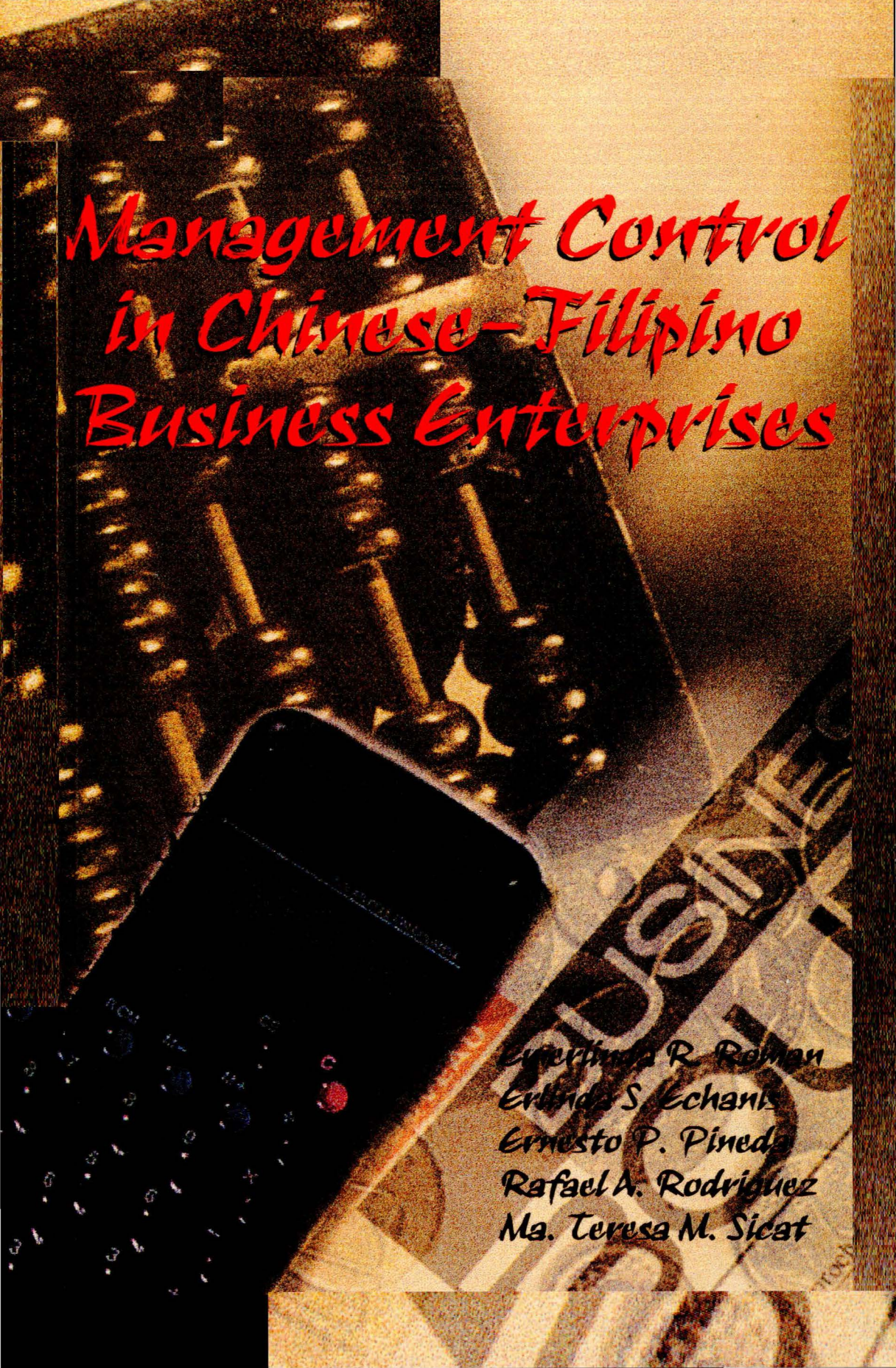
Management Control in Chinese-Filipino Business Enterprises



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MANAGEMENT CONTROL IN CHINESE-FILIPINO BUSINESS ENTERPRISES

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FOREWORD

The growth phenomenon in East Asia and Singapore in the last two decades has stimulated discussion on the role of cultural factors and ethnic characteristics in economic development. Recent scholarly attention has particularly focused on the unique features of Japanese and Chinese business institutions and management systems which have been posited to contribute significantly to the so-called East Asian miracle.

The international academic community's interest in the correlation between economic success and ethnic origin is not matched by the number of research and publications on this substantive area in the Philippines. While there are historical studies on the economic and social role of Chinese immigrants and their integration into mainstream Philippine society, there is a dearth of empirical data on contemporary Chinese-Filipino business enterprises. Nevertheless, the Filipino public has taken for granted the relative economic success of these businesses and their role in the nation's economy. They have also held on to their common sense ideas of why Chinese-Filipino business enterprises succeed based on impressions of their closely-knit support system and mode of management.

This monograph is an invaluable contribution to a relatively neglected area of research in the Philippines. It gives the reader a glimpse of the management of ten firms of varying sizes and types. Founded by Chinese entrepreneurs who migrated from China, the firms in the sample reflect, among others, how traditional Chinese values and a gut feel for business are combined by succeeding generations of formally-trained owners/managers with professional systems and procedures. Quite apart from its insights and description of interesting cases, the monograph is useful because its findings suggest the system of management control which may be operating in other businesses owned by Chinese-Filipinos.

Management Control in Chinese-Filipino Business Enterprises is based on an exploratory study conducted by a team of four professors of Business Administration—Emerlinda R. Roman, Erlinda S. Echanis, Ernesto P. Pineda, Rafael A. Rodriguez—and a professor of English, Maria Teresa M. Sicat. All five professors are faculty members of the University of the Philippines in Diliman.

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PREFACE

The research on which this monograph is based was done to explore management control and related practices in Chinese-Filipino enterprises, document how these practices are translated into formal operating systems, and assess the extent to which such control practices constitute effective methods for managing or constraining further business growth.

The study has two parts: Part I discusses the conditions under which the management practices of the respondent enterprises constitute generally effective systems of management control. The discussion includes the functionalities and dysfunctionalities of the control systems and practices employed. A three-stage model of family control is posited to show the extent of family control of the business over time and as it expands. Part II consists of case studies of ten Chinese-Filipino enterprises representing businesses of different types and sizes (as indicated by gross sales). These case studies describe in some detail the control systems and practices of the respondent enterprises. The names of some of the owners and their enterprises have been disguised in deference to the respondents' wishes. Only two case studies use the real names of the firms and their owners — Chowking Food Corporation and French Baker.

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THE PROJECT TEAM

TABLE OF CONTENTS

FOREWORD

PREFACE

PART I: MANAGEMENT CONTROL IN CHINESE-FILIPINO BUSINESS ENTERPRISES: UNDERLYING VALUES, STRUCTURAL VARIABLES, AND DIVERGENCE AND CONVERGENCE IN STYLES OF MANAGEMENT CONTROL

INTRODUCTION 1

Confucianism in Chinese Managerial Thinking and Practices 1
The Chinese in the Philippines 3
Historical Perspective 4
Chinese Work Values 6

OBJECTIVES AND METHODOLOGY 8

THE PROFILE OF THE MANAGERS IN THE STUDY 9

The Enterprises 9
Education 10
The Chinese-Filipino Family and Attachment to Traditional Chinese Culture and Values 11
Gaining Business Experience 14

MANAGEMENT AND OPERATING CONTROL 15

Use of Formal Reports 15
Protection of the Firm's Resources 15
Planning and Other Strategic Decisions 16
Long Range Planning 16
Target Setting 16
Strategic Decisions 16
Managerial Performance Measurement and Reward System 17
Managerial Performance Monitoring 17
Appointment of Key Managers 17
Grant of Bonuses 17
Personnel and Organization 18
Hiring and Firing Decisions 18
Compensation 19

THREE-STAGE EVOLUTIONARY MODEL OF FAMILY CONTROL 19

Stage I 21
Stage II 22
Delegation of Operations Decisions 22
Formal Performance Targets 22
Control Through Key People 23
Stage III 26

PART II: CASE STUDIES OF THE ENTERPRISES

CARLOS C. CHAN, INC. 37
CHOWKING FOOD CORPORATION 47
CHRISTIE 61
DRAGONWORKS STEEL COATING CORPORATION 67
FRENCH BAKER 73
GREATWALL STEEL FABRICATORS, INC. 83
JGS GROUP OF COMPANIES 89
NEW HORIZON INDUSTRIES 95
PLAINFOLKS DEVELOPMENT CORPORATION 99
SUPERIOR STEEL CORPORATION 107

SUMMARY AND CONCLUSIONS 115

REFERENCES 119

ANNEXES

Annex A: Summary of Responses on the Various Aspects of Control of Respondents Categorized as Large 28
Annex B: Summary of Responses on the Various Aspects of Control of Respondents Categorized as Medium- and Small-sized 31

LIST OF ILLUSTRATIONS

Chart A: Time, Firm Size, and Level of Control 20

Exhibit A: Carlos C. Chan Inc. Corporate holdings 40

Exhibit B: The French Baker, Inc. Organizational Structure 81

Exhibit C: Greatwall Steel Fabricators, Inc. Partial Organizational Structure 88

Exhibit D: Plainfolks Development Corporation 100

PART I

MANAGEMENT CONTROL IN CHINESE-FILIPINO BUSINESS ENTERPRISES

Underlying Values, Structural Variables, and Divergence and Convergence in Styles of Management Control

MANAGEMENT CONTROL IN CHINESE-FILIPINO BUSINESS ENTERPRISES

UNDERLYING VALUES, STRUCTURAL VARIABLES, DIVERGENCE AND CONVERGENCE IN STYLES OF MANAGEMENT CONTROL

INTRODUCTION

The growing visibility of Chinese entrepreneurs and the remarkable performance of their enterprises in developing and industrialized countries have inspired management scholars to closely examine their characteristics, values, behavior, leadership styles, managerial ideologies and management practices (Limlingan 1986; Redding 1987; Xu-Lian 1987; Wimalasiri 1988; Waters 1991; Leung 1995). Research investigations on overseas Chinese in places like Hongkong, Singapore, Malaysia, Indonesia, Thailand and the Philippines suggest the cultural traits and values of the Chinese and their social structure and focus on family and lineal relations, as among the significant factors behind the economic success of their enterprises.

