycle theory. And adaptation consists mainly of explanations why family firms are able to overcome resistance to internationalization.\(^13\) However, so far these extensions/modifications have not
taken into account the nature of Chinese overseas family businesses or the particular circumstances facing them. These factors are discussed in the next section.

The Nature of and Circumstances Facing Chinese Overseas Family Enterprises

The large Chinese overseas communities today in Southeast Asia are descendants of migrants from China (Table 1). The large flow of migration from China occurred in the second half of the 19th century, when a combination of adverse events in China (famines and political turbulence associated with the decline of the Qing dynasty) and the opening up of Southeast Asia sent streams of migrants from the former to the latter. Two contextual factors facing the Chinese overseas today emanate from this migratory history, while a third structural factor arises from the identity of these migrants.

The first factor is the relationship between the community and its host governments. The relationship between the state and business can be both cooperative and confrontational, depending on the nature of the state regime and on the challenge business poses to the state. Thus, of Johnson’s (1982) classification of economic systems as laissez faire economy, the developmental state economy and the command economy, the first two regimes are basically cooperative (America being an example of a laissez faire economy and Japan of a
developmental state) with business while the third (the former USSR as an example) is antagonistic.\textsuperscript{14}

In these three categories, race and/or ethnicity are not a consideration as both the state and business are controlled by people of the same race or ethnicity. But in situations where business is at their most entrepreneurial in one ethnic group and the state controlled by another, as is mainly the case with Chinese overseas businesses in Southeast Asia, an uneasy situation appears. The command economy cannot accommodate them, and in some cases they were expelled or forced to leave the country. This happened when Indonesia nationalized Dutch enterprises in 1957 and when North Vietnam took over South Vietnam in 1975. Even in laissez faire states, Chinese overseas businesses, while not subject to forcible seizure or expulsion, are also unable to integrate into the ruling class in the way that their American and British counterparts, for instance, could. In a developmental state-like situation as is Malaysia under the New Economic Policy, the state actively promotes the business of the indigenous community by introducing affirmative policies that seriously disadvantage the Malaysian Chinese entrepreneurs. Thus a deeply uneasy relationship characterizes Chinese overseas businesses with the state in Southeast Asia.

Hoselitz observed that marginal men are peculiarly suited to making creative adjustments in situations of change.\textsuperscript{15} As a consequence, Chinese
overseas businesses are more inclined and better able to adapt to the changing situation such as internationalization involves.

Second, Chinese overseas businesses have always operated in an environment where China, the place from where their ancestors came, looms large. Economically, China had before the Second World War been a recipient of remittances from Chinese overseas and to some extent investment for profit. These substantial remittances have greatly helped China especially in periods when it was running a trade deficit.\textsuperscript{16} This means that from the beginning there was already some experience of internationalization among Chinese overseas businesses in Southeast Asia even if the motive was patrimonial rather than profit. But after the Second World War, especially following the open door policy of 1978, China became very attractive to global business. Chinese overseas businesses likewise ventured into China, this time more for profit. Many Chinese overseas businessmen were particularly attracted to China believing that because they have a cultural affinity with China, they had better chances of success. This was one basis of the internationalization of Chinese overseas business in China. China, once a source of familial ties to which remittances to kin were sent, has become a destination for investment and business for Chinese overseas.\textsuperscript{17} This pull factor, probably common among businesses of diasporic populations, has so far found no place in the family business internationalization literature.
A third, but structural, factor relates to the sub-ethnic identity of the Chinese overseas and their businesses. Migrants from China to Southeast Asia had originated mainly from just two southern provinces – Guangdong and Fujian. However, within each province, a number of dialects are spoken besides the main provincial dialect (Cantonese for Guangdong and Hokkien for Fujian). Early migrants sponsored relatives and friends from the same locality of origin. Hence, dialect group, together with clanship commonalities were the social organizing principles for most Chinese overseas communities in Southeast Asia. This meant that family businesses relied, if they could, on their identification with dialect group-based social organizations. This dynamic within the community likely exists also for Indian migrants, but has less significance for family businesses in Western societies, the targets of the bulk of current research.

