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Family Business Groups in Advanced Asian Economies and the Politics of Institutional Trust

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Introduction

The emblematic corporate structure in Asia's emerging markets is the family-controlled business group (FBG) (Carney et al., 2009). An emblematic form is an organizational structure best adapted to grasp opportunities available in local institutional environments (Boyer, 2005). However, institutions change, and if FBGs are to remain relevant, they should evolve to respond to shifting institutional imperatives. A prominent perspective on BG evolution is the institutional voids (IV) view (Khanna & Rivkin, 2001). The IV view suggests BGs emerge to solve the problem of missing market-supporting institutions' and predicts BGs' competitive advantage will wither when those market institutions develop. Hence, the expectation is that BGs will fade, restructure, and eventually disappear (Carney et al., 2018; Hoskisson et al., 2005).

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However, BGs have displayed unpredicted resilience in the face of institutional development. In a review of the literature Granovetter (2005, p. 445) concludes that 'there is, in fact, considerable evidence that since the mid-twentieth century BGs have typically defied predictions of their imminent demise surviving the conscious attempts by politicians to break them up and the impact of financial crises'. Indeed, a growing body of the literature suggests BGs do certainly adapt to institutional development by internationalizing their scope, learning new capabilities (Mahmood et al., 2011) and adopting modern management practices (Liang & Carney, 2020).

An alternative institutional explanation is offered by advocates of an entrenchment and elite capture (EE) perspective (Fogel, 2006; Morck et al., 2005). In the EE view, developmental states create FBGs to orchestrate a 'big push' toward economic and industrial modernization. If they successfully realize their industrial goal, FBGs become dominant actors in the economy and seek to entrench their market power by forming political ties with political and regulatory elites. Political ties are predicated on the reciprocal giving and granting of favours over long periods. Well-placed state actors can support business groups by introducing policies that protect their interests, such as favourable credit terms, subsidies, and international trade barriers, suggesting business interests co-opt political elites (Fogel, 2006). Subsequently, FBGs retain prominence by diversifying into a wide range of activities that minimize macroeconomic risk (Morck, 2010). In this view, BG's initially emerge under weak institutional conditions, but they rarely restructure and disappear. Instead, through entrenchment and elite capture processes, multigenerational FBGs may gain eternal life, where 'old money' families lose their entrepreneurial vitality but defend and perpetuate their wealth. In Morck's terms, FBGs become 'the undead' (2010) and drag on economic growth (Morck et al., 1998).

This chapter considers the strategic and structural evolution of FBGs in three Asian states, China, Korea, and Malaysia, which have exhibited significant economic growth and institutional advancement in recent decades. In particular, we document how FBGs in these economies have successfully adopted administrative and technical innovations, which have raised their efficiency to levels found in advanced economies. However, we argue that multigenerational FBGs have retained their original personalized governance practices. Established by their founders, FBGs governance structures are now considered anachronistic since they continue to rely upon personal control (Üsdiken, 2012) and traditional authority (Zucker, 1986) rather than adopt rational-legal forms of organizational governance. We explain this typical pattern of FBG governance persistence in three economies with reference to the concept of institutional trust (Bachmann & Inkpen, 2011; Shapiro, 1987; Zucker, 1986). Institutional trust is the extent to which market participants have confidence in robust principal-agent relationships and the impersonal authority that support their functioning (Rousseau et al., 1998). In the context of our study, institutional trust underpins the efficacy of rational-legal forms of authority and the institutions that rest upon this foundation (Portes & Vickstrom, 2011).

Both the IV and EE perspectives of institutional development focus on the state's role in creating solid market-supporting institutions. Despite their social and economic achievements, we argue that the three economies considered here have not yet fully realized the creation of such institutions. Theoretically, we suggest that both IV and EE perspectives on institutional development overlook the political conditions needed to produce institutional trust required for the continuing evolution of FBGs governance structures. We identify persistent economic (Korea), political (China), and ethnic (Malaysia) inequalities that perpetuate low levels of institutional trust in their host country's market-supporting institutions and FBGs' retention of personalized governance structures.

Institutional Trust & Mistrust

We highlight the role of institutional trust because both the IV and EE perspectives depict market-supporting institutions in terms of North's (1990) conception of institutions as the 'rules of the game'. Consequently, research in both the institutional voids (Khanna & Rivkin, 2001) and law and finance traditions (La Porta et al., 1998) use *de jure* institutions. Scholars measure such institutions by the quality of 'rules on the book' in the form of indices that reflect written codes and regulations (Hallward-Driemeier et al., 2015). However, one difficulty with rules on the book standards is that they do not indicate institutional effectiveness, the extent to which market participants have confidence in them. For example, research reports evidence of *de jure* worldwide convergence upon 'best practice' codes of good governance, but much less evidence that the relevant authorities enforce such regulations (Khanna et al., 2006). Further, many states have enacted strong minority investor protection rules (Guillén & Capron, 2016). However, many stock markets exhibit little liquidity, as minority investors refrain from participating because they do not expect their stakes to be protected if the rules are breached (Yenkey, 2018).