Most discussions about Chinese managerial thinking and practices raise the question of whether the Chinese constitute a unique breed of managers and entrepreneurs. Understanding Chinese management entails a closer look at the sociocultural traditions which affect Chinese thinking and way of life. One such tradition, Confucianism, is generally believed to greatly influence many aspects of Chinese life and culture.

Confucianism in Chinese Managerial Thinking and Practices

Uniquely positioned in Chinese history and civilization, Confucius has been revered as the "national ideal of the Chinese people for over

two thousand years" (Jingpan 1990, p. 5). To this day, Confucius's teachings permeate Chinese thinking and practices, even in the management of enterprises.

Confucianism is not a religion but a philosophy and a system of ethics guided by virtues and regulated by principles of propriety (Tope 1995). The virtues Confucius extolled such as benevolence, obedience, filial piety, loyalty, honesty, justice, propriety, peace, and wisdom govern all the relationships within the state and the family.

Five human relationships defined by authority and hierarchy prevail in Confucianism. The first and most important is the relationship between Prince and Minister. This is a relationship based on righteousness and the authority of the ruler over his subjects. As a model of ethical conduct who does not transgress social laws, the Prince may expect loyalty from his ministers and subjects. The second relationship, between father and son, is one of benevolent paternalism: absolute authority at all times is granted to the father who must temper his authority with benevolence. The third relationship is between brothers. It is the elder brother's duty to support the younger brother, who in turn professes loyalty to his elder. The fourth relationship is between husband and wife. The husband provides for the wife who takes care of the home and the children. Confucianism's patriarchal bias does not acknowledge female capabilities, except for her ability to bear and rear children (Tope 1995). Finally, there is the relationship between friends — a relationship of equality and trust. The first four relationships are hierarchical, emphasizing the hierarchical orientation of Chinese society. Three of the five relationships are familial, which confirms the significance of the family as a social and cultural force (Oh *et al.* 1983; Tope 1995).

The central Confucian institution is the family (Oh *et al.* 1983), which links the individual to society. Children learn benevolence, love, filial piety and obedience from the family. This therefore serves as the

matrix of moral education in Chinese society. The father's benevolence and devotion to his children's welfare are reciprocated by the assistance the children render to their parents both at home and in business as expressions of love and duty. Obedience to parents is an obligation of the children, who must await the proper time to assume leadership of the family business. Hierarchy based on age thus emanates from Confucian tradition (Oh *et al.* 1983).

Positions in family businesses simply follow the Confucian tradition of hierarchical order: the top part controls the bottom parts. The father is head of the family; his role in business is similar to his role of father in the family. He is the central decision-maker whose decisions are unquestioned; his leadership is exclusive, distinct and singular; as a result, things get done and with much success.

Confucian norms and virtues which inform the practices and beliefs of Chinese institutions and individuals cannot but seep through Chinese managerial thinking and practices. Organizational characteristics and management practices such as hierarchical order, centralization, subjective performance evaluation, and control through people which are deeply rooted in Confucian tradition, predominate among many Chinese entrepreneurs.

The Chinese in the Philippines

The Chinese figure prominently in the country's economic history and development. Their success in business has inspired countless myths about them, many of which allude to Chinese ways, traits and values. The primacy of the Chinese in the various phases of the country's economic life is best appreciated by tracing their emergence from an oppressed and ridiculed group to a dominant force in the economic life of the nation.

Historical Perspective[1]

Chinese merchants and traders preceded the arrival of Spanish colonizers in the Philippines in 1521. The colony of about 150 Chinese residents in Manila found by the Spaniards in 1571 is believed to have been the beginning of the Chinese community in the colonial capital. Despite being targets of antagonistic treatment and oppression, the Chinese community grew significantly through the years. Provided they paid landing taxes, the Chinese were free to go back and forth between China and the Philippines. Yet, as their numbers increased, the Spaniards promulgated new rules to control and monitor their activities. The Spanish authorities confined their area of business operation to *Parian* near the Walled City of Intramuros, Manila. Keeping them together also facilitated collection of taxes from them. To gain firmer control of the Chinese, the Spanish governor chose a representative to serve as spokesperson of the community and to act as the intermediary between the Spanish governor and the Chinese. This representative had to be Catholic as well as the officially recognized leader of the Chinese community.

To a large extent, their stay in *Parian* developed in the Chinese a sense of community and fostered cooperation among them. Through hard work as wholesale and retail merchants, boatmen, cooks, water carriers, workmen and servants, they transformed Parian into an important commercial center.

With the arrival of the Americans in 1898, steps were taken to formally organize the Chinese community. In 1904, the Chinese Commercial Council was established to protect the commercial interests of the Chinese merchants. This Council eventually became the Manila Chinese Chamber of Commerce which was later acknowledged as the official spokesperson of the Chinese community. Chinese trade and

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[1]The data and information in the section were mostly taken from Jacques Amyot, S.J., **The Manila Chinese: Familism in the Philippine Environment**, Institute of Philippine Culture, Ateneo de Manila University, 1973.

business flourished during the American period. The Chinese were quick to take advantage of expanded opportunities to do business and to own property. They built schools, organized business associations, published their own newspapers, and penetrated into the provinces. (Cristobal 1967, p. 48).

Despite immigration restrictions imposed by the Americans, many Chinese continued to migrate to the Philippines in the 1920s and the 1930s (Chua 1979, p. 79; Ang See 1979, p. 17). The Chinese population of the Philippines increased three times during the American regime. Immigration laws controlled the entry of Chinese laborers as they would have displaced Filipino workers. However, Chinese teachers, students, traders and other professionals were allowed entry: this effectively resulted in a Chinese community with higher literacy and achievement.

During the American period, Chinese businesses expanded to the extent that they controlled 75 percent of the country's wholesale and retail business (Locsin 1952, p. 165). Their prominence in business provoked resentment among those who felt the Chinese were taking away opportunities from them. The growing resentment against them led to the promulgation of laws which restricted Chinese business activities in the Philippines.

When the Philippines gained independence in 1946, immigration laws practically barred the entry of Chinese into the country. For many years, Chinese immigration was at a standstill. The upsurge of Filipino nationalism led to more restrictions on Chinese activities. Nationalistic bills were passed to ease out the Chinese from the commercial sector. Among the first legislated bills was the Republic Market Act of 1946 which banned the Chinese from owning market stalls (McBeath 1973, p. 33). However, the greatest blow came with the 1954 Retail Trade Nationalization Law barring aliens from engaging in the retail trade business. Relationships between Filipinos and Chinese deteriorated as nationalist fervor grew. The discrimination against the Chinese, however, only served to reinforce Chinese identification with their community

and the institutions that supported them. The Chinese made deliberate efforts to reinforce Chinese values and culture in Chinese schools which increased in number in the aftermath of the restrictions on Chinese activities.

Chinese involvement in the field of business may be explained by historical circumstances. The restrictive immigration laws denied them access to professional fields such as engineering, nursing and architecture, that require Filipino citizenship to qualify for a license (Go 1979, p. 132). The Chinese were thus left with little choice but to engage in the only area free of restrictions: business. However, the Retail Trade Nationalization Law which restricted the Chinese from trading freely pushed them into banking, manufacturing and similar activities (Sycip, 1996. See also, the case of New Horizon Industries in Part II of this monograph). In the mid-1970s, immigration restrictions were lifted resulting in the mass naturalization of the Chinese (Ang See 1979, p. 18). The grant of Filipino citizenship opened the doors to a more secure place in business and other fields.

Chinese Work Values

The early Chinese immigrants, born and educated in China, arrived with nothing but the need to make a living in a foreign place. Because language limited their movements, they stayed close together and worked hard to survive.

The early immigrants were mostly males who initially left their families behind due to the uncertainty of striking out in an unknown country. Once settled, they sent for their families in China to join them. Some married Filipino women.

The older generation labored relentlessly and lived frugally. They reinvested earnings in their business. They lived in their place of work. They had no office hours and were on call 24 hours a day. Trade associations helped establish valuable contacts. Credit was extended on the basis of

personal relationships without any required security. Failure to meet obligations meant losing one's standing in the community. The biggest source of financing was not the bank but the individual Chinese (Amyot 1973, p. 66).

Through their trade associations, the Chinese shared information on the state of the Philippine economy. Economic intelligence was widely shared among Chinese of good standing. The sphere of information included social and political institutions (McBeath 1973, p. 171).

The older generations who came at the turn of the century established the fortunes currently being enjoyed by the younger ones. The present crop of Chinese are rich and enjoy higher social standing not only in the Chinese community but also in the country's business community. Gone are the days when *sari-sari* stores, *panciterias* (eateries that specialize in noodles), *limpia botas* (shoe shine stalls), *taho* peddling (sweetened tofu), and the like were the only businesses the Chinese could handle. Today, the Chinese have expanded their business interests into textile production, banking, real estate, paper mills, and steel manufacturing, among others.

In relation to their founding entrepreneurs, today's Chinese businesses are firmly in the hands of the second and third generation. The younger-generation Chinese may not have known poverty but their parents have ensured that the children realize the difficulties and hardships they endured. Even while in school, children were obliged to assist in the family business during their free time, instilling in them the values of long hours of hard work, thrift, diligence, and perseverance.

The older generation was largely uneducated (Amyot 1973, p. 11). Therefore, they saw to it that their children would enjoy a good education. Chinese parents worked hard to send their children to the best schools and encouraged them to pursue courses of their choice. Some Chinese families made sure the children spoke and understood the Chinese language which they considered the language of business. Nevertheless,

it is reported that the quality of Chinese language education has declined through the years (Go 1979, p. 73). Today, some Philippine-born Chinese do not speak nor understand the language.

The Chinese generally keep to themselves. They do not only value their privacy, they are also wary of outsiders who are curious about their ways, their business operations, and their families. As a result, there is very little documentation of Chinese practices, especially those pertaining to business although it is hypothesized that management practices of Chinese-Filipino enterprises are uniquely Chinese in character.