The above characteristics are showcased by two examples of successful Chinese overseas family business internationalization – the Kuok Group, headed by Robert Kuok (RK), the richest man in Southeast Asia, and Royal Selangor (RS), the world’s largest pewter ware making company and an international brand. The Kuok Group is today the world’s largest producer of palm oil. The two companies, started by first generation Chinese immigrants to what was then Malaya (Peninsular Malaysia), evolved through the era of colonial rule, the Japanese Occupation, and the period of nation building. These two companies are chosen
because they are among the most successful examples of two kinds of family business – those that are publicly listed (RK) and those that are privately held (RS). It is important here to bring in privately held companies as they constitute still a very big group among Chinese overseas family businesses as they face the problem, as do all family businesses, of greater vulnerability to losing control if they were to list publicly. This vulnerability is all the greater in Chinese overseas businesses given a state that is anxious to restrict their operations if not take over their business. While located in the same country, Malaysia, and hence sharing similar political and economic contexts, they adopted sharply different approaches to internationalization. In analyzing these approaches, we highlight the differences in the structure of and circumstances facing these two families despite facing a common domestic environment. In doing so, we identify gaps in the extant theories of family business internationalization.

Robert Kuok and the Kuok Group

From the humble origins of a small trading company, Tong Seng, which his father set up after arriving in Johor Bahru, Peninsular Malaysia, in 1908, Robert Kuok now heads a diversified business empire engaged in the production and sale of sugar, edible oils, and the hospitality and service industries (Figure 1). His wealth, estimated by Bloomberg to be $17.3 billion, puts him as the 40th richest in the world in 2012. The Kuok Group has three regional arms. Kuok Brothers in
Malaysia has stakes in Perlis Plantation Berhad, Jerneh Insurance, and Hexagon Holdings. Perlis Plantation Berhad itself holds significant shares in Malaysian Bulk Carriers, Wilmar International, and Transmile Air Services. Kuok Brothers Singapore wholly owns Pacific Carriers. In Hong Kong, his Kerry Group has stakes in Kerry Properties, Shangri-La Hotel, Allgreen Properties and the newspaper *South China Morning Post*. Shangri-La Hotels has significant shares in Shangri-La Hotels (Malaysia) Bhd while Kerry Properties has stakes in Edsa Properties Holding Inc. and Kuok Philippines Holdings. Kuok has broadened his interest and attention to China, Indonesia, the Philippines, and elsewhere.
The growth of the Kuok Group has several distinctive features not typical of Chinese overseas businesses. These include early diversification into different areas of business, incorporation of extended family members, employment of non-family members in the family enterprise, and close personal relations with the ruling elite. This close nexus with the Malay ruling elite led to RK taking on a major role in the government’s economic programs. That intergenerational transition occurred smoothly, with the fourth generation now at the helm is also not
a common feature in Malaysian Chinese family business.\textsuperscript{19} Here we examine this growth from the perspective of the factors discussed in the earlier section.

\textit{Sub-ethnic Identity.} The origins and evolution of the Kuok business empire owe much (if not everything) to the three factors of sub-ethnic identity, the state, and China discussed previously.

First, the activities he engaged early in can be traced to his family’s sub-ethnic identity. Early Malaysian Chinese business had been structured on a dialect group basis.\textsuperscript{20} The major dialect groups were the Hokkien (from Fujian), the Hakka, the Teochew, the Cantonese and Hakka (from Guangdong), and the Hainanese (from Hainan) who together constituted well over 90 percent of the Malaysian Chinese population. The Kuok family was from the very small Fuzhou dialect group comprising of a fraction of the Malaysian Chinese population. Consonant with Hoselitz’s “marginal man”, RK was unable to break into those businesses, like the rice trade, which were then dominated by the big dialect groups. So he geared his primary business outside the dialect group system, opting to trade sugar which was not controlled by the major dialect groups. Sugar was imported by a British agency house, Guthrie Malaya, from a sugar multinational, Tate and Lyle. RK managed to secure sugar from alternative sources such as India and Cuba, places not normally within the Chinese overseas business networks.\textsuperscript{21} It was a business requiring competency in the English language and in the fast pace
of world commodity trading. This sugar venture proved eminently successful especially as British merchants houses began soon to leave the region amidst the decolonization process so that RK soon became known as the sugar king of Malaysia.

This Fuzhou identity was to prove helpful in two other ways. First, not constrained by dialect group loyalties and obligations, RK took the first step towards professionalization by recruiting non-family members in management while Malaysian Chinese family businesses mostly relied on family members and hence were unable to expand or to internationalize.\textsuperscript{22} Having professionals in management proved crucial as he diversified his business, eventually internationally. Many of RK’s companies were headed by or involved non-family members. Second, when the Malay political leadership sought investment from local Malaysians to compensate for the departure of British businesses upon the country’s independence, it felt it could rely on Kuok, whose membership of a minor dialect group meant he represented no large interest groups such as those from the major dialect groups which collectively might have posed an economic threat.

