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## Family Matters: Explaining Asian Capitalism's Distinct Nature

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Asked about Indian workers distinguishing feature, Bob Hoekstra, who served six year as CEO of Philips India's Innovation Campus in Bangalore, responded by emphasizing their devotion to their family. For Hoekstra, working with Bangalore's software engineers, a substantial number of whom have returned after obtaining education and work experience abroad, an Indian family takes precedence over any other factor in explaining his employees' behavior. That these employees took unpaid days off to look after their sick parents was a revelation for Hoekstra. This centrality of family structures in these employees' lives, however, is just one part of a family's larger role in Asian capitalism.

There is extensive literature on capitalism's interaction with culture, and one significant line of inquiry holds culture as central to explaining capitalism's rise in the West. Max Weber explained the development of capitalism by referring to the Protestant ethic—a worldview emphasizing asceticism and frugality, devoted to securing afterlife by succeeding in this world; with success defined as capital accumulation. In Weber's view, however, Asia did not develop capitalism because it lacked cultural preconditions emphasizing a rational outlook on life. In other words, religious traditions of China and India, and their attendant family structures, did not provide grounds to believe that there could be an ethic that propelled capitalism forward in Asia. There was no need to seek a Confucian ethic or a Hindu ethic in Asia as these traditions, according to Weber, were caught in magic and mysticism.

Marx, against whom Weber is usually set up as providing a distinct read-

ing of the development of capitalism, also discounted the possibility of Asian social and family structures providing any evidence of support for capitalism. He in fact emphasized the inability of India to develop capitalism because of the petrified nature of the country's social relations. One version of Marxist interpretation blamed the presence in Asia of the so-called "Asiatic mode of production" to explain absence of capitalism. This version held that the centralizing structure of irrigation—i.e. the power of the state derived from control of a few select irrigation rivers, thus centralizing power in the hands of those few who controlled irrigation—impeded any possibility of development and produced a unique type of authoritarianism in Asia. This authoritarianism was simultaneously present in family structures.

And yet, today when Asia is identified with the most dynamic of economies, what we are seeing as the drivers of Asian economic growth are the very cultural explanations that once were supposed to stand in the way of Asia's phenomenal economic growth. The Asian family, albeit perhaps too hierarchical, today provides the elements of trust and cooperation amongst its members and between firms that are the basic building blocks of Asian economies. Across one end of Asia to the other we find companies and economies defined by family structures. Family-based structures dominate the world of business in Asia. Examples are the Korean *chaebols* such as Samsung, Hyundai, or LG; or Japanese *zaibatsus* such as Sumitomo, Mitsui, and Mitsubishi; Indian firms such as Tatas, Birlas, and Ambanis; Chinese firms such as Li and Fung, Li-Kai Shing's Cheung Kong; or Indonesian firms such as the

Salim Group and the Suharto Group. If one thinks about the old trading networks of middle and modern ages, those stretching from South India to Yemen to Morocco, or from European entre-pots to Curacao and other New World holdings, family networks played a prominent role in facilitating trade. Asian capitalism's emphasis on family as an organizing unit of business structures draws upon this long history.

Within Asian capitalism today, one can discern two different ethical versions. One centered on China focuses on maintaining societal balance by emphasizing Confucian values of order, respect for elders, and family devotion. Another centered on Hinduism in India also emphasizes respect for family. The enterprises resulting from these two differing cultural contexts nevertheless carry a similar cultural emphasis on family, which is reflected in the success of family-based firms in both the economies. The family-based firms provide for a higher level of trust—a concept otherwise known by its Latin form, *credit*, on which the whole system of capitalism is based—and coordination under a constantly changing economic environment.

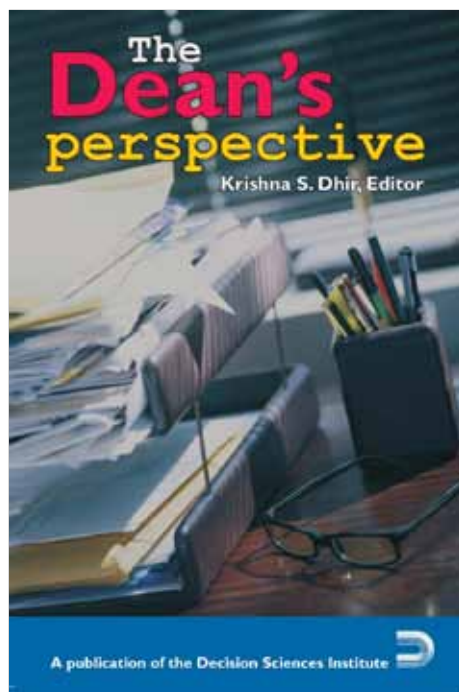
Within Asian capitalism there are differences between the East Asian and Indian versions. The salient difference between the so-called East Asian values and Indian values is with the emphasis of the latter upon the pursuit of wealth or money. The *Vedas*, the oldest sacred scriptures of Hinduism, which date back to 1500 B.C., accept material existence to the fullest extent, *but subject them to the fundamental moral and spiritual laws*. Wealth in the holy scriptures was always regarded as a means to an end, and not as an end in itself. The holy scriptures view material wealth as a foundation towards the attainment of a higher goal in life, and do not consider the acquisition of wealth antithetical to achieving spiritual goals and supra-material aspirations of life.