OBJECTIVES AND METHODOLOGY

Chinese management may be described as having: (1) a preference for highly personalistic style of control; (2) a heavy reliance on personal trust and loyalty; (3) the family as the standard form of business organization; (4) less standardized and formalized systems; and (5) centralized decision-making. But a question raised is whether such practices, which are effective for small enterprises, would be as effective across several generations of families, or as the size of business grows, or as the younger generation attains a higher level of education. Since there is a paucity of empirical research in this area, this study explores Chinese-Filipino management practices focusing on management control. It specifically documents the extent that these practices are translated into formal operating systems, e.g. budgeting, planning and performance evaluation; and assesses the extent to which these control practices constitute effective methods for managing or constraining further business growth.

Eleven Chinese-Filipino enterprises representing businesses of different types and sizes (as indicated by gross sales) constituted the purposive sample of the study. The case studies of these firms were culled from the responses of key officers to a structured questionaire and from interviews with significant family members. The questionaires were administered

and the interviews conducted between August 1995 and March 1996. Each case study traces the development of the business from its beginnings as a small family business to what it is today.The 10 case histories provided the basis for the three-stage model posited in another section of this monograph

THE PROFILE OF THE MANAGERS IN THE STUDY

This preliminary section presents a description of the sample Chinese-Filipino owner-managers along four general characteristics: educational attainment, business experience, family involvement in the business, and attachment to traditional Chinese cultural values.

The Enterprises

The 11 enterprises described in this study are engaged in the manufacturing, investment and holding, and trading businesses, as shown in Table 1.

TABLE 1
Size and Nature of Business of Respondent Enterprises

SIZE (gross sales)	NATURE OF BUSINESS
Large (over 500 million pesos)	1. Holdings and Investment 2. Holdings and Investment, Property Development 3. Steel Manufacturing 4. Food Manufacturing 5. Steel Manufacturing 6. Sheet and Coil Manufacturing
Medium (less than 500 million pesos, more than 100 million pesos)	1. Foam and Plastic Manufacturing 2. Food Manufacturing
Small (less than 50 million pesos)	1. Jewelry Manufacturing and Trading 2. Garments Manufacturing 3. Parts Trading

Education

All but one of the Chinese-Filipino managers in the study are second- or third-generation heirs of the enterprises established by the founder-entrepreneur. Unlike their founding immigrant parents or grandparents, the present Chinese-Filipino managers have college degrees, and in some cases graduate degrees. Some obtained their Masters' in Business Administration, even undergraduate degrees, from universities in the United States. Most of those who obtained their college degrees in the Philippines took courses in business, economics, and engineering

from leading Philippine universities, namely, University of the Philippines, De La Salle University, and Ateneo de Manila University.

Formal education in economics and business has influenced the attitudes and management style of the Chinese-Filipino managers in this study. Many of them designed the accounting and reporting systems used in the firm. Those in small enterprises even prepare reports themselves because of the confidentiality of financial data. The availability of financial reports and their willingness to borrow funds allow the second- and third-generation Filipino-Chinese owner/managers to access loans. Thus, under the present generation's management, most of the large firms used loans for the expansion and growth of their companies. In contrast, the older generation were more conservative; they limited their capital structure to equity capital or internally-generated funds and limited management to family members only.

With the increase in the educational level of the younger generation comes a tendency for individuals to venture into other businesses with others who are not related to them.They do not seem to be content with the status achieved by their parents or grandparents. Somehow they want to prove that they too can be on their own. This does not mean having to completely break away from the family business. For their self-esteem, they put up their own business in partnership with friends of like mind and achievement, while also devoting time to the family business.

The Chinese-Filipino Family and Attachment to Traditional Chinese Culture and Values

The second- and third-generation Chinese in the Philippines differ from their parents and grandparents in many other respects. Most of the younger generation were born in the Philippines, grew up in the Philippines, and were educated in Philippine schools (Ang See, p. 17); some attended schools abroad. Most of the first-generation Chinese, on the other hand, were born and educated in China, thus their special

attachment to their homeland. The younger generation have no memories of their parents' homeland — their childhood memories are mostly of their experiences in the Philippines.

The older generation started with very little and worked hard to build their fortunes. The younger generation, on the other hand, were born to an affluent life. The younger Chinese are also much more articulate in the English and Filipino languages; some cannot even speak the Chinese language. All these would seem to suggest that the younger generation have become less and less Chinese and might have lost the traditional Chinese culture and values which their elders hold dear. This, however, is not totally true as borne out in this study. Although they are detached from their parents' homeland and exposed to other cultures, the younger generation are still very Chinese in certain ways. There is nothing mysterious about the Chinese-Filipinos' ability to maintain their identity as Chinese while growing up and living in the Philippines. After all they grew up within the conservative institution that perpetuates Chinese culture and values — the family.

The family remains the most influential factor in shaping the younger generation's ways and beliefs. From their parents, the children learn to respect the sanctity of the family. Traditional Chinese families are patriarchal where the father's authority is largely unquestioned. The father is the authority at home and in the family business. Adhering to this tradition, the respondents to this study who are now more involved in the management of the family businesses continue to defer to their fathers, especially where major decisions are concerned. This observation is especially true for the small- and medium-sized firms in the sample.

Another important feature of the traditional Chinese family is the children's ready acceptance of parental authority. Thus when parents say the children have to help out with the family business even while they are still in school, they have to follow. Through this experience, the children learn the values of hard work, diligence, industry and

discipline. Most of the respondents admitted that their involvement in the family business now is out of a sense of duty to the family, or an act of filial piety, a Chinese value that persists to this day. Parents also teach their children to be simple in their ways and to be frugal, through formal exhortation as well as by the example of their own behavior. Like their parents, the respondents have simple tastes. Even their offices are devoid of frills.

Among Chinese family enterprises the superiority of the father-son relationship to the husband-wife relationship is easily evident. (Amyot 1973, p. 122). Within the family, it is clearly the husband and the wife who are responsible for the upbringing and the education of the children; in the family business, husband and wife are not necessarily the dominant team. In most of the large firms, the father-son team is more evident. Interestingly, however, in the case of the medium-sized plastic and foam manufacturing firm, the husband and wife team is very effective. The husband oversees all aspects of the business while the wife helps by managing the firm's finances. In the case of the medium-sized food chain, the son, more than the father, is more actively involved in the business. But the son admits that the father continues to be consulted on major decisions and exercises veto powers. In the case of the two small firms, the wives have taken a more assertive role in the management of the family business, although the husbands administer the finances.

It is also generally known that gender roles are more emphasized in Chinese-Filipino families. The sons, more than the daughters, are expected to take over the management of the business. If daughters have to participate, they occupy lesser positions in the management hierarchy. This arrangement is again evident in the large firms. In the small firms, the daughters assume more important positions than their brothers. This is understandable because the daughters, unlike their brothers, graduated from business schools. In the case of the jewelry chain, the elder brothers started businesses of their own; the girls were left to help out with the family business.

In-laws play minor roles in the family business. They are either uninvolved or have little or no participation in the decision-making process.

All the sample firms, except the medium-sized fastfood chain, are family-owned, with family members still actively involved in management. When conflict arises it is resolved either by the father who may or may no longer be active in the business, or by a "go-between" in the case of one large firm. Direct confrontation of family members is avoided as much as possible.

Formal meetings are few but informal "business" meetings are held whenever the family gets together. In board meetings, the agenda is mainly to declare dividends formally.

Gaining Business Experience

As indicated above, almost all the Chinese-Filipino managers interviewed started working with their parents even while they were still in school. They worked after classes and during summer and were paid salaries like other employees. Effectively, the work experience instilled in them the value of hard work.

Some of the second- and third- generation Chinese-Filipino managers experienced employment with other firms before managing their own businesses. As employees, they gained new insights, learned managerial skills and techniques which they now apply to their firms. One respondent who worked for two years with Makati Supermarket said the experience enabled him to learn all the different areas of the trading business. It also taught him how to get along with the ordinary laborer — a valuable lesson in dealing with employees and gaining their loyalty. Another respondent's experience with a multinational investment banking firm taught him the importance of networking for business. According to him, he was able to meet his quota because of family friends.

MANAGEMENT AND OPERATING CONTROL

This section summarizes the study's findings on the firms' management and operating controls culled from the responses of owners or key officers of the sample firms. The tabulated findings are shown in Annex A and Annex B.

Management and operating controls are described in terms of: (1) the use of formal reports; (2) protection of the firm's resources; (3) planning and other strategic decisions; (4) managerial performance measurement and reward system; and (5) personnel and organization.

Use of Formal Reports

All enterprises prepare financial reports regularly. The most important reports are the income statement, balance sheet and cash position. Generally, among the small firms, reports are prepared by members of the family. Among the medium- and large-sized firms, report preparation is delegated to non-family members. Moreover, among the small firms, reporting is generally done quarterly and annually; among the bigger firms, reporting is done more frequently, i.e., income statements and balance sheets are prepared monthly or semi-annually, while cash positions are monitored daily, weekly or monthly. The data suggest that as size increases, the participation of family members in report preparation declines, and the bigger the firm, the more frequent the monitoring of the firm's financial position.

Protection of the Firm's Resources

Cash receipt and collection, check voucher preparation, and inventory control are the responsibility of members of the family in the case of the small firms. Among the bigger firms, these are delegated

to key staff members who are not related to the family. Check signing is one activity that is not always delegated. Among the firms studied, all except one reported that check signing is done by the owner or by members of the family. The exception is a large firm that has expanded at a phenomenal rate; the owner co-signs the checks with key officers who are not family members.

Planning and Other Strategic Decisions

Long Range Planning

Long-range planning is undertaken by all but one firm. The planning time horizon is from three to five years. Family members are actively involved in this activity in all the firms. In the case of the large firms, top management, which consists mostly of family members, is assisted by key managers. In the case of one large firm, planning is done by a planning department, indicating the importance the family attaches to such activity.

Target Setting

Sales targets are set by owners of the small- and medium-sized firms. Four large firms reported setting sales targets by top management, and by a department in one case. Generally, as size increases, top management and owners also become concerned about setting other targets such as cost, profit and return on investment (ROI) targets, in addition to the sales target.

Strategic Decisions

Strategic decisions such as expansion of the business, new business ventures, and divestments are made by the owners of all the enterprises and by top management in the case of two large firms. If business were to expand, the small firms believe the present

control systems would be adequate to handle bigger operations. The larger firms, on the other hand, believe some reorganization or decentralization would be necessary if business were to double in size.