\textit{The State}. If sub-ethnic identity explained his start in business, the changing stance of the state shaped the process of his business’ internationalization. RK’s uniqueness was that he had a head-start, growing up in an environment more multi-
ethnic than that experienced by most Malaysian Chinese businessmen or political leaders in Malaysia. Johor Bahru, where he grew up, was separated from economically-vibrant Singapore by a narrow strait, and was more multi-ethnic than other towns in Peninsular Malaysia.²³ Even more significantly, RK was schooled in the multi-ethnic English College in Johor Bahru, where his classmates included Hussein Onn, Malaysia’s third Prime Minister.²⁴ Thus, unlike many Malaysian Chinese businessmen, RK had developed close personal relationships with Malay leaders early in his life. This connection was to be extremely useful during the early phase of the Kuok family business, which was during the time of Malaysia’s political transition from the end of British rule to national independence. While the former saw the end of British corporate dominance and gave him the break he needed in his sugar business, the Malaysian leadership’s policies to offset the impact of the British withdrawal provided the impetus for the growth of his business. Many of his Malay friends had risen to powerful positions in the government.

The state provided an early boost to RK’s business through the introduction soon after independence of investment policies to encourage industrial development as a means of economic diversification away from what was considered excessive reliance on primary commodities.²⁵ This was when world prices for tin and rubber, Malaysia’s main exports then, began to dip, with added
concern among the country’s leaders that with independence, long-established British businesses were leaving the region.\textsuperscript{26} Hence, the Pioneer Industries Ordinance 1958 offered attractive incentives to local and foreign investment through the granting of ‘pioneer status’ to companies entitling them to income tax relief, including for capital investment. The government also created several Free Trade Zones where foreign or local firms manufacturing for export could import machinery and raw materials free of import duty. RK seized the incentives offered, obtaining pioneer status for both his companies Malayan Sugar Manufacturing (MSM), set up jointly with the Japanese in Prai, and Federal Flour Mill (Soh, 1984; Lim, 1987). He further benefitted from official incentives when the government designated the sugar and flour industries for promotion in efforts at import-substitution.

But it was also the state which eventually led to RK’s decision to internationalization. The environment for Malaysian Chinese businesses deteriorated after 1971, when an affirmative action program, the New Economic Policy (NEP), was imposed that gave preferences to the \textit{Bumiputera} community in education, employment and business.\textsuperscript{27} Equity and employment quota for \textit{Bumiputera} were mandated upon and contracts favored Malay business groups. Although not initially affected – he had significant \textit{Bumiputera} representation on the boards of his companies – Kuok must have sensed that the gradual passing
from the scene of his generation of power elite and the rising stridence of the NEP’s implementation heralded a less hospitable environment for his businesses.

**China.** RK’s first step towards internationalization, the 1955 acquisition of Rickwood and Company, a Singapore trading company renamed Kuok Brothers Singapore in 1965, represented more a business opportunity than a response to the Malaysian state.\(^{28}\) Singapore was an obvious choice for his first venture abroad as RK had grown up in Johor Bahru, close to Singapore, and had studied at Singapore’s Raffles College. But the subsequent expansion of his business to Southeast Asia and China reflected the desire to diversify risks posed by an increasingly assertive Malaysian state as much as to take advantage of new business opportunities elsewhere.\(^{29}\)

In 1977, RK took over Kerry Holdings in Hong Kong. RK, already spending more time in Singapore, then re-located to Hong Kong.\(^{30}\) Kerry Holdings was restructured as Kerry Properties and became RK’s Hong Kong property flagship, developing property in Hong Kong and later in China.\(^{31}\) RK also took over the influential *South China Morning Post (SCMP)* from Rupert Murdoch in 1983.\(^{32}\) While he retained his Malaysian investment businesses such as sugar, palm oil, hotels, and transport which made up a substantial part of his business and wealth, he continued to broaden his interest and attention to China, Indonesia, the Philippines, and elsewhere. His investments in China are very diversified and
more recently, he was given the Coca-Cola franchise for China and has also gained half of China’s cooking oil market.\textsuperscript{33}