In Western capitalism when a company moves to a purely impersonal management, it is defined as mature. During the Asian crisis of 1997, Western commentators blamed “crony capitalism”—what they defined as close connections between business families and the state—for the economic collapse. And yet, corporate scandals such as Enron, WorldCom, Parmalat, and most recently, Lehman Brothers—and the ongoing investigation

of Wall Street investment banks and ratings agencies—demonstrate that “crony capitalism” and corruption is not partial to only Asian companies. At precisely this point, when most economic growth is forecast to come from emerging Asia, family-based capitalism of Asia is being reconsidered in a new light.

Often family-based capitalism in Asia is criticized on a few specific grounds. Some argue that family-based firms tend to be dysfunctional. However, family-based firms work best in economic environments marked by uncertainty and constant shift as we see in emerging markets in Asia today. The familial bonds of trust work to anchor businesses in the fast-changing world. Some others oppose family-based firms because they block the development of large, complex businesses that enable economies of scale. However, the economic and social environment we find ourselves in today is one that requires more medium and small enterprises than large ones that often block innovation by controlling the market.

A need for a reduced emphasis on large enterprises also bodes well for the specific character of the demographic



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and economic environment that India and China find themselves in today. Both countries find themselves with large rural populations. It is the first time in modern history that the fastest growing economies are also home to the largest rural populations. It is estimated that 65 percent of India's GDP is derived from its villages. The narrative of Western capitalism sees the transition from rural to urban society as given during modernization. But at a point in world history when we face tremendous environmental, climate, and energy challenges, is it natural or sensible to expect that higher rates of urbanization are going to be better for everyone? In our world of finite nonrenewable energy, is it sensible to expect people to increase their energy footprint by consuming at the level of Western consumers? It is in this context that the possibility of the rural population staying in villages can provide a more balanced solution to serious challenges that we are facing. It might become a marker of the new form of economic organization in which the energy and environmental footprint is smaller than we have taken historically as a given.

Family-centered Asian capitalism is also marked by high saving rates, which then result in high investment rates driving economic growth. Asians have high saving rates—even Japan with its multi-decade deflation has a 3 percent savings rate (something that can be explained by the changes in the Japanese demographic profile with a large number of older people replacing a smaller younger population, resulting in retired people spending, as expected, rather than saving in their old age). India and China have savings rates in the 30–40 percent range. On the one hand, it could be argued that it results from the lack of a formalized social security system, which then makes people responsible for saving in order to take care of themselves in their old age. But, on the other hand, it is also related to the presence of family structures that provide for a cushion in case of distress and thus delay the development of a social security net. The great adjustment that is being bandied about now in the global economy is to somehow convert

Asians into consumers rather than savers so that they could consume products exported from the West, thus balancing the skewed trade deficits run by the U.S. and other Western consuming nations.

In Asian capitalism the relationship between family-derived business units and the state is also reflective of the drive toward greater cooperation. If one conceptualizes the state as an extension of economic arrangements that underpin the society, then the state in Asia reflects the prominence of family arrangements in politics as well. The primary focus of these relationships is the need to produce cooperation and trust rather than extreme competition. In Japan around 25 percent of seats in the Parliament are passed on in families—to second and third generation descendants. Dynasties dominate politics in Asian countries—for example, India's Nehru family, Pakistan's Bhutto family, Sri Lanka's Bandaranaike, Singapore's Yew, and Indonesia's Sukarnoputri. There are two striking exceptions to this in Asia: China and Vietnam both had communist revolutions which led to fundamental transformations in the sphere of politics, negating the familial link with society.

Under Asian capitalism the relationships of business firms to the state reflect the importance of cultivating social cooperation. The state in the Asian context has acted as an agent of development working closely with business. As opposed to the recent Anglo-American emphasis of state as an obstruction to business—with a concomitant need to sideline it to a minimal role—the state in Asia has played an important role as a source of planning, of credit and of mediating different interests. Recently, the specific forms of familiar problems inherent in family-centered firms were visible in the struggle between India's Ambani brothers after the passing of the patriarch. The state in the form of the prime minister of India stepped in to reconcile the brothers. As such, relationships between business and politics are not seen as inherently conflictual in Asian capitalism.

The first few decades of the twenty-first century will see us facing important social and economic challenges as we run up against the limits of economic

growth—whether in the form of unprecedented debt levels created by our financial systems, or in the limits to growth created by Peak Oil or by the challenges thrown up by global warming, or by the demographic transitions in the advanced industrial economies. Western capitalism is one particular solution that humanity has devised with its heavy emphasis on heightened individualism, dominance of contractual relationship and heightened insecurity resulting from uncertain patterns of employment. However, these new challenges require a rethink of a number of precepts of capitalism that we have taken for granted: the need for complete rationalization and impersonalization of all human relationships, and primarily including those in business. The new form of modernity on the rise in Asia provides a new way of thinking about the future, one that will require an increasing balance between business and the wider world. The complete impersonalization of relationships that has been taken as given for the development of capitalism, the need for disenchantment of the world, as Weber defined it, will give way to new ways of building trust and cooperation within and among business firms. Asian capitalism—with its emphasis on personal relationships of family and trust and cooperation along with competition—as that of Hoekstra's observation of Indian employees—suggests a more balanced way of undertaking this endeavor in the uncertain world coming our way in the next few decades. ■

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