Managerial Performance Measurement and Reward System

Managerial Performance Monitoring

Monitoring of key managers' performance is done by all firms, with the small firms doing this more frequently than the bigger firms. The small firms monitor performance as often as monthly, while larger firms do theirs quarterly or semi-annually. The most common method of performance monitoring is by direct or personal supervision and by observation.

Appointment of Key Managers

Appointment to a managerial position among the small firms requires that one be a member of the family. As size increases, there is more pressure to hire managers who are not related to the family. A major factor in the choice of managers is one's performance on the job. Experience is also considered important. It is of interest to note that in the case of the large food chain, not one of the family members is involved in the firm's business. Key managerial positions are occupied by people who are not related to the family.

Grant of Bonuses

The grant of bonuses is the most common feature of the firms' reward system. Bonuses are given in recognition of the employees'

performance and length of service. In the case of the large food chain, bonus-giving is an opportunity for the owner to discuss with his employees their performance. The owner calls in the employees and talks with them about their work and their bosses.

Of course, the grant of bonuses in all firms also depends on the firms' business performance.

Personnel and Organization

Hiring and Firing Decisions

Hiring of top-level managers is the prerogative of the owner in all the enterprises. In the small firms, hiring of managers at all levels is done by the owner. In the larger firms, hiring of mid-level and frontline managers is delegated to other family members or to a department.

Only family members can qualify for appointment to managerial positions among the small firms. In the larger firms where the need to hire professional managers has already been recognized, such qualifications as education, experience, competence and possession of managerial skills are given much weight. Other qualities considered are honesty, drive and loyalty. The referral system is also more commonly used among the larger firms. The small firms hardly have any use for this since managerial positions are reserved for family members.

Firing decisions involving key managers are made by the owner or other family members.

Compensation

Compensation packages are decided by the owners and family members in the case of the small and medium-sized firms. In large firms, these are fixed by top management or the board of directors.

All enterprises in this study consider good systems and procedures as the best way to protect the business from losses. Most of these firms reinforce their control system by undertaking personal surveillance. They also consider loyal employees as important for effective control.

THREE-STAGE EVOLUTIONARY MODEL OF FAMILY CONTROL

The firms included in this study were chosen to represent a diverse group not only in terms of the types of business, but more important in terms of firm size. The study hypothesized that control systems would be more developed and more formally instituted in the larger enterprises than in the smaller firms.

Formal control systems — as embodied in such financial reporting systems as periodic balance sheets and income statements, cash and sales budgets and inventory and receivables reports — are well developed in all firms in the study. The explanation for this may include the fact that the firms are all established businesses (in existence for at least ten years), operating in the main and cosmopolitan business center of the country (Metro Manila), and managed by business-educated second- or third-generation family owners.

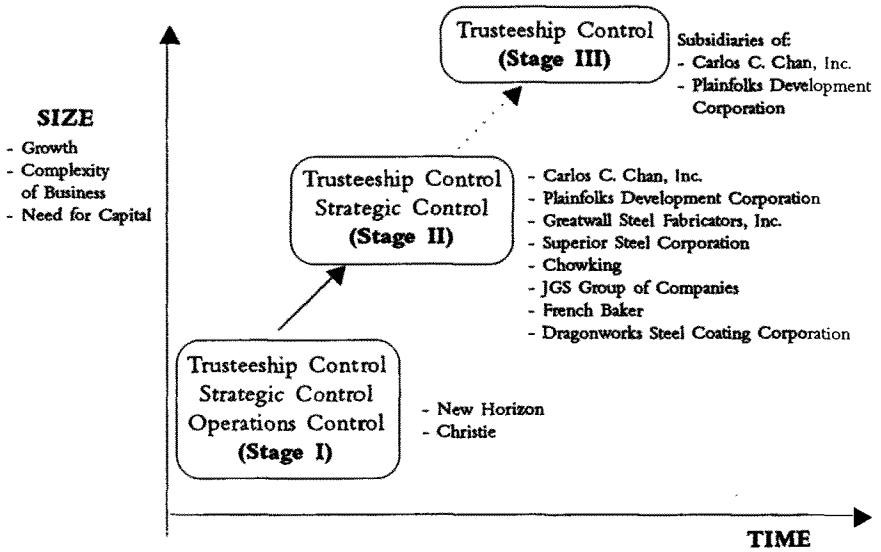
Despite this commonality among the enterprises in this study, the nature and extent of owner involvement in controlling the activities

of the enterprises vary considerably in a way that suggests an evolutionary pattern. To describe this pattern, it is necessary to distinguish three levels at which a business firm's activities are controlled:

1. Operating Level (*i.e.*, lower to middle management)
2. Strategic Level (*i.e.*, top management)
3. Trusteeship Level (*i.e.*, Board of Directors)

In the smallest companies the owners are directly involved in all three levels of control. In the medium- and large-scale firms, family control is only at the second and third levels. And in two of the largest and most diversified firms, owner control is only at the third level for several of the allied businesses owned by the family. This pattern is depicted in Chart A. Each stage is described in more detail in the next sections.

Chart A
TIME, FIRM SIZE, AND LEVEL OF CONTROL



STAGE I. In this stage, the owners control operations mainly through direct participation and surveillance; most rank and file employees of the company are directly supervised by owner-managers. This is possible because firm size is still small and the members of the nuclear family (i.e., first- and second- generations) still suffice in number to directly oversee most aspects of the firm's operations.The garments manufacturing firm and the jewelry chain belong to this category. In both firms, the owners are also the managers and as such attend to production, sales, the hiring and firing of personnel, compensation, purchasing and accounting. In this stage, it may be said that all or nearly all managerial or supervisory personnel are members of the owner family.

Formal reports are financial in nature and are prepared for the purpose of monitoring performance of the business as a whole, not to measure managerial performance. Normally, business performance during the current year is compared with that of previous years; no formal target-setting process is undertaken in the business.The financial reports prepared consist of the Balance Sheet, Income Statement, Cash Position, Accounts Receivable Outstanding, Accounts Payable Outstanding, Inventory and Sales Report.

The strengths of the Stage I management system are the unity in the management structure and quick decision-making as well as the assured integrity of the use and safekeeping of company assets.The principal limitation of this form of management however, is that it constrains the growth of the business.The reliance on family members to perform managerial functions can limit company size. This was the case of the jewelry chain which opted not to open new branch stores in other good locations because there were no brothers or sisters to oversee such branch stores. The other firm in this group abandoned a diversification move to better focus the energies of the family members on the current business.

STAGE II. The firms are relatively bigger than in Stage I and are organized along more clearly defined functional hierarchies in this stage. The common management characteristics of firms in this category are: a) substantial delegation of operating level decisions to non-family member managers; b) setting of more formal targets for the firm as a whole and its subdivisions; and c) control through the selection of loyal and trusted key personnel.

Delegation of Operations Decisions

In the firms in this group, members of the owning family occupy only "sensitive" senior management positions such as finance and treasury, purchasing, sales, accounting and the presidency. Non-sensitive senior positions and most middle-level positions are occupied by hired managers formally trained for these positions, e.g., engineers, accountants, and other technicians. Among the senior management positions, the production management function is usually the first to be delegated to non-family managers.

Compared to Stage I firms, members of the owning family are not as visible to the rank and file workers in Stage II. More formal systems and procedures govern the conduct of operations in firms in the latter stage relative to the former.

Formal Performance Targets

Because substantive managerial functions are performed by personnel other than family members, formal performance targets for production, sales, and the firm's bottom line numbers are the rule in these firms. Formal performance reviews (actual versus targets) are conducted and often used as a basis for the award of employee bonuses. Strategic planning to decide the direction of the firm is also performed more formally. The reinvestment of earnings is a part of the culture of these firms; therefore, substantial funds for expansion or diversification are usually available.

Control Through Key People

Though the Chinese-Filipino managers in this study understand the importance of formal control systems, they also appreciate their limitations. Those interviewed in this group emphasized the importance of loyal and trustworthy employees. "Loyal employees are extensions of the employer's presence" is how Robert Kuan of Chowking Food Corporation, put it. In filling up responsible management positions, loyalty is considered as important as competence. In most companies in this group, persons referred by members of the family or relatives or children of long-serving employees are given priority in appointments to key positions.

The high value the firms place on loyalty is reflected in the special treatment of long-service employees. In one company now managed by third-generation members of the owning family, loyal and long-service employees hired by previous generations of the family are given the status of "near family"; upon retirement, they are accorded benefits akin to those granted to family members, *e.g.*, free housing, living allowance, and even free education for their children.

Seven of the ten firms in this study can be classified in this Stage II category namely: Greatwall Steel Fabricators, Inc., Superior Steel Corporation, Carlos C. Chan, Inc., JGS Group of Companies, Plainfolks Development Corporation, the French Baker, and Dragonworks Steel Coating Corporation. Another firm, a food company which fits the size category of this group, is not family-managed. In most respects, however, this latter firm shows the same characteristics in its management system as the seven other companies in this category.

The companies in this stage share many of the management strengths of the Stage I firms. Members of the owning family are actively involved in the business, albeit at a higher level; the essential identity between owner interest and agent (*i.e.*, manager) interest continues for

the most important management positions. Although firms in this category share common problems with Stage I firms, there also appears to be a different set of problems which pertain to this group.

As in Stage I firms, the management structure is highly centralized in positions occupied by family members. Despite the presence of hired managers for the operating level, some owner-managers remain overburdened by decision responsibilities. In cases where the family members active in management are few, one finds the family manager intervening in operating issues and having very wide spans of management control, as in the case of the JGS Group of Companies and the French Baker. The manager of a third company, Greatwall Steel Fabricators Inc., expressed this point succintly: "Our strength is that we have a lean management. Our weakness is that we have a shallow bench and systems overload."