Sociologists distinguish between interpersonal and impersonal forms of trust (Shapiro, 1987). Interpersonal trust supports relational forms of contracting and develops from experience, personal familiarity, and frequent interaction (Jeffries & Reed, 2000). In contrast, anonymous arms-length contracting rests upon abstract, impersonal trust. There is an expectation that a third-party agent can intervene when a contract is breached. The third party will act according to predetermined rules. More generally, we may define institutional trust as 'an individual's expectation that some organized system will act with predictability and goodwill' (Maguire & Phillips, 2008, p. 372), described as institution-based trust (Zucker, 1986) or system trust (Bachmann & Inkpen, 2011). The impersonal trust of abstract systems is consistent with the Weberian depiction of rational-legal authority (Zucker, 1986). Compared with traditional forms of authority, such as kinship or charisma, Weber believed that rational-legal authority was innately superior due to the bureaucratic organizational structures it enabled.

Therefore, institutional trust comes from a sociological tradition of authority relations, where trust derives from the diffusion of rational bureaucratic structures. Such structures are ultimately underpinned by state authority, a third-party guarantee, which reduces uncertainty. For example, stock exchanges can produce institutional trust by propagating routines, rules and procedures regarding IPO listings and the professional and ethical certification of stockbrokers, accountants and chartered financial analysts. The custodians of rule-based systems are anonymous and 'trusted' agents exercising delegated power from principals who cannot readily monitor or evaluate their actions. Nevertheless, these individuals may violate the trust charged to them, and the system must respond to these violations to restore confidence in them. Accordingly, social control of impersonal authority requires repair mechanisms (Bachmann et al., 2012), including procedural elaboration to repair lost institutional trust. For example, the Dodds-Frank Act restored confidence in US capital markets in the wake of the 2008 financial crisis.

The level of institutional trust is variable across countries and particular forms of institutions. In particular, the custodians of impersonal authority can be exercised by social groups with different economic, political, or social power (Yenkey, 2015). For example, in the United States, civilian police authority is frequently concentrated in the hands of white citizens. Some black citizens do not expect the police to act impartially in exercising their authority but may discriminate against people of colour. Across countries, social stratification will occur along multiple dimensions, including differences in religion, race, ethnicity, language, economic inequality and political party affiliation. Perceived differences in how dominant social groups exercise impersonal authority relative to other groups can create a sense of exclusion or injustice, resulting in active mistrust in the institutions they represent.

Perceived inequalities in our three countries derive from different forms of social stratification. In Malaysia, the dominant capitalist class with greater economic power and corporate ownership is concentrated in the hands of ethnic Chinese entrepreneurs whose families migrated to Malaysia in the precolonial era (Carney & Gedajlovic, 2002). The majority population is Malay, whose constitutional identity is defined as someone who professes the Islamic religion and habitually speaks Malay. As a democracy, the majority Malay population holds perpetual political power, creating tensions and mistrust with the economically powerful Chinese minority (Gomez, 2012). Indeed, the Chinese FBGs corporate form originates in institutional distrust of the Malaysian state (Carney & Gedajlovic, 2002; McVey, 1992). Compared with Malaysia, China and Korea are ethnically homogenous. In China, entrepreneurial mistrust arises from political inequality, where the Communist Party exercises a political monopoly. In Korea, institutional mistrust arises from extreme economic inequality between wealthy family business groups and the working population, manifesting in complex politics. Hence, a better understanding of institutional trust in market-supporting institutions depends on intergroup social relations and different forms of inequality.

The Emergence of FBGs: Entrepreneurial Dynamism and Technology Assimilation

Family-owned and controlled business groups are vital agents of entrepreneurship and technological modernization in late industrialized Asia (Mathews, 2002). These groups emerged and matured over two decades, beginning in 1960 in Korea (Amsden, 1989) and Malaysia in the 1970s (McVey, 1992). Private FBGs emerged in China after 1989 following the collapse of the Soviet Union, when Chinese policymakers accelerated market reforms, allowing for greater private enterprise involvement in the economy (Huang, 2008). Each of these states initiated export-oriented industrial development policies to catch up to the productivity levels of firms from more advanced economies (Carney & Gedajlovic, 2003; Hobday, 1995). Asian states authorized the emergence of privately owned business group structure because they facilitate imitation and learning about technology and enables technology spillovers across affiliated firms (Amsden, 2001).