This move to Hong Kong was significant for two reasons. First, relocation represents a much more drastic form of internationalization than expansion overseas, and suggests much more than, to use RK’s analogy, merely seeking a bigger pond in which to swim. Second, it shows the impact of the third factor already alluded to above – the attraction of China. This pull factor emerged at an opportune time. Just as Malaysian Chinese businessmen, RK included, had begun to feel the restrictive effects of the NEP and were looking overseas to do business, the chaos that enveloped China during the Cultural Revolution began to recede. With Mao’s death and the arrest of the Gang of Four in 1976, Deng Xiaoping gained ascendancy. From 1978, just a year after Kuok bought Kerry Holdings, a number of reforms beginning with agriculture were put in place on an experimental basis. In fact, RK’s acquaintance with the Chinese leadership predated China’s liberalization. When China experienced serious sugar shortage in 1973, Mao himself had asked RK for help.\textsuperscript{34} RK obliged and soon developed good relations with the Chinese leadership. These relations were built on his reputation as a successful Chinese overseas businessman, as well as his ability to speak Chinese, giving him direct access to China’s leaders.
RK’s internationalization reached another milestone in 2009 with his divestiture of all his Malaysian holdings related to sugar, which had given him his start in business. In October that year, RK’s Perlis Plantation Berhad announced the sale of its wholly owned subsidiary Malaysian Sugar Manufacturing to FELDA Global Ventures Holdings, a government-linked entity, its sugarcane farm in Chuping, its 50% equity stake in sugarcane miller and raw sugar refiner Kilang Gula FELDA, and its 20% equity in Tradewinds which controlled Central Sugar Refinery. Thus ended RK’s entire sugar business in Malaysia, a business that spanned 45 years and at its peak controlled 60% of the country’s sugar supply.

What could have motivated this drastic move, possibly unheard of in the literature on family business internationalization? Whether it was pure business or disenchantment with the state is unclear so far. While Kuok’s sugar business might have been the victim of the government’s acquisition drive for its and its related companies, it is also clear that as a price-controlled item, sugar has little profit upside for RK. Both factors likely had been at play; one move allows his business to be free of Malaysia’s confining policies as well exit on good financial terms, freeing resources for other potentially viable ventures.

Indeed, even as RK was withdrawing from the sugar business in Malaysia, he was increasing his equity holding in Wilmar International, a Singapore-based company with large tracts of oil palm plantations in Indonesia and the region. In
2007, Wilmar International merged with the Kuok Group of plantation companies making it the largest producer of palm oil in the world. Wilmar International headed by RK’s nephew Kuok Khoon Hong, and Indonesia’s Martua Sitorus produces edible oil, oleochemicals, biodiesel, and specialty fat for India, China and over 50 countries. It has refineries in Ukraine and is moving into sugar cultivation in Myanmar and opening oil palm estates in South and East Africa.

Royal Selangor

Royal Selangor was founded by Yong Koon Seong, who arrived in Kuala Lumpur in 1885. A native of Dapu village, Guangdong province, he learned his trade in the province’s port city of Shantou (referred to then as Swatow), where he apprenticed as a pewtersmith at age 11. His arrival was opportune. Five years before, the British colonial administration had moved the state capital from the port town of Klang to Kuala Lumpur, where alluvial tin had been found. It was a period of bustling construction that included a railway line between Kuala Lumpur and Klang and the installation of telegraph and telephone lines. The colonial administration was itself building government offices as befitted a state capital. These developments provided Yong Koon (his shortened name) both the raw materials and opportunities to pry his trade. He was also not alone when he arrived, joining two brothers who were already tinsmiths in Kuala Lumpur.
The transition from Yoon Koon’s early pewter business to RS was a painful intergenerational journey that splintered the company and almost split the family (Table 2). Yong Koon had four sons, Peng Pow, Peng Sin, Peng Kai and Peng Seong, all of whom were drawn into the family business when young. In 1930, Peng Pow, then 25, was put in charge of the factory, with all younger siblings pitching in. From the late 1930s, family feuding over the business saw Peng Pow leaving to produce pewter under the name Malayan Pewter, while the rest established Tiger Pewter in 1940. The latter collapsed in 1941, but the three brothers regrouped and started Selangor Pewter (SP) in 1942. It was under Peng Kai that the family pewter business was rebuilt and SP turned into a successful company.

Today, SP, renamed Royal Selangor (RS) in 1992, is the largest pewter manufacturer and retailer in the world, with outlets in 20 countries (www.royalselangor.com). The company is family-held and family-managed by the third generation of the family with the fourth generation actively involved in its running.39
### Table 2. Milestones in Royal Selangor’s growth and internationalization