A problem in many firms in this group is the possibility of conflict among family owners upon the death or retirement of the enterprise founder and the weakening of family ties (especially among third-generation owner managers). In the companies where many of the family owners are actively involved in management — Carlos C. Chan, Inc. and Greatwall Steel Fabricators, Inc. — various rules are devised to minimize the possibility of conflict and/or to resolve such conflicts when they occur. One rule is to limit appointment to managerial positions only to qualified members of the family, however that term may be defined by the families concerned. Another is the rule which excludes in-laws from occupying management positions and from participating in family meetings concerning the business. In one company run by third-generation members, the family has agreed to the designation of a permanent and mutually acceptable third-party person as the official and binding arbiter of family squabbles over individual interests in the business. See the case of Carlos C. Chan, Inc.

While most of the firms in this category remain focused on the original business of the family, three of the largest firms have diversified to other businesses. The modes of diversification are:

- Joint venture between the owners of the core business and others outside the family circle.

- Establishment of new businesses by selected family members which exclude others in the family.

To illustrate these modes of diversification, Superior Steel Corporation established Superior Land with "some" of the family members. In the case of Greatwall Steel Fabricators, Inc., the owners formed Terra Development Corporation (a real estate firm) with non-family members as managers. For these firms, the owners exercise control by screening projects and monitoring returns on investment (ROIs), net incomes, and the payback period. These initiatives are undertaken to provide a testing period or a transitory phase with new partners while maintaining an undiluted family ownership in the core business. Diversifying through joint ventures or the establishment of new businesses also limits the involvement of the family members in new businesses only to selected ones, minimizing transactions with family members whose relations with the core investors have been or are potentially conflict-ridden.

Most firms in this category are eyeing initial public offerings (IPOs) in the future. Because of this, the owners realize that they would need a more transparent form of business management and financial reporting; continued expansion of the business to meet the IPO size; consideration of requirements; and the recruitment of more professionals into the firm's management.

STAGE III. Although none of the ten Chinese-Filipino firms in this study fits this category completely, the third stage is presented because some of the subsidiaries and affiliates of the largest Stage II firms in the sample belong to this category. This stage also appears to represent a logical next stage in the evolution of management control in enterprises. Stage III is characterized by the relinquishing of owner control over the day-to-day management of the enterprise to a cadre of hired professional managers. A number of the subsidiaries and affiliates of Carlos C. Chan, Inc., and Greatwall Steel Fabricators, Inc. clearly exemplify this type. In the case of Plainfolks Development Corporation, which has 20 percent ownership in H.B. Fuller (Phils.) Inc. and 13.8 percent equity in Bonifacio Land Corporation, the absence of family involvement in the management of these affiliates appears to be partly a result of their minority interests in these firms.

In the case of Carlos C. Chan, Inc., the decision to put the management of these companies in the hands of professional managers was influenced by the presence of multiple ownership interests in the firm. But even in companies where family members have the majority interest, the hiring of professionals for top management positions is also dictated by the problem of finding family members with the relevant expertise in these non-traditional lines of businesses, as well as by the desire to simplify the owner-agent relationship. Richard Chan of the Carlos C. Chan, Inc. explains that hired managers are more easily held accountable for performance than family members. And where performance is unsatisfactory, hired managers can be replaced more easily than relatives.

As previously explained, the Stage III style of management is in evidence only in some of the non-core businesses of the large firms in this study. For the core family business, the Chinese-Filipino managers continue to believe in the need for active family management of the business. The largest firm in the sample, with total assests of 5.4 billion pesos in 1994, is still managed in the Stage II mode. Plainfolks

Development Corporation is managed by an Executive Committee composed of the founder, his wife, two sons and a daughter, and another one who is not a member of the family.

In the case of Shoemart, the largest in the shopping mall business, an article in a daily newspaper reports that "the family has not yet decided whether to eventually relinquish [managerial] control. As of now, [they] do not have any such intentions." The Sy children are all involved in the business: Henry, Jr. is in-charge of property development; Hans, of shopping centers; Herbert, of supermarkets and car accessories; and Harley, of General Merchandising.[2]

[2]*Philippine Daily Inquirer*, Business Section, April 11, 1996.

Annex A

SUMMARY OF RESPONSES ON THE VARIOUS ASPECTS OF CONTROL
OF RESPONDENTS CATEGORIZED* AS LARGE

ASPECTS OF CONTROL	Carlos C. Chan	Greatwall Steel Fabricators, Inc.	Plainfolks Development Corporation	Chowking Food Corporation	Superior Steel Corporation	Dragonworks
A. Protection of Enterprise Resources						
Internal Control						
a. Cash, AR & Inventory (undertaken by whom?)	Staff	Owner and Staff	Staff	Staff	Staff	Staff
b. Check signing	Owner	Owner	Owner & Staff	Owner	Family member	Owner
B. Monitoring Performance						
Report Preparation (frequency and by whom?)						
a. Balance Sheet and Income Statement	Monthly/Non-family member	Monthly/Sister	Monthly/Non-family member	Monthly/Non-family member	Semi-annual/Family member	Monthly/Non-family member
b. Cash Position	Daily/Non-family member	Daily/Non-family member	Weekly/Non-family member	Weekly/Non-family member	Daily/Family member	Daily/Non-family member
c. Other Reports	Monthly/Non-family member	Monthly/Non-family member	Monthly/Non-family member	Monthly/Non-family member	Monthly/Family member	Weekly/Non-family member
Performance						
a. How Monitored?	Formal written reports Direct supervision Observation of results Trusted persons	Direct supervision Observation of results	Formal written reports Direct supervision Observation of results Trusted persons	Reports, Direct supervision Observation of results	Formal written reports Direct supervision Observation of results Trusted persons	Observation of results
b. Frequency	Semi-annually	Semi-annually	Semi-annually	Quarterly	Semi-annually	Annually
C. Planning & Target Setting						
Reason for Going into that Kind of Business	No particular reason	Experience in the business	no reply	no reply	Related to previous business	Knowledge of business
Changes in Business Character (Who decide)	Top management	Collectively-all key managers Top management	Collectively-all key managers Top management	Owner	Family members	Owner

*This tabulation is based on the questionnaire responses which in some cases are not entirely consistent with the interview data.
AR - accounts receivable

Annex A (continued)

ASPECTS OF CONTROL	Carlos C. Chan	Greatwall Steel Fabricators, Inc.	Plainfolks Development Corporation	Chowking Food Corporation	Superior Steel Corporation	Dragonworks
Long-range Planning						
a. In years	three	five	three	five	five	more than five
b. Who initiates/is involved?	Top group	Top group	Formal department	no reply	Family members	Owner/Key managers
Formal Target Setting (Who undertakes?)						
a. Sales Target	Top management	Top management	Formal department	no reply	None	Top management
b. Cost Target	Top management	Top management	Formal department	no reply	None	None
c. Profit Target	Top management	Top management	All divisions	no reply	None	Top management
d. ROI Target	Top management	Top management	Top management	no reply	None	Top management
Choosing Key Managers						
Considerations in the appointment of key managers	Performance Experience	Performance Experience	Performance Experience Education	Performance Experience Education	Performance Experience Family member	Performance
Decision to Hire (Relation to owners):						
a. Top	Owner	Owner	Family member	Owner	Owner	Owner
b. Middle	Owner	Owner review	Family member	Formal department	Family member	Formal department
c. Lower	Managers	Owner review	Family member	Formal department	Family member	Formal department
Desired Qualities of Managers						
a. Top	Experience/education honesty/loyalty	Competence character	Education/integrity loyalty	Management skills/ leadership	Family member/ honesty, industrious	Experience/honesty
b. Middle	Experience/education honesty/loyalty	Experience/education honesty/loyalty	Experience/education honesty/loyalty	Management skills/ impartial & systematic	Management skills/ impartial & systematic	Drive & honesty
c. Lower	Experience Honesty/loyalty	Experience Honesty/loyalty	Experience Honesty/loyalty	Management skills/ people-oriented	Management skills/ impartial & systematic	Drive & honesty
Referrals?	Yes Past employer	Yes Past employer	Yes Past employer	Yes Past employer	Yes Past employer	No
Key Positions Occupied by Family Members	Top management only	All key positions	Almost all key positions	None	Top & managerial position	Almost all

Annex A (continued)

ASPECTS OF CONTROL	Carlos C. Chan	Greatwall Steel Fabricators, Inc.	Plainfolks Development Corporation	Chowking Food Corporation	Superior Steel Corporation	Dragonworks
E. Motivating Managers						
Compensation Rates for Key Managers (who decide and degree of relationship with owners?)	HRD-No relation	BOD/Part owner Top/Part owner	Family members	Owner	Owner & family members	Based on policy to achieve Overall balance
Bases for the Grant of Bonuses	Performance of employee, Length of service, Performance of the business	Performance of employee Performance of the business	Performance of employee Length of service, Performance of the business	Performance of employee Length of service, Performance of the business	Performance of employee Length of service, Performance of the business	Performance of employee
Firing Key Managers (Who decide)	Top-Owner Below - HRD	Top-All levels	Family members	Owner	Owner/Family member	No reply
F. Approach to Overall Control						
Adequacy of Present Control System in case of Expansion	No Personnel & Equipment expansion	No Delegation	Yes	No reply	Yes	No Reorganization
Approach to Overall Control	Good system, Loyal employees	Good system Loyal employees	Good system Loyal employees	Good system Loyal employees	Good system Personnel surveillance Loyal employees Putting family members in charge	Good system Loyal employees

HRD - human resource development
BOD - Board of Directors

Annex B

SUMMARY OF RESPONSES
ON THE VARIOUS ASPECTS OF CONTROL OF RESPONDENTS*
CATEGORIZED AS MEDIUM- AND SMALL-SIZED

ASPECTS OF CONTROL	MEDIUM SIZE RESPONDENTS		SMALL SIZE RESPONDENTS		
	French Baker	JGS Group	Christie	New Horizon Industries	Fecundity
A. Protection of Enterprise Resources					
Internal Control					
a. Cash, AR & Inventory (undertaken by whom?)	Staff	Staff	Family member	Family member	Family member
b. Check Signing	Owner	Family member	Family member	Family member	Owner
B. Monitoring Performance					
Report Preparation (frequency and by whom?)					
a. B/S & I/S	Yearly/Non-family member	Monthly/Non-family member	Annual/Family member	Quarterly/Family member	Annual/Non-family member
b. Cash Position	Monthly/Non-family member	Daily/Non-family member	Not done	Monthly/Family member	Monthly/Family member
c. Other Reports	Monthly/Non-family member	Monthly/Non-family member	Annual/Family member	Monthly/Family member	Weekly/Family member
Performance					
a. How Monitored?	Formal written reports Direct supervision Observation of results Trusted persons	Direct supervision, Observation of results	Reports, Supervision	Supervision, Observation of results, Trusted persons	Direct supervision, Observation of results, Trusted persons
b. Frequency	Monthly, Quarterly, Semi-annually, Annually	Monthly	Monthly	Annually	Monthly
C. Planning & Target Setting					
Reason for going into that kind of business	Related to previous business	Backward integration**	Presence of skills & craft	Related to parents' business	Search process
Changes in Business Character (Who decide)	Owner	Owner	Owner	Family members	Owner