Indeed, the diffusion of groups in the region is a model of imitation, a process described by Granovetter (2005) as cross-national mimetic isomorphism. In seeking to become the first Asian industrial state, Japan looked to the German model of developmental capitalism, emulating *Konzerns* as a preferred model for big business in Japan's pre-war *Zaibatsu* (Shimotani, 1997). The patriarchs of elite family-controlled Zaibatsu imitated German structures that became standard for their reference group to appear modern and dynamic. Equally, Granovetter (2005) suggests that Korean *Chaebol* imitated Japanese business groups in the 1950s because the *Zaibatsu* were familiar in Korea from Japan's colonial rule. Similarly, British-owned and controlled business groups across Southeast Asia were a common organizational form in the colonial era (Jones & Wale, 1998). During the 1980s, the developmental state model was adopted in Southeast Asia, and each state enabled the emergence of business groups to facilitate export-led development strategies (Carney, 2008).

Relatedly, much of the technological dynamism in emerging markets stems from imitation. When domestic firms have limited technical and organizational capability, and the state encourages them to enter international markets, firms may grow much faster by importing and assimilating existing know-how from advanced countries. The primary task is to coordinate and combine knowledge flows with available capital and physical resources to invest for successful imitation because know-how already exists (Gerlach, 1997).

A critical organizational process for imitative learning is a project management capability (Amsden & Hikino, 1994) that facilitates the efficient combination of relatively generic resources to enter new industries, often unrelated to one another. The learning by imitation experience was repeated across Asia's newly industrializing economies (Mathews, 2017). In the first instance, firms acquired basic manufacturing and quality control skills in electronics and medium-tech industries (Hobday, 2000). For example, Korean firms rapidly diffused ISO 9001 quality standards. To do so, they formed a variety of inter-organizational linking mechanisms, such as performing subcontracting and original equipment manufacturing (OEM), licensing products and brands and sending technical personnel on overseas reconnaissance missions. Hobday says, 'OEM and subcontracting systems acted as a training school for (Asian) firms helping them to couple export market needs with foreign technological learning' (1995, p. 1172). As Asian firms approached the efficiency frontier, they adopted and often improved upon best practice organizational processes. For example, Korean firms adopted and improved Motorola's Six Sigma quality assurance process (Yu & Zaheer, 2010).

Corporate Governance by Personal Rule in FBGs

By corporate governance, we refer to FBG owner preferences for governance practices, accountability processes within and beyond the organization and organization structure. The Weberian distinction between traditional authority, based on the personal rule, and rational-legal authority based upon bureaucratic control and impersonal forms of authority is essential to our argument. The distinction results in differences in owners' access to financial capital, reliance upon professional managers, the selection of boards of directors, and organizational structures between FBGS and bureaucratic organizations. Consistent with the belief in the inherent superiority of rational-legal authority, World Society theorists (Meyer, 2010; Meyer et al., 1997) predict that transnational and professional agents, located primarily in Western liberal economies, will diffuse rational-legal processes to peripheral or less developed economies. The content and the transfer of these processes guide the rationalization of traditional authority. The carriers of these rationalizing logics include World Organisations such as the United Nations technical agencies, the World Bank and International Monetary Fund, and a range of actors in Professional associations in accounting, law, medicine, and management consulting. Meyer (2013) describes the carriers of rationalizing logic as 'high school mediating actors' comprised of individuals with many years of university education and the attainment of professional accreditation. Potential recipients of such institutions do not passively accept every aspect of world society rationalizing logic but hybridize and translate institutions in the form they consider practical or acceptable (Djelic & Quack, 2010).

While Asian FBGs have comprehensively adopted production technologies and processes from Japanese and Western firms, they have not, typically, fully adopted rational-legal governance prescription will. The authority structure of the archetypal Western firm tends to be relatively bureaucratic and impersonal. Resulting from the separation of ownership and control, professionally managed firms, especially those in the UK and North America, rely upon arms-length capital (equity and debt) than Asian FBGs. Arms-length investors tend to provide capital through financial intermediaries concerned with returns on their portfolios rather than any particular firm's performance. Accordingly, managers and investors will typically view their respective interests in instrumental terms. The instrumentality of depersonalized investor-management relations pervades Western firms' governance structures. For example, accountability to shareholders requires that professional managers rationalize their decisions with reference to the maximization of shareholder value. More generally, managers are subject to bureaucratic constraints consisting of codified standards of managerial conduct, performance appraisal processes, and quarterly reporting requirements that check managerial discretion (Carney, 2005).

Similarly, the primary form of organization for multi-business firms is the M-form or multidivisional structure (Williamson, 1985). The M-form structure enables business unit performance to be assessed by transparent quantitative metrics. Managers can evaluate underperforming units at market prices. Due to their transparency, underperforming business units are visible to private equity firms, and predators may seek to acquire and restructure such businesses to improve their market value.

In contrast, the entrepreneurial owners of Asian FBGs concentrate control in their own hands; an authority structure described as personal rule (Üsdiken, 2010). In these organizations, family owners govern the most critical transactions under the norms of relational contracting. Leading theories of the firm, such as transactions cost and agency theory, consider the persistence of personal rule in modern corporations as anachronistic because the progressive rationalization of the corporation is expected to depersonalize family authority. However, neither the separation of ownership and control nor the depersonalization of authority has occurred in most Asian public corporations, except for the notable exception of Japan (Claessens et al., 2000).