<table>
<thead>
<tr>
<th>Family</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1885: Yong Koon Seong arrived in Kuala Lumpur. Changed name to Yong Koon (YK)</td>
<td>1930: Eldest Son Peng Pow put in charge of factory</td>
</tr>
<tr>
<td>Late 1930s: family feud among 4 children of YK.</td>
<td>Late 1930s: Peng Pow left family business, set up Malayan Pewter.</td>
</tr>
<tr>
<td>1942-45: Peng Pow kidnapped and killed by gangsters</td>
<td>1940: Other 3 sons established Tiger Pewter from YK’s business. But business folded in 1941.</td>
</tr>
<tr>
<td>1952: Yong Koon passed away</td>
<td>1942: Three sons regrouped, formed Selangor Pewter</td>
</tr>
<tr>
<td>1930: Eldest Son Peng Pow put in charge of factory</td>
<td>1945: Return of British forces – clients for SP. Peng Seong left to take over Malayan Pewter, leaving Png Kai in sole charge of SP.</td>
</tr>
<tr>
<td>1940: Other 3 sons established Tiger Pewter from YK’s business. But business folded in 1941.</td>
<td>1957: SP benefited from government promotion of local industry as diversification strategy.</td>
</tr>
<tr>
<td>1942-45: Business restricted by Japanese occupying forces. Second son Peng Shin left to start another business, but gave up in 1947. 3rd and 4th sons Peng Kai and Peng Seong ran SP.</td>
<td>1970s: SP expanded sales to Australia</td>
</tr>
<tr>
<td>1945: Return of British forces – clients for SP. Peng Seong left to take over Malayan Pewter, leaving Png Kai in sole charge of SP.</td>
<td>1972: SP joint venture, created Selberan, a jewelry company</td>
</tr>
<tr>
<td>1957: SP benefited from government promotion of local industry as diversification strategy.</td>
<td>1979: Sultan of Selangor conferred royal warrant to SP</td>
</tr>
<tr>
<td>1968: SP set up factory in Singapore, closed in 1990s.</td>
<td>1980: Peng Kai’s son Poh Kon took over reins of SP.</td>
</tr>
<tr>
<td>1970s: SP expanded sales to Australia</td>
<td>1987: SP acquired UK silver company Englefields</td>
</tr>
<tr>
<td>1972: SP joint venture, created Selberan, a jewelry company</td>
<td>1992: SP changed name to ‘Royal Selangor’</td>
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<tr>
<td>1979: Sultan of Selangor conferred royal warrant to SP</td>
<td>1993: SP acquired UK silver company Comyns</td>
</tr>
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<td>1980: Peng Kai retired</td>
<td>1980: Peng Kai’s son Poh Kon took over reins of SP.</td>
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</tr>
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<td>1993: SP acquired UK silver company Comyns</td>
<td>1987: SP acquired UK silver company Englefields</td>
</tr>
</tbody>
</table>

Source: Chen, Pewter Dust/

**Sub-ethnic Identity.** Yong Koon was a Hakka, a group that settled in Guandong province (and other provinces) but whose roots are said to be in northern China. Thus in China itself, they were, as their name suggests (Hakka, pinyin ke jia, means “guest people”), sojourners. Regarded as outsiders by residents of the host provinces despite centuries of settlement, the Hakkas developed strong community
cohesion even before they migrated. Little wonder then that their sub-ethnic identity was even stronger than other Chinese after they migrated.

In Malaysia, the Hakkas are one of the main groups of settlers, as earlier indicated. This group’s importance in Malaysia was reflected by the fact that when the British took over Kuala Lumpur it was controlled by Yap Ah Loy, a Hakka tin miner who was made the town’s headman (*Kapitan China*). For Yong Koon, being Hakka was helpful to his business in at least two ways. First, being part of a dominant sub-ethnic group in Malaysia, Yong did not need to contend with the problems of marginalization that RK had to face, and could concentrate on developing his core business.

Second, there were specific occasions when the dialect group was relied upon to help in the business. This occurred in the years of the Great Depression, when the pewter business was unable to find workers, many having switched to other jobs. The pewter business itself was badly affected by failing demand. Loh Pat, Yong’s wife, had to travel up and down the Malay Peninsula, “tapping into the Yong Clan, Hakka, and Dapu Village networks” to get workers. To improve sales, Loh Pat and her third son organized the first pewter exhibition at the Chamber of Mines in Ipoh, the state capital and heart of the tin mining industry. They urged rich tin-miners, many of whom were Hakka and were hurt by the slump in world
tin prices, to purchase a few pewter items each so as to create a demand cycle for pewter and, in turn, tin.

*State.* Unlike RK, whose early association with the Malay elite gave him an advantage in doing business in Malaysia early in his career, Yong Koon and his children had few dealings with the state, represented by the colonial administration before World War 2 and the Malaysian government after. In the early postwar years, the only form of interaction with the state was with members of the British military whose number had increased in the country because of the communist insurgency known as the Emergency. Members of the British forces became frequent customers, buying pewter tankards, ashtrays and cigarette boxes for daily use or as souvenirs when they left for home.