* This tabulation is based on the questionnaire responses which in some cases are not entirely consistent with interview data.
† Backward integration refers to the acquisition by a firm of ownership or control of facilities that provide raw materials or parts for products that the firm produces or sells (The Random House Handbook of Business Terms, 1988 Random House, New York.)
AR - accounts receivable
B/S - balance sheet
I/S - income statement

Annex B (continued)

ASPECTS OF CONTROL	MEDIUM-SIZED RESPONDENTS French Baker	JGS Group	Christie	SMALL-SIZED RESPONDENTS New Horizon Industries	Fecundity
Long-range Planning					
a. In years	three	five	three	None	five
b. Who initiates/is involved	Owner/Key managers	Owner/Key managers	Family members	NA	Family members
Formal Target Setting (Who undertakes?)					
a. Sales Target	Owner	Owner	Top management	Family members	Owner
b. Cost Target	Formal department	None	None	None	Owner
c. Profit Target	Owner	None	None	None	Owner
d. ROI Target	Owner	None	None	None	Owner
D. Choosing Key Managers					
Considerations in the Appointment of key Managers	Performance, Experience Education	Performance Family member & family friend	Family member	Family member	Performance Education
Decision to Hire (relation to owners):					
a. Top	Owner	Owner	Family member	Family member	Owner
b. Middle	Formal department	Owner	Family member	Family member	Owner
c. Lower	Formal department	Owner	Family member	Family member	Owner
Desired Qualities of Managers					
a. Top	Drive & attitude	Leadership/loyalty	No reply	NA	No reply
b. Middle	Drive & honesty	Drive & honesty	No reply	NA	No reply
c. Lower	Drive & honesty	Drive & honesty	No reply	NA	No reply
Referrals?	No Owner	Yes Acquaintances	No	NA	No
Key Positions Occupied by Family Members	Top & managerial position & purchasing	Top management/ manager	All	Almost all	All high levels

NA - not available

Annex B (continued)

ASPECTS OF CONTROL	MEDIUM SIZE RESPONDENTS		SMALL SIZE RESPONDENTS		
	French Baker	JGS Group	Christie	New Horizon Industries	Fecundity
E. Motivating Managers					
Compensation Rates for Key Managers (who decide and degree of relationship with owners?)	Owner	Owner/Family member	Owner/Family member	Family member	Owner
Bases for the Grant of Bonuses	Performance of employee Performance of the business	Performance of employee Length of service Performance of the business	Performance of employee Performance of the business	Performance of employee Length of service	Performance of employee Length of service Performance of the business
Firing Key Managers (Who decide)	Owner	Owner	Family member	Family member	Owner
F. Approach to Overall Control					
Adequacy of Present Control System in Case of Expansion	No More operating controls	No Decentralization	Yes	Yes	Yes
Approach to Overall Control	Good system surveillance Loyal employees	Good system Personnel surveillance Loyal employees Putting family members in charge	Good system Personnel surveillance Loyal employees Putting family members in charge	Good system Surveillance Honest employees	Good system Personnel surveillance Loyal employees Putting family members in charge

PART II

CASE STUDIES OF THE ENTERPRISES

CARLOS C. CHAN, INC.

"Good fortune always smiles upon a good name."

Carlos C. Chan, Inc., is a holding company established by Carlos C. Chan in 1930. Today, it has diversified investments in real estate, insurance, construction, manufacturing, trading and financial services. It earns revenues of at least 500 million pesos annually; along with its affiliates, it employs more than 25,000 people.

The Founder: Influential Chinese-Filipino Leader

In 1901, the thirteen-year old orphan Carlos C. Chan sailed from the town of Chuan Chiu, South Fujian, China toward Manila. Years later, before Chan had turned 30, he had established Carlos C. Chan, Inc. The immigrant Chan was appointed Outstanding Commissioner of Fujian Province by the Chinese Nationalist Government in Nanking. Chan had become the president of the Chinese General Chamber of Commerce in the Philippines. He had become so powerful a figure that no less than the Philippine President Manuel L. Quezon approached him for the support of the Chinese community. Through Chan's initiatives, the *Fookien Times*, a daily newspaper for the local overseas Chinese community in the Philippines, was published and became a fulcrum for worthy causes.

Chan's first enterprise was lumber manufacturing. Under his management, his lumber company enjoyed the lion's share of the market and dominated the industry. He frequently traveled abroad to negotiate export deals for the business.

The excess profits earned from the lumber business were reinvested in banking when Chan was in his early thirties. The family-owned commercial bank was formed in 1920. As of March 1996, it ranked

number 12 out of 46 in Philippine commercial banks in terms of total assets which amounted then to 39.5 billion pesos. At its May 2, 1996 annual meeting, the stockholders approved the bank's diversification into investment banking, insurance, brokerage and real estate/property management. It also plans to increase its branches from 92 to 350 by the year 2000.

The holding company made investment decisions for the family and managed the businesses that Chan established. At the time of his death, Carlos C. Chan, Inc. managed the holdings of the family in the lumber and banking firms.

The Second Generation

Chan passed on the management of the holding company to his six sons. (Initially, the first three sons took over the management of the Carlos C. Chan businesses.) Educated in exclusive schools in the Philippines, the Chan "boys" were all expected to work for the family business; the family followed "the seniority rule." Older brothers dictated to younger brothers; younger brothers obeyed.

Carlos C. Chan's children did not give much importance to formal financial control reports. They did not favor admitting as business partners non-family members. One reason given is the necessity for formal financial reports required by other partners; another is the belief that control would be diluted. Only about twenty years after Chan's death did the children establish other businesses with non-family members as partners.

The second generation invested together in all their business ventures through the holding company or through individual family members who represented the family in the business ventures. More important the Chan family believed in reinvesting earnings. Only one member of the second generation asked for her share of the family fortune forty years after Chan's death for the sole reason of her migration. Chan's

children diversified into insurance, construction, manufacturing, services, trading and financial services (see Exhibit A).

The Third Generation

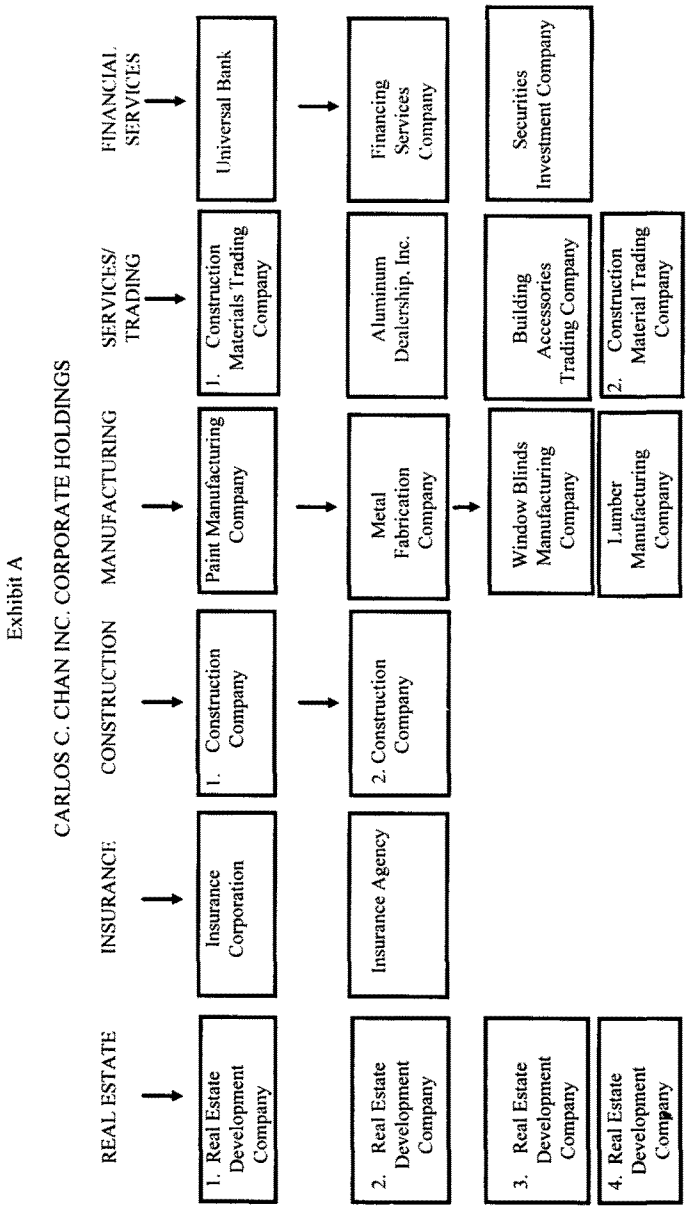
The seven families of Carlos C. Chan's children are all represented in the various businesses of Carlos C. Chan, Inc.

While Chan's children invested and worked together through the holding company, the grandchildren established their own businesses outside the original family circle. The third-generation Chans have increased to about forty with only seven or eight males remaining active in the management of the family businesses. (Four other third generation male cousins are not connected with the Chan businesses.)

The size of the family has made it increasingly difficult to resolve issues. At present, a go-between or middleman acceptable to all parties involved is asked to mediate in conflict situations. The middleman chosen is usually not a relative and has a reputable professional career separate from the Chan family businesses. The decision of the middleman, who is almost always on call by the family in crucial moments, is respected by all parties. According to one family member, this practice has been beneficial as it has enabled the parties involved to avoid direct confrontation. For example, when a member of the family intended to sell his bank's shares to an outsider, the middleman was requested to reach out to the selling party to enjoin him to abide by the family rule to first offer his shares to other members of the family before offering these to outsiders.