The concentration of authority in a family patriarch enables the dominant coalition of trusted associates to exercise control over the firm's resources and make critical strategic decisions with 'unlimited jurisdiction' (Biggart, 1998, p. 316) while retaining a 'tight grip' (Tsui-Auch, 2004, p. 718) over the direction of the firm. In a study of the top 100 Taiwanese business groups, Luo and Chung (2005) did not find a single case where the key leader (the most powerful post in the group) was not a family member.

However, FBGs make extensive use of professional management at the operational level but rarely admit professional managers into the dominant coalition's inner circle (Carney, 2013; Tsui-Auch, 2004). The admitted few are likely to have prior social ties or have demonstrated loyalty and long service to the family. Tsui-Auch distinguishes between 'family-related managers' and nonfamily managers. The former includes family members and relatives, friends, and employees who the owning family considers family members. In some cases, families use marriage or adoption to incorporate trustworthy executive talent beyond the family (Mehrotra et al., 2011).

Western corporate governance systems comprise an interconnected set of external (e.g. stock markets, credit rating agencies) and internal governance mechanisms (e.g. a board of directors, audit committees) that monitor senior management decision-making on behalf of investors. However, while Asian states have sought to establish comparable systems of governance and other market-supporting institutions, FBGs have been slow to avail themselves of these mechanisms. Either because FBGs have developed alternative internal means or because they have little institutional trust in market-supporting institutions. While many FBG list affiliates on public stock exchanges, they remain firmly under the parent's control, who typically acquire a controlling share of the firm's public equity. The ownership level required for control will depend upon the particular context. In some jurisdictions, effective control may require an absolute majority of voting stock. In other cases, dual-class shares or comments providing the family with special decision rights, such as the right to appoint a CEO or determine the board's composition, might establish control.

Internal governance mechanisms also reflect personal control. Asian state authorities advocate compliance with 'codes of best practice' that call for independent boards, separating the CEO and Board Chairperson's role (van Essen et al., 2012). While some FBGs adopt these practices and avow their commitment to high standards of corporate governance. However, there is a significant gap between de jure and de facto corporate governance practices (Khanna et al., 2004). For example, boards may appear to have many independent directors, but independence is nominal for many directors. A patriarch may appoint board members from their networks, or they are executives of group affiliated firms. Independent members may be unwilling or unable to stand up to a powerful patriarch and may exercise little influence. Boyd and Hoskisson (2010) conclude that many seemingly independent boards are little more than 'rubberstamps'.

The multidivisional organization is an efficient structure for firms diversified into multiple geographic and product markets (Chandler, 1990). Described by Williamson as the M-form, the structure separates 'operating from strategic decision-making … and … the requisite internal control apparatus has been assembled and is systematically employed' (Williamson, 1975). Despite its efficiencies, family firms around the world are typically resistant to its adoption. In the United States and Europe, family-controlled firms were slower than managerial and bank-controlled firms to adopt the M-form structure due to the requirement that family owners decentralize management control and improve accountability and transparency of the firm's performance to outsiders (Mayer & Whittington, 2004). The structure reduced the discretion of the entrepreneur to exercise control. While Asian business groups' system of vertical and horizontal relationships with affiliated firms varies enormously (Yiu et al., 2007), but very few approximate the Williamson ideal M-form organization. Advocates of good governance and transparent and formal organizations justify their arguments in terms of improved financial performance. The patriarchs of Asian FBGs resist this advice due to factors other than the desire to protect social and emotional endowments.

More recently, world society sources of governance rationalization have emerged targeting family businesses in the Asian region. These rationalizing forces include globalizing financial institutions and family management consultants and advisors. The emergence of global family offices practices provides advice and structures separating family financial wealth from the firm and applying portfolio management techniques to family wealth (Glucksberg & Burrows, 2016). Professional bodies such as the Society of Trust and Estate Planning offer customized tax and legal advice about the effective intergenerational transfer of wealth (Harrington, 2012). Other consultants focus on managing family relationships addressing problems of conflict, family dysfunction, and socializing next-generation family members into business ownership (Kuusela, 2018). Executive search firms are touting their services to help family-managed firms to identify top-level management talent. Business families in North America and Europe have become avid consumers of family business advisory services (Harrington, 2017). However, while one article suggests that 90% of Asia's business families intend to hand over the business to a family member, they rarely engage in formal succession planning (Schultz, 2015). Consequently, the extent to which the patriarchs of Asian family business groups avail themselves of the growing array of professional advice is understudied in the literature.