However, like RK, SP received some boost from the independent Malaysian state in its early years. This came through the government’s desire to diversify through promotion of local industry, as discussed earlier. Those industries utilizing primary commodities produced in the country were given assistance. SP met this requirement. Government support came in 1962 in the form of a loan from the Malaysian Industrial Development Authority, as well as the services of 3 consultants from the International Labor Organization. That, however, was the only occasion SP and the state intersected until the late 1970s, when an event was to prove propitious for the development of the company.
According to Chen, the Sultan of Selangor State was traveling in Perth, Australia, where he had a residence.40

“He stepped into a large department store … and was respectfully asked by the sales assistants where he was from… ‘Selangor’ the Sultan replied. ‘Ah, Selangor Pewter’ the sales staff intoned. The Sultan was tickled that Australians had heard of Selangor Pewter but not the state of Selangor nor of the Sultan… On his return, he decided that the pewter company should have royal status. In 1979, the Sultan conferred a royal warrant on Selangor Pewter.”

Royal patronage led to SP changing its name to ‘Royal Selangor’ in 1992.

The Sultan’s act was more important to RS than as just a marketing asset. It accorded the company protection from the discriminatory policies of the state. This protection must have also been a factor behind the family company’s decision not to go public, which would have subjected it to all the quota requirements that the New Economic Policy would have mandated. It may also explain why the family never diversified beyond its core business to reduce risks associated with new ventures, reliance on outsiders, and possibly interest from outside parties that might compromise ownership and/or control.

*Internationalization.* The safeguard provided by membership of a major sub-ethnic group as well as royal patronage bought RS space to internationalize at its
own pace. That the business remained under family control and that the family did not venture beyond its core business helped too.

RS’s internationalization took place in stages. RS had, from the beginning, foreign customers – British servicemen at the end of World War Two, expatriate planters and executives in Malaysia, and American soldiers on Rest and Recreation during the Vietnam War. Early marketing efforts to overseas markets were made in the 1950s, and booming domestic sales prompted RS to set up a factory in Singapore in 1968. As with RK, Singapore represented less of an internationalization initiative, given the historical, cultural and geographical affinities between the two territories. Singapore was seen as a market within easy reach. But the factory closed in the 1990s when Singapore prospered, the value of its currency and labor cost rose, and labor-intensive production there was no longer viable.

The 1969 race riots and the NEP were however watershed years for RS’ internationalization. Although Chen referred euphemistically to the loss of tourist customers as the cause of RS’s internationalization, the likely impact of the NEP on business could not have escaped the family consciousness. The 1970s then saw RS venture into Australia, its first truly international foray. Australia was the test bed for RS to hone its products to Western tastes. It appears that a family member had migrated to Melbourne and that helped prepare a way for RS to open a small
retail shop. The Melbourne shop benefited from the large number of Malaysian students and visitors who bought RS souvenirs as gifts. Other markets, beginning with Canada, followed. It took over half a century for the third phase of internationalization – having retail outlets in RS’s markets – to materialize. In 1995, RS opened its first wholly-owned retail outlet in Melbourne, Australia. Although not an early target of RS’ expansion, China’s rise and its growing affluent population has become the focus of its most recent expansion plans. Yong Poh Kon, CEO of RS, spoke of rapidly escalating the company’s presence beyond Beijing and Shanghai.41

RS’ internationalization move was also in search of new product ideas and technology. Although RS did not face major competition from the few local rivals, demand had plateaued. To maintain growth, there had to be new and more innovative pewter products. New designs were needed and the products upgraded in quality to attract younger and more sophisticated buyers as well as to reach out to an expanding overseas market. Hence, the second phase included plans to acquire foreign companies which would give RS access to the latest in western design and technology. Indeed, RS was moving into the more value-added gem and jewelry accessories with pewter as base. It began by first hiring one or two foreign experts as designers. In 1972 it entered into joint venture with an Austrian gem setter, Walter Angelmahr, and a Swiss master jeweler, Werner Eberhard, to
start a jewellery company called Selberan, RS’s jewelry business. In 1987, RS acquired Englefields, a 300-year old UK pewter company. Another UK silver company, Comyns, was acquired in 1993.42

RS’s internationalization saw its share of production that was exported rise from under 2% in 1970 to more than 50% by 2000.43 But there had been business disappointments along the way. It had to close offices in Switzerland and Denmark.