Many of the third generation Chans were educated abroad. Some even worked abroad to gain experience prior to joining the family business. The executive vice president, Richard Chan (grandson of Carlos Chan), said that specifically the "Chinese" trait in the third-generation Chans

Exhibit A
Carlos C. Chan Inc. Corporate holdings



is manifested in their desire to be educated and their values for hard work. In Richard Chan's case, he was sent by his parents to study abroad against his will because he was already comfortably adjusted in a local university.

Like many Chinese, the Chans believe they should be simple in their ways and avoid unnecessary expenditures. Richard claims that the holding company moved to its Ortigas office from Tondo only two years ago and only because of the need to escape from the worsening traffic situation in Metro Manila.

While the second generation Chans pride themselves in being united in their business ventures, the members of the third generation are more inclined to undertake their own ventures with a smaller group consisting exclusively of brothers and sisters. Understandably, this generation is against the dispersal of family resources.

Attitudes Toward Sharing Management with Professionals

Richard Chan strongly believes in hiring competent professional managers for key management positions even if previous generations see them as the preserve of family members. His reasons involve both the imperatives of size and growth, and the usefulness of third parties as a buffer between family members:

> *There are so many of us now. I can work with most of my cousins but some of my other cousins may turn out to be lemons; they may squander family money or do other things prejudicial to the family's interests. That is why we hire outsiders even for such positions as sensitive as company controllers. In this way, if problems are uncovered in the dealings of any one of my cousins, it will come from a third party — not from me or my other cousins.*

I believe in hiring professional managers. It is so much easier to deal with them at arm's length. If they do well, they are rewarded. If they don't meet the target, I talk to them. But at the end of the day, if they continue not to deliver the results we agreed on, I can replace them by hiring new ones. Look at Henry Sy and John Gokongwei. They hire good professionals. That is why they have gotten as big as they are.

Attitudes Toward Sharing Ownership with Non-Family Members

I have no problem about outside investors in my businesses. The government of Singapore has an eight percent interest in the canning venture and so does another Philippine corporation with stockholders outside the family circle. My parents' generation did not accept outside investors until the sixties (i.e., twenty years after the first-generation founder of the business died). It is not because of lack of formal education or exposure to business practice in other countries. Like me, they studied abroad and worked for American companies. It's more a case of — yes — filial piety. Kung anong sinabi ng Ama nila-yoon na'yun.[1]

But traditional Chinese family values must adapt to the times. Look at me. I am married to a Filipino. My elder sister is married to a Filipino. My brother too. We are being assimilated. It is the same with our Chinese values. But the old values of education, family, work discipline ... and yes, frugality — still have their place although I notice that many Chinese-Filipinos today are not frugal anymore.

[1] The word of their father was law.

I am open to doing an initial public offering (IPO) when the business is ready. That's the way to raise money for growth. Many Chinese-Filipinos are thinking about that. But I think they're still unsure they can live with the transparency required.

The Tensions and Strains on Family Values

Yes, the holding company is the vehicle to provide support for members of the family. But personally, I'm against this. I believe there should be a limit. We are supporting relatives in China whom I have met only once in my life. How far will the obligation extend? Should we also support their children or their children's children? We provide support to two of my aunts — who aren't in need of it... Is it fair for those of us who continue to work for the family to be burdened by the obligation to support all members of the family who choose not to work?

My uncle tells me to go to China and do something with our properties there. I said he should be the one to do it because they know him — 'oh, he's the son of so and so'— whereas nobody knows me there. and I have a problem speaking the dialect. He said let's ask them (relatives) to vacate the house so we can rebuild and rent it out. I told him that there are seven families there and we'll have to give more support if they leave the house. I'm not really that interested in developing that property. That's not really ours anyway, what we have there is only a lease from the government....

I have my own businesses. Only cousins whom I can work with and are interested in joining me are investors

in the business. Our understanding is the same. I run the business, I give them periodic reports, they attend our meetings pero pag nagbitaw na ako ng salita[2] *and I say 'we're going to do this', my position should hold*

Control Through People

In all three generations only family members composed the top management team. In-laws were excluded and women were assigned minor roles and staff positions such as treasury functions.

In many cases, a family representative is informally authorized by family members to transact business in behalf of the family. The representative is normally entrusted with family funds. For example, if Richard invests 100 million pesos in a property business in his name, he could be investing family funds.

The corporate holdings of the Chan family have grown; today, the affiliates employ more than 25,000 people. Furthermore, partners outside the family circle including multinational firms have joined some of the corporations established by the family. Now, financial reports are more formally and regularly prepared.

Control is still exercised mainly through the proper selection of personnel. In hiring personnel, character (trustworthiness, loyalty and honesty) and character references are given more weight if the person is not personally known to the owners. While nepotism is negatively viewed by Western managers, the Chans (all three generations) prefer to hire the children of their employees because they serve as the eyes and ears of management. They are also normally assigned to relatively sensitive positions such as cashiering. The Chan family is paternalistic.

[2] When I make a decision.

To date, the corporations are still providing financial support to employees previously hired by the second-generation who are now in retirement. Employees remain loyal to the Chan corporations.

The best ways to protect the business from losses, according to a family member, are: good systems and procedures, loyal employees and personal control.

Control Reports

At present, control reports prepared by the company include monthly financial statements (balance sheets and income statements), monthly reports on accounts receivable and accounts payable, monthly reports on securities (investments), monthly rental reports, daily cash position reports and quarterly inventory reports. These control reports are now prepared by a professional staff composed of non-family members. Control of assets such as cash collections, inventories and receivables are now delegated to the professional staff. But check signing is still performed by a family member, the executive vice-president. Richard asserts that if the company were to double in size, present management resources would not be adequate.

Strategic Planning

The planning horizon of the holding company is three years. Long-range planning is undertaken by the president, the executive vice-president (EVP), the directors and the controller. (Only the controller is not a family member.) Formal targets for sales, costs, profits and return on investment (ROI) are formulated. The EVP, who is also the chief operating officer (COO) is responsible for meeting the targets. The EVP also makes decisions on new business ventures, business expansion and divestments. Monthly meetings of the family are held to discuss, evaluate or inform other family members of business activities or transactions.

Performance Measurement

The performance of company personnel is measured through formal written reports, direct supervision, observation of results, and evaluation by family or trusted employees. Performance is measured semi-annually. Bonuses or other incentive packages to employees and managers are awarded on the basis of business performance, length of service/loyalty and performance on the job.

CHOWKING FOOD CORPORATION

"There is great power in a carriage pulled by many horses running in the same direction."

Chowking Food Corporation was incorporated on February 19, 1985 with Robert Kuan, Wilson Chu, and Tony Tancaktiong as principal investors. Positioned as a general Chinese restaurant offering an alternative to Western fastfood fare, the restaurant adopted a different posture: a distinct cook-upon-order policy.[1] In 1995, Chowking hit one billion pesos in gross sales. The company projects a modest 20 percent annual growth beginning 1996 and a network of 200 stores by the year 2000. Its plans include foreign expansion in 1996 and an initial public offering (IPO) to raise capital in 1997.

Profile of a Business Achiever and His Family

Robert Kuan has recently been cited by a leading newspaper as one of the Twelve Business Achievers of the Decade in the Philippines.[2] He believes that the key factors for success are the same for everyone, be they Filipino or Chinese. He posits that if the percentage of successful Filipinos is computed for all 65 million Filipinos, Chinese-Filipinos among successful entrepreneurs may be proportionately fewer than their Filipino counterparts. When directly asked about the qualities of Chinese-Filipinos, Robert Kuan acknowledged that this was a "minority group" known for its thriftiness, commitment and hard work.

Robert Kuan's own career has followed his personal philosophy: the present should be sacrificed for the future. Believing that character is basic, he adheres to a Chinese saying, translated roughly as "Straighten

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[1] Tess Dumana, "Looking Back, Looking Forward," *Looking Up: Chowking Food Corporation, 10th Year 1995*. p. 2.

[2] *The Philippine Star*, July 28, 1996. p. 77.

out yourself first and everything else will follow. It is only when you manage the family well that you can rule the country and bring peace to the world." When asked directly about Confucian hierarchy in relationships, even within families, Robert Kuan admitted that Chinese culture, history and ethics do emphasize respect for elders, particularly parents, and that it is Chinese rules — not Western ones — on relationships which govern him. But contrary to Chinese belief and practice that all key positions must be held by family members, **there is not a single relative in Chowking**. All his employees are Filipinos; his general manager, who enjoys his complete trust and confidence, is a Filipino.

Robert Kuan's mother, who is still with Ling Nam on Alonso St., regularly sends food to his family so that her grandchildren can continue to enjoy Ling Nam food. Robert is the eldest of four children — one brother in the Philippines and two sisters living abroad: one is a medical doctor in the United States and the other in Hong Kong as a dentist's wife.

The successful Chinese-Filipino is personified by Robert Kuan. Strict discipline was the rule of a "self-sacrificing" father who used to say that "having gone through the life of a carabao [which in the Philippines signifies hard work], he did not want his children to suffer the same life of hardship that he did." For a man who knew the value of money, his father generously provided for his children's education, including travel, which he believed also provided a wealth of knowledge.

Robert Kuan enjoyed the best state education in the country and lived in a student dormitory on campus. Although originally enrolled in industrial engineering at the University of the Philippines in Diliman, Robert graduated from the College of Business Administration, major in General Management in 1970. He had chosen electives at the business school, where he found people to be "more friendly and humane" compared to the "very scientific" and "very theoretical" engineering students. He declares that he received a good foundation in business management from the College.

Robert's own children are being educated at Hope Christian School, the same school which he himself attended. Although he actively supports Brent International School and Holy Trinity College, he does not see school as the most important factor in the development of individuals. Ultimately, the success of his children will depend on their own characters. Unless they are qualified and interested, his children cannot and will not be forced to work in the Chowking business. Certainly, his two older sons who have not shown interest are not being forced; on the other hand, the youngest one — even at three years old — wants to be like Daddy and orders food from Chowking to eat at home.