The Politics of Institutional Trust: Divisions Between Groups Based on Economic, Political, and Ethnic Stratification

So far, we show that Asian FBGs combine entrepreneurial and technological dynamism while retaining a conservative and personalized form of corporate organization. This section argues that with low levels of institutional trust, FBGs have resisted the financial promise of Western models of corporate governance and organizational structure. To be fully effective, these models require robust principal-agent relationships across a variety of institutional settings. For example, in stock markets, the relationship between majority and minority investments depends on institutional trust in third-party agents who uphold institutional rules and processes, such as rules protecting fraudulent expropriation of minority investors.

Such rules and processes involve multiple subsystems, such as stock market administrators who enforce laws governing IPOs, professional certification procedures for stockbroker membership, auditors who certify financial statements, and credit rating agencies who provide risk analysis about listed firms. Each of these institutional subsystems delegates authority to specific professionals. However, these subsystems' efficacy ultimately depends upon state authority vested in agents of the judiciary, officials, and financial agencies. However, employees in the subsystems are potentially fallible and capable of opportunism. If self-serving behaviour is detected and unaddressed by the state authorities, institutional trust is likely to erode or fail to develop (Bachmann et al., 2012; Fisman & Miguel, 2007).

The control and authority of particular subsystems are often concentrated among members of specific social groups. Such groups' stratification is multifaceted across different societies based on differences in ethnicity, caste, race, language, religion, economic status, and political affiliation. Social membership differences can undermine institutional trust because members of one group may make prejudicial and categorical judgments about other groups. This can occur because reliable information may not transmit to other social groups or is discredited when it does. Such processes can reinforce a perceived difference that engenders feelings of injustice or exclusion by some groups. For example, participation in Initial Public Offerings may be withheld by particular social groups when they perceive capital markets to be controlled by a rival social group (Yenkey, 2018). Thus, institutional trust depends on the social integration of distinct social groups (Evans, 1995).

However, for various political reasons reflecting fundamental inequalities, states have not adequately addressed the social integration of the rival groups. In these circumstances, mistrust between different social groups may be exacerbated, and out-groups may withhold institutional trust in state mediated institutions, including those underpinning robust principal-agent relationships. We suggest that the typical governance of Asian FBGs functions as a defence mechanism against untrusted state institutions and will likely persist so long as both FBGs and institutions develop on a path-dependent trajectory.

Political Inequality: Sources of Institutional Mistrust in China

Mao believed that China's reverence for traditional values was a significant obstacle to the realization of his Communist project. Indeed, Mao's launch of the disastrous Cultural Revolution was intended to destroy the culture of traditional authority and in particular, to disrupt traditional family values. Reliance on the family survived this assault (Greif & Tabellini, 2010), and commitment to family remains strong. One scholar observes that 'you trust your family absolutely, your friends and acquaintances to the degree that mutual dependence has been established. …With everybody else, you make no assumptions about their goodwill' (Redding, 1990, p. 66).

Nevertheless, the Chinese state maintains a vast reach over the national economy where the Chinese Communist Party (CCP) exercises a monopoly of political control over the levers of power. The CCP is a hierarchical but profoundly secretive organization operating beyond and above the law. In contrast with the rule of law, the CPP is said to operate a 'rule by law' regime that rejects the basic premise that the rule of law exists to impose significant limits on powerful individuals. Instead, 'rule by law' refers to an instrumental conception of law in which law is merely a tool to be used as the State sees fit' (Peerenboom, 2002, p. 8). Consequently, China's legal system is somewhat underdeveloped and opaque (Huang, 2008). This is not to say that the CCP may eventually seek to achieve the ideal of the rule of law. Nevertheless, law enforcement can appear arbitrary in various aspects of the economy, such as property rights, labour rights, or intellectual property protection.

Thus, while the legal system has significant institutional voids, there is sufficient regularity to support general prosperity and high, seemingly sustainable economic growth levels. However, entrepreneurs who have responded to opaque and ambiguous property rights have resorted to guanxi relations as an insurance mechanism to support transactions. Guanxi relations are restricted to localized family and kinship ties for relatively small and medium-sized enterprises, especially for protection against predatory lower-level party cadres (Peng, 2004). However, guanxi's real value derives from ties with well-placed politicians and state bureaucrats (Ge et al., 2019). Such connections are often described as patron-client relationships, entailing an exchange of favours. The favours bestowed by the political patron can be substantial, including preferential access to economic resources, such as subsidies or bail-outs of failing ventures, information about opportunities, and bureaucratic facilitation of permits and licenses. Perhaps more important, political links to a well-placed patron of the protection from predation by lower-order officials. Ties with higher-level patrons can fuel the emergence of substantial enterprises. Chinese tech giant Huawei gains significant support from the state's 'Belt and Road' initiative, resulting in exclusive contracts to construct telecoms networks for China's diplomatic allies such as Pakistan and Iran.