The contrast between SP’s and RK’s internationalization experience could not have been sharper. Whereas RK diversified both his businesses and their location, RS remained true to its core interests, engaging only in geographical diversification. And even so, China was not an early factor in RS’ internationalization, while it was a major component of RK’s strategy. It was only in 2011 that RS opened a retail store in Shanghai and Beijing as well as operated in department store concessions. The growing Chinese middle class is beginning to appreciate luxury items as accessories and gifts but it is, nonetheless, a very competitive market.44 However, as noted, China now figures prominently in its expansion plans. Thirdly, while RK engaged non-family members in his business from the outset, internationalization was what brought non-family members into the employ of RS.45
Conclusion: Similarities, Contrasts and Implications for Theory

The two cases of Chinese overseas family businesses could not have been more different on the surface. While achieving growth as well as internationalization in their respective ventures, the routes they took to this success differed substantially. RK began his business incorporating his extended family but RS was much more closely held by the immediate family. While RK’s group underwent intergenerational transitions very smoothly, RS, in its second generation, was almost destroyed by disputes. And in the employment of non-family members, RK took a very early lead over RS. When it came to internationalization, RK embraced early diversification while RS did not stray from its core business. Internationalization almost became an imperative for RK but was cautiously plotted by RS. And China, the mother country loomed large in RK’s calculations but figured very little in RS’ internationalization plans which until recently were targeted at Western markets.

Beneath these differences, however, the similarities are no less striking. First, both businesses approached internationalization taking into account their sub-ethnic identity – RK as a member of a ‘marginalized’ minority and RS of one of the major sub-ethnic groups. RS was able to use the large Hakka dialect network for its business whereas RK decided that he could not. Second, both businesses had to contend with the state and its ruling elites. RK found early
protection from his family’s close personal ties with the Johor royal family and Malaysia’s first generation of leaders. RS, much smaller than RK and focused primarily on the manufacturing of one product, had less of a need for the political connections required to run successfully a conglomerate with a variety of businesses. Nevertheless, RS enjoyed the patronage of the Sultan of Selangor. However, changes in the political landscape, specifically in the form of the NEP, spurred both businesses’ internationalization efforts. The difference in their response arose primarily because of the type of business they were engaged in – while RS was in an activity where all raw materials and clients were local, RK had to source his early product – sugar – from India and Cuba. The manner of their early internationalization was similar – they began with Singapore. Until separation in 1965, Singapore and Malaya, separated by a narrow strip of water, were populated by the same peoples and ruled as a single territory. Finally, that China was more important for RK than for RS can again be explained by the nature of their businesses – sugar and oils highly in demand in China versus pewter which was not. Even if China did not figure prominently in RS’ internationalization as RK’s it was nevertheless a source of labor in the early years. The mother country mattered.

One further similarity is crucial in the success of the two companies’ ability to internationalize. The generation of RK as well as Yong Peng Kai had both
Chinese and English education. RK attended the premier English College in Johor Bahru and for a term at the Raffles College in Singapore. All his children and subsequent generations have tertiary education overseas. Likewise, Yong Poh Kon and his family members are English educated and many have studied in the West. It is their English education that distinguished them from many other Chinese overseas family businesses in the vision and ability to take their business overseas.

What are the broader implications of these two cases? Certainly, RK and RS are, in their business and organization, quite distinct. They may not be typical of all Chinese overseas family businesses. However, they are important examples of how Chinese overseas businesses overcame major challenges that are institutional and contextual. Their experiences show that for family businesses of diasporic populations, circumstances matter perhaps even more than structure (of the families), whether for the way they conduct business or for their internationalization efforts. While the characteristics of these families have much in common with those of families that have been studied in the existing literature – conservatism, risk aversion, limited resources – specific contextual factors shape their response. The specific context that matters is the relationships between these businesses and the government and citizenry of the host country as well as with the country of origin. Sub-ethnic identity is also an important structural factor for populations that had originated from large countries.
What are the implications of this discussion for existing theories of and approaches to family business internationalization? Existing theories have been based on the modification of internationalization theories of non-family firms by taking into account the characteristics of family enterprises. In common with these theories, they have viewed internationalization as opportunities that, given the right circumstances, will be exploited, despite the many constraints family businesses faced. However, family businesses of diasporic populations, particularly the Chinese overseas, have to contend with the attitudes of host country governments. For them internationalization becomes an imperative to reduce the risks of doing business at home. RK’s internationalization through relocation of his business outside his home country represents just an extreme example of this internationalization. Policies of the countries of origin affect more the nature of their internationalization – representing opportunities where these are welcoming, as has occurred in post-1978 China. Although RK’s experience appears to fit the Upsala model, responding to a discriminatory if not predatory state is as much a factor as family conservatism in explaining the gradualism of the process. These factors have not figured in a significant way, if they figured at all, in existing theories.