The Early Years of Robert Kuan's Career

After graduation, Robert Kuan's priority was "to learn how to be successful," to answer the question, "what accounts for success?" Following the Chinese maxim, "Everything from a successful person is wisdom," he looked for models. Robert was recommended by his uncle (a close friend of Henry Ng) to train in Makati Supermarket for a planned supermarket in Singapore. The first model was his first boss — Henry Ng of Makati Supermarket fame. To Henry Ng, success went hand in hand with hard work. So he worked long hours seven days a week — and was a slavedriver. Henry Ng's basic principles for successful retail business were key to Robert Kuan's career: the importance of customer relations and the even greater importance of the handling of customers by employees.

His two years in Makati Supermarket enabled Robert to learn all the different areas in the supermarket business. His first assignment as a warehouse checker receiving supply deliveries in the backroom taught him how it was to be an ordinary worker. He mixed and got along so well with laborers, he felt just like one of them. This was a valuable lesson in handling employees and gaining their loyalty. Mere physical presence of superiors is a deterrent to dishonesty; loyal employees are extensions of the employers' presence.

After exactly one month, he was assigned to stock withdrawal from the warehouse to the sales floor. After another month, to merchandising; after still another month, to the audit department where he learned new systems for tightening control.

Another influence in Robert Kuan's development was quite the opposite of Henry Ng: John Ng, a snobbish well-dressed Americanized public relations and marketing type hired by the Yulos, the major owners of Makati Supermarket. Earning the same salary as Henry, John worked short hours. Although his negotiation skills were most evident with suppliers, he was most valuable at his post with the "frontliners" — the cashiers and the security guards. He "made it a point to boost the ego of security guards" — a basic lesson in customer relations which Robert applied to Chowking.

Robert learned the production side of the business when he was assigned to a Makati Supermarket subsidiary, Unibake (using the brand name Golden Grain Bread). Unibake won a contract from the United States Agency for International Development (USAID) to produce nutribuns for schoolchildren but it evolved into so huge a concern it got weighed down with numerous problems.

Since supermarket items were high-turnover products, the profits came from cash sales flow earning interest during the credit period granted by suppliers. Robert also learned retail management principles such as negotiating lower prices from suppliers, effective mark-up, and the movement of merchandise items.

In 1972, Rober Kuan's father deposited 20,000 pesos in the bank for Robert. At the same time he gave his son this piece of advice: in the bank, interest was all that could be earned by the money. Invested in Robert's education, "the money would multiply in the way that money in the bank could not; therefore, far greater interest would be earned." By the end of 1972, Robert took the entrance exam and enrolled for

a Masters in Business Management (MBM) degree at the Asian Institute of Management (AIM) in 1973.

His first year at AIM was probably the darkest in his life. During the first semester, his father was stricken with lung cancer and was given six months to live. Robert fought the disease through cobalt treatment on his father, but did not succeed. His father passed away that same year. In spite of all the pain and the pressure, Robert focused on his studies as it was his father's wish that he finish his course.

In 1974, under the guidance of Dean Gavino Mendoza, he wrote his master's thesis on the expansion of Ling Nam. A ten-year career plan was also a requirement in a Business Policy course. Another valuable exercise was a shorter career plan; they were instructed "to forget about their English," to be completely honest, and to consider their education, their background, their character. It was his AIM Triple A Award (Alumni Achievement Award) that he tried to live up to during his crisis with Ling Nam.

Upon graduation in 1975, "for courtesy's sake," Robert offered his services once more to Henry Ng. In May 1975, he joined Ever Gotesco (an early prototype of the big supermarket) as assistant manager. But Robert could not ignore the Chinese dictum that "the present should be sacrificed for the future." Thus, in December of the same year, he began to work for the family business, accepting a monthly allowance of 500 pesos from Ling Nam.

Ling Nam

Ling Nam in Alonso was established in 1950 by Robert Kuan's father and seven other partners. In 1976, Robert Kuan formed Ling Nam Enterprises, Inc. As chairman of the board and president of Ling Nam, he worked twelve hours a day. During this period, he was able to open five Ling Nam branches.

But, dividends were paid to family members, which Robert believes bled the company of available cash resources for continuous expansion. Also, "work value" was neither reflected in nor related to dividends. There were no set policies; the stockholders were all owners who had no regular work hours. The organization was hounded by jealousies.

By 1983, the 36-year-old Robert Kuan learned that a board meeting to remove him as chief executive officer was being convened. He immediately consulted Henry Sy who advised him to resign before the scheduled meeting. The fighting and the negative environment at Ling Nam would wear him out; he would lose his drive by the time he reached 40. Robert could leave Ling Nam at its height; moreover, since he was the moving force behind Ling Nam, he could replicate its success. He called upon another old Chinese adage: "Never mind the pain; get out of a complex problem; start again, and start clean."

Chowking: Strength in People

In 1985, the Philippine economy was at its lowest, but Robert Kuan welcomed the challenge. He embarked on his own business using a totally new and different concept: a clean and modern Oriental fastfood chain. If there can be a McDonald's and a Jollibee for hamburgers, why not a fastfood chain for Chinese food? He hired an interior designer to create the proper ambiance for this Chinese fastfood chain. He paid an advertising agency to go on a name search that did not sound anything like Ling Nam. Deliberately veering away from the known products of Ling Nam such as noodles and soup and instead using the special recipes learned from his father, Robert focused on viands eaten with fried rice such as spare ribs *tausi* and steamed chicken with Chinese *chorizo*.

The capital for Chowking was raised by Robert Kuan, Tony Tan and Wilson Chu in three equal shares. Two years later, Tony Tan and Robert Kuan bought out Wilson Chu, so that Tony Tan and Robert Kuan now own 50 percent each of the company.

Robert's younger brother was a minority shareholder uninvolved in the management of Chowking. Robert encouraged him and helped him set up his own business in *siopao* and *congee*. Since the cost of running a commissary was the same regardless of whether 1,000 or 100 *siopaos* were sold, Robert suggested that his brother engage in a business which did not require capital — selling *siopaos* to other small restaurants. When Burger King, the sidewalk hamburger stand, became successful, Robert again suggested that his brother set up a Chinese food sidewalk stand. Thus was born the Joe Kuan sidewalk stands. This was how Robert kept himself and his brother successfully independent of each other. Although second-generation people usually do not introduce changes, Robert (who creatively disproves traditional beliefs) declares that business must be realigned to present market trends. His motto "Get down to basics" has unfailingly worked for him.

To explain why he did not meet many problems early on, Robert Kuan referred to the Chinese adage, "There is great power in a carriage pulled by many horses running in the same direction." Without the constraints that he suffered in Ling Nam, he was able to open 40 Chowking outlets in eight years. Now, on its eleventh year, there are 110 Chowking stores in operation.

Chowking has 12 managers and 3,000 employees, including a middle management group. "Its structure is not really corporate but based on people." Loyal employees as well as good systems and procedures are valuable in business. The general manager, Corazon Razon, is a most loyal and competent employee who thinks, speaks and writes exactly as Robert does. Even after eleven years, there is no labor union. The culture of the organization that Robert Kuan is cultivating is one of *pagmamalasakit* or solicitude and genuine concern. He exhorts his employees: "Manage yourselves as persons. Find out what God has given you; use this God-given gift, and God will continue to bless you even more." He admonishes his employees not to envy the smart and the intelligent persons who work with or under them. The promotion of

managers will be facilitated if there are qualified employees to fill in the positions which the promoted managers will vacate.

Believing in his employees' potential for growth, Robert prefers his own people to move from the bottom to the top. His experience with an executive search agency for top professionals was instructive: the professionals hired were a negative demoralizing influence; they simply learned the trade, after which they formed their own company producing ready-mix sauce. Now, with promotion, good pay, responsibility and authority as incentives, he has challenged even those without Masters' in Business Administration (MBAs) to perform well. Initiative and willingness to learn from the organization is recognized as extremely meritorious.

The strength of Chowking therefore lies in its people. Without them, it would not have been as successful as it is. Robert talks regularly with his employees in groups or in one-on-one conversations. He calls each of them by name. He frequently walks to the backrooms where he can chat with the janitors. When a child's school honors are proudly reported by a parent, Robert pulls out a 500 peso bill for the child's treat. This simple and personal involvement with employees may account for Robert Kuan's charisma.

Ancella, an outside human resource consultancy agency, was commissioned to propose an organizational model of positions for Chowking. The consultants determined the organizational support needed between now and the year 2000 — from general manager to operations personnel — in light of the company's vision. They identified the positions, characteristics, and qualifications of various department heads; determined from interviews the necessary skills to perform these functions; examined further the skills needed for excellent performance: and matched present skills to particular positions toward maximizing results. Courses were recommended to improve the skills of the current staff and qualify them for their positions. In this way, even lower-rank employees will have the opportunity to rise in the organization. This is an expensive

undertaking: Every training project would cost from 250 to 300 thousand pesos. But it is an investment for the future that Robert Kuan considers well worth it. For one, the amount would be equivalent to the executive search agency fee. There is also the adjustment and possible difficulties the new executive from the outside with a different professional culture would have to undergo.

Franchising, which enables Chowking to expand ownership, is still another major strength. After all, the franchisee is an extension of the owner. There is no problem with this arrangement because it is a win-win situation: franchisees are committed and perform accordingly. If a franchisee's attitude turns out to be too oriented to bottomline profits, his contract can be terminated. Robert Kuan invokes *Tao* management principles: as in tennis, when you focus on the scoreboard rather than on the ball, you cannot hit the ball; the same is true for profits.

When asked about the weakness of the company, Robert Kuan thought long and hard. His honest reply was that he could think of nothing that might be considered a weakness. There is no labor union. He believes the organization can run without him. He concludes: "I don't know. Somebody will have to tell me."

The Present Control System

Operations Control

Strict operations control are in place in the corporation. All officers are not related to the owner/top management.

On a monthly basis: the balance sheet, income statement and outstanding accounts receivable reports are prepared by the accounting supervisor; the inventory report by the inventory staff; and the outstanding accounts payable report by the accounts payable staff. The finance services assistant prepares the cash position weekly while the Office Accounting

Staff does the sales report daily. All division heads are not related to the owner/top management.

The president is solely responsible for signing checks — a duty which he will eventually relinquish to the right people. The cashier is in charge of the cash receipts/collection; the accounts payable staff, check voucher preparation; warehouse supervisor, inventory control; and the billing supervisor, collection of accounts receivables.