However, political patrons expect reciprocity for their favours (Peck & Zhang, 2013). The compensation for political patrons is extensive, producing a new class of 'red capitalists' (Peck & Zhang, 2013) comprised of party and government officials who have converted their political power into economic wealth. While patron-client ties are mutually beneficial, they constitute low-trust relationships. The entrepreneurial client typically occupies a subordinate position to the political patron. A patron may reveal a 'grabbing hand', and the client-entrepreneur may be unable to limit the patron's claims.

Moreover, political ties are precarious, and their value is highly contingent on the patron's ongoing tenure (Sun et al., 2012). Indeed, the precarity of political ties may threaten a family's control of its enterprises. For example, Chinese state regulators abruptly postponed Alibaba's FinTech company Ant Group Co.'s initial public offering after its billionaire founder Jack Ma openly criticized the 'pawn shop' like financial system.

Thus, while political ties may compensate for institutional voids enabling the construction of large business groups, they rest upon a tenuous low-trust relationship. They inevitably leave both patron and client entrepreneurs in a state of mutual suspicion, with the diminished prospect of building a more permanent institutional trust. The current general secretary of the CPP, and president of the People's Republic of China, Xi Jinping, recently removed term limits on his presidency and endowed himself with unlimited authority. Xi is seeking to clamp down on all forms of corruption. Whether a lifelong dictatorial power can establish institutional trust remains an open question.

Korea Economic Inequality

The Korean state's role was pivotal in forming, growing, and subsequent internationalization of the Chaebol family-controlled business groups. Under President Park Chung-hee's long-term president term, from 1962 to 1979. The state developed a system of supervisory institutions designed to lead domestic industrialization to catch up with arch-rival Japan (Carney, 2008). Indeed, the state selected the particular families who would lead the industrial strategy as Alice Amsden puts it, 'a group of millionaires would be allowed to enter the central stage, thus encouraging national capitalism' (1989, p. 14). President Park envisaged the government's role as one of overseeing and disciplining the millionaires to avoid any abuse of power. The heart of the discipline was government-mediated licences, and funding was tied to the achievement of industrial goals regarding new product creation, capacity building, and ambitious export targets. The government discipline and the rise of Chaebol were interactive. Large business groups consolidated power in response to the state's performance-based incentives.

However, the Korean state's capacity to discipline the largest groups was progressively eroded by trade and financial liberalization that enabled the Chaebol to reduce the financial dependence on state by borrowing on international markets. The effect of financial liberalization was to create an increasingly independent and more powerful corporate sector with influence over the direction of liberalization. What began as state-led industrialization in the 1960s morphed into a co-equal partnership between the state and the largest Chaebol (Granovetter, 2005). Public opinion about the Chaebol is not favourable. The Chaebol suppressed wages and was perceived to exploit labour. Many viewed the Chaebol as 'immoral profiteers' benefiting from government connections. This public sentiment is deeply rooted and remains prevalent in Korea this today.

When the state began to construct market-supporting institutions, it did so incrementally and partially in a manner that increased the Chaebol's power. The consequence of the liberalizing strategy was to create and prolong the life of influential and autonomous business groups that are largely beyond the discipline state (Carney, 2008). Indeed, Chang (2006) suggests that government actions created new mechanisms to funnel foreign debts into the largest groups' coffers. Korea was a major casualty of the Asian financial crisis.

Consequently, international organizations, such as the International Monetary Fund, pressured the state to engage in a far-reaching restructuring programme on the Chaebol. The weaker groups were subject to such restructuring, but the stronger groups were able to resist. As Chang (2006) suggests, 'old habits die hard', and corporate owners and politicians sought to continue existing practices in the face of large-scale redundancies. Moreover, Chaebol embeddedness in regional communities provides a more substantial basis for identity than equity ownership (Biggart, 1998). As a result, family-owned Chaebol proved resilient (Granovetter, 2005).

Nevertheless, in the face of widespread social criticism and government attempts to curb their power, Chaebol business families tenaciously maintain ownership and control (Jun et al., 2019). The state's most recent attempts to wrest control and impose reform have targeted family ownership succession with substantial inheritance and estate taxes and prosecuting family members who evade taxes (Ortiz et al., 2020). For example, following the passing of Cho Yang, chairman of the Korean Chaebol Hanjin Group, in 2019, family heirs were liable for $175 million, which severely diluted the family's ownership stake in the group. With the recent passing of Samsung chairman Lee Kun-Hee, the family could face a $10 billion inheritance tax (*Korean Times*, 2019). Whether inheritance taxes will dilute family ownership remains an open question as families seek to evade taxes with increasingly complex legal structures (*Korea Herald*, 2019). Despite public resentment surrounding Chaebol family members' conspicuous wealth along with the suspicion of state complicity, we suggest the perceived inequity of concentrated wealth will fuel continuing levels of institutional mistrust.