It may be argued that diasporic populations represent special cases that require no modification of mainstream theories. At the same time, the largest of
these groups, the Chinese overseas, Indian, and Jewish migrants, number in the tens of millions and their collective economic prowess, built overwhelmingly upon family business foundations, qualifies them for serious consideration even in the theoretical literature. Indian and Jewish migrant communities share characteristics with their Chinese overseas counterparts. Indian migrants are linked to India by remittances, and faced host government hostility in places like Uganda and Kenya in the 1970s. The Jews in Europe bear similarity to the Chinese overseas as far as the ‘push’ factor is concerned. Both perform key economic functions that were necessary to the economies of their host countries yet were not completely accepted for a long time.47

The final point highlighted here is the greater importance that needs to be attached to context, in the form of the socio-political environment within which family businesses function, than has been accorded by existing theories and the models based on them. Given the close links between the survival of the business and the family itself, family businesses are exposed to greater risks than corporate entities in dealing with the environment they face. In better embedding this context into internationalization theory, it needs also to be recognized, as shown by the above cases, that the family as a business unit is both an asset and a liability. This reality argues for the importance of adopting a case history approach that can
yield much greater insights into business history than can any discourse built around efforts to generalize from large samples using existing theories.

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3. Casillas et al, “Internationalization of Family Business” cited the examples of Heineken, Samsung, SC Johnson, Cargill, Faber-Castell and Michelin as success stories in family business internationalization.


5. Although this group has often been referred to as “overseas Chinese”, we follow Wang, “Greater China” in referring to this population as “Chinese overseas”. The former definition arose from the fact that before the Second World War, this group counted many who were transients, sojourners so to speak, who hoped eventually to return to China. This option was no longer possible after this War with the establishment of the People’s Republic of China.


17. The volume of these remittances was substantial, sufficient, in some years around the time of the Great Depression, to substantially finance China’s trade deficit. (Cheong, et al, “Global Economic Crisis”).


19. A detailed account of the Group’s growth is contained in Lee et al, “Robert Kuok”. 

43
20. Since Malaysia only came into being in 1963, it is not strictly correct to refer to the population of British Malaya (before 1957) and the Federation of Malaya (from 1957 to 1963) as Malaysians. They were Malayans. We have used the term “Malaysian” to avoid having to navigate between these terms.


22. When he started his own company, Kuok Brothers Limited, two of his workers were non-ethnic Chinese.

23. As late as 1947, when the first census of Malaya was taken after the Second World War, half the population was Malay unlike other major towns which were predominantly Chinese. See del Tufo, *Malaya*.


25. Ibid, 44.

26. White, “Crony Capitalism”.

27. The term ‘*Bumiputera*’ refers to the local Malays and other races indigenous to Malaysia. Although extensively referred to in official statements and documents, there is no uniform definition and the term does not appear in the country’s Constitution.


29. “Robert Kuok”.

30. Ibid.

31. This was revealed in the Kerry Holdings website under “History”.

32. Chan, “English Language Media”.

33. Witchter and Ubels, “Malaysia’s Kuok”.

34. RK, in a rare interview in CCTV (in Chinese) related how in 1973, two Chinese officials met with him in secret in Hong Kong and told him about the dire shortage of sugar in China. See Kuok, CCTV Interview.

35. Fong and Barrock, “Cover Story”.

36. See, for instance, “Wilmar”.


38. Tin was discovered in other parts of Peninsular Malaysia, most importantly in Perak, but also in Negeri Sembilan and Melaka. Malaya was to become the largest producer of tin in the world even before the end of the 19th century. (Chen, *Born and Bred*, 20).

39. Among others, Yong Koon’s great grandchildren Christopher Yong is corporate graphics manager, Andrew Yong is a retail manager in Singapore, and Sun May Foon is a merchandiser and designer for Selberan (Chen, *Born and Bred*, 112-113). See also Koay, “All in the Family”.

44
Many details of the family business’ development in this paper are from Chen, *Born and Bred*. Chen is a fourth-generation member of the Yong family.

40. Chen, *Born and Bred*, 106. This account was also given by Chen Mun Kuen, sister of Yong Poh Kon and a director of RS, in an interview with the authors on September 11, 2013.

41. Interview with authors on September 11, 2013. See also Lee, “Royal Selangor”.

42. Lee, “Comyns”.

43. Lee, “Royal Selangor”.

44. Wang, “Pewter Maker”.

45. In 1975, RS hired Anders Quistgaard, a Danish designer to redesign its packaging for the Australian market, and in 1978, he joined SP full-time. In 1986, designer Erik Magnussen was commissioned to design a product line for Western markets in preparation for RS’ outreach to global markets. Of course RS’ factory in Singapore had Singapore workers.

46. Interview with Yong Poh Kon by authors on September 11, 2013.

47. See Chirot and Reid, *Essential Outsiders*. 