Malaysian Ethnic Inequality

The basis of institutional mistrust in Malaysia stems from ethnic inequalities, which, ironically, the state has systemically sought to erase. In doing so, the state has also maintained enduring social peace among an ethnically diverse population, made up of ethnic Malays (65%), ethnic Chinese (25%), ethnic Indians (8%), and others (2%). However, the minority ethnic Chinese population constitutes a dominant capitalist class controlling some 65% of private-sector assets. The stark and enduring wealth inequality was a critical ingredient in Sino-Malay sectarian violence in 1969. The event is significant because the Malaysian state responded with a comprehensive affirmative action strategy in its New Economic Policy in 1971. Since the NEP implementation, Malaysia has attained notable social achievements, including the virtual eradication of poverty, lower levels of income inequality, and improvements in a variety of quality-of-life indicators, including life expectancy, infant mortality, and literacy. The NEP has stimulated higher economic growth levels, low unemployment, and the construction of world-class communications and transportation infrastructure.

The NEP socio-political objectives were intertwined with a developmental state strategy to create a population Malay-owned corporate enterprise. Key NEP measures mandated ethnic Malay ownership requirements in publicly listed firms and targeted funding creating wholly-owned Malay companies. However, the strategy's unintended consequences produced a widely emulated ethnic Chinese-Malay hybrid, colloquially known as the Ali Baba system. In the system, Ali being the Malay, fronting a Baba, or Chinese or Indian owned business. For example, a Malay-owned firm might receive a government contract through affirmative action programmes. However, the contract would be sub-contracted to another company for a profit, usually a non-Malay firm with greater organizational capability.

The Malaysian state subsequently engaged in a project of constructing market-supporting institutions with liberal market reforms. However, the institutions of affirmative action and liberal market reforms were combined and infused with personalized patron-client relations (Carney & Andriesse, 2014). According to Gomez (2009), the creation of the Malaysian stock exchange functioned as a mechanism for politically connected entrepreneurs to capitalize on the value of their connections. The interaction of these institutional spheres has produced a succession of short-lived business groups with a managerial ethos that provides few incentives to develop sustainable competitive advantages in the international marketplace. Ethnic Chinese entrepreneurs amassed enormous fortunes in diverse industries; luminous examples include Overseas Chinese Banking Corp. (OCBC), Oriental Holdings, and Lion Group. However, in the post-colonial period, many of these enterprises became enmeshed in patrimonial politics and absorbed 'political-bureaucratic figures' into their management (Ling, 1992). These companies' fortunes were tied up with their political patrons, whose tenure is contingent upon political developments. In documenting the rise and fall of family-controlled business groups, Gomez highlights these businesses' instability and concludes that 'What is obvious is that the companies established by a number of the foremost businessmen in the post-colonial period were not sustained into the modern period' (2009, p. 7). The rapid rise and contraction of entrepreneurially controlled business groups continue today (Gomez, 2018) (Table 10.1).

The Complicated Politics of Institutional Trust

We have argued that the effective functioning of market-supporting institutions is dependent upon high levels of institutional trust. However, we have argued that economic, political, and ethnic inequalities in these advanced Asian economies have tended to obstruct the development of institutional trust. This is because state authority ultimately underpins the impersonal authority and bureaucratic due process necessary for various organizations and institutions. Ironically, the Chinese Communist Party and the Korean and Malaysian states have established laudable political goals to increase national security, shared prosperity, and reduce economic inequalities. However, the fallibility and venality among politicians, state bureaucrats, and entrepreneurs often result in patron-client relationships. We have argued

Table 10.1 Summary of three institutional mistrust in Asian economies

	China	Korean	Malaysia
Type of institutional mistrust	Political inequality inherent in patron-client relationships	Economic inequality between the working population and the powerful and autonomous FBGs	Ethnic inequality between wealthy minority and Malay population
Source of mistrust	CCP exercises a monopoly of political control and operates as a hierarchical and profoundly secretive organization	Government-mediated licences and funding were tied to the achievement of industrial goals regarding new product creation, capacity building, and ambitious export targets	Minority ethnic Chinese population constitutes a dominant capitalist class controlling some 65% of private-sector assets
FBG's response	Entrepreneurial and family BGs exchange favours with political patrons for insurance and protection	Consolidated power and gradual escape state discipline	Ethnic Chinese BGs became enmeshed in patrimonial politics and absorbed 'political-bureaucratic figures' into their management
Primary examples	Country Garden, Hengli Petrochemical, Haidilao, Winner Medical, Lens Technology	Samsung, Hyundai, LG, Hanjin	OCBC, Oriental Holdings, and Lion Group. YTL

these are ultimately low-trust relationships since they are motivated by personal gain or private protection and not anchored by an impersonal authority. Mutual mistrust can generalize to larger social groups when particular social groups categorize others as untrustworthy. So long as these social divisions persist, economic actors will seek the potential gains and protection of such relationships while retarding the creation of a comprehensive institutional trust.

To be clear, we do not condemn all business state relationships as forms of corruption or eroding institutional trust. Indeed, the concept of embedded autonomy (Evans, 1996) refers to productive collaboration between a Weberian state bureaucracy and accountable corporate and managerial elites. As a basis of information sharing, conflict avoidance and the pursuit of mutually beneficial goals, embedded autonomy entails capable bureaucrats forging trust with their corporate counterparts and can be a vital ingredient in a successful developmental state strategy. Both practitioners and academics agree on the potential mutual benefits of embedded autonomy (Puente & Schneider, 2020). Indeed, the epitome of a world society institution, the World Bank incorporates the concept of embedded autonomy in its Washington consensus prescription for the developmental state. What is not well understood by academics or practitioners is exactly what kinds of firms can contribute to collaborative business state relationships. The extent to which business families and family business groups can contribute productively to these goals remains an open question worthy of further research by family business scholars. The complicated politics of institutional trust is not limited to the advanced Asian economies discussed in this book chapter. Indeed, the global epitome of high-quality market-supporting institutions, the United States, has recently undergone an erosion of institutional trust. A legitimately elected president has fomented wide-ranging institutional mistrust in various institutions, including media, national security agencies, political parties, and the electoral system. However, the agency of the president is not sufficient to single-handedly wreak such mistrust. Instead, politicians can appeal to particular groups' underlying grievances, such as marginalized working-class workers, by disseminating distrust of capitalist elites. Similar bouts of institutional mistrust are evident in Europe and Latin America. More generally, the effectiveness of regulatory and professional institutions such as the Securities Commission, the accounting profession, and credit rating agencies depends on government leaders' willingness to support legal-rational processes that uphold their integrity. Perceived corruption is indicative of low levels of institutionalized trust.

Sociologists (e.g. Zucker, 1986) have long observed that traditional societies relying upon personal authority as a primary mechanism for governing business organizations have limited capacity to expand the scale and scope of their operation. Because personal authority relies upon familiarity and proximity, it follows that to build enterprises that can scale their businesses beyond local communities into national and international markets, firms must increasingly rely upon the structure and processes of impersonal authority. Such mechanisms rest upon accepting standardized bureaucratic procedures such as human resource recruitment, compensation, and employee evaluation. Thus the authority structures of multinational family-controlled business groups such as Korea's Samsung, Malaysia's YTL infrastructure group, and China's Shi Yong Hong business family accommodate various elements of rational-legal authority into their managerial bureaucracies. The contribution of this paper, with its focus upon deficits of institutional trust, suggests family business groups represent a hybrid organization incorporating traditional authority in their governance practices and structures and rational-legal authority in the operational and technical parts of the business. We suggest this capacity for hybridization of the family business to function in a broad range of institutionally varied jurisdictions indicates robustness and flexible organizational form, which explains their prevalence and ubiquity.

Returning now to the question of whether family business groups will become major consumers of 'world society' sources of rationalization in the form of family business consultants and advisers. We are equivocal. A fundamental relationship in capitalist economies is the fiduciary responsibility of an agent to a principal. One consequence of low institutional trust is actors' reluctance to rely upon fiduciary relationships. The fiduciary duty implies 'holding in trust'. It is attached to a wide range of specific relationships, for example, between a firm's directors and firm stakeholders, professional executives and stockholders, lawyers and trustees, and stockbrokers and their clients. The fiduciary relationship has both a legal and a moral connotation. In its legal form, the fiduciary has a duty of skill and care to employ the best professional judgement for the principal's benefit. In its moral form, the fiduciary responsibility is more akin to stewardship for multiple stakeholders or communities. The expectation is that the agent will uphold the expectation of competence, judgement, and honesty and put explicit duties of the role ahead of their own needs. We suspect that low levels of institutional trust will weaken the expectations associated with fiduciary positions. A corollary is that family business groups will perpetuate personal control and opaque governance arrangements, which may ultimately inhibit the emergence of more complex forms of capitalist organization. However, we do not underestimate Asian business families' capacity to hybridize their governance structures to meet the demands of a shifting and unpredictable institutional context.

Conclusion

In their analysis of European business groups Schneider et al. (2018) conclude that over the past 50 years, the population of business groups has significantly declined. They depict a long-term trend toward the gradual restructuring and disappearance of business groups in Belgium, Germany, Netherlands, France, Italy, and Spain. For particular reasons, they find that business groups remain prominent in just two European countries, Sweden and Portugal. We have seen a substantial decline in state involvement in the economy and an emphasis on projects to develop market-supporting institutions during this period. Our analysis suggests similar projects in Asian economies have not yet resulted in a similar decline. We conclude with a question: can institutional trust explain differential patterns of business groups' longevity across European and Asian jurisdictions? Our answer is in the affirmative. We offer the tentative conclusion that broad entrepreneurial trust in the state is necessary to restructure family business groups. Further research is warranted.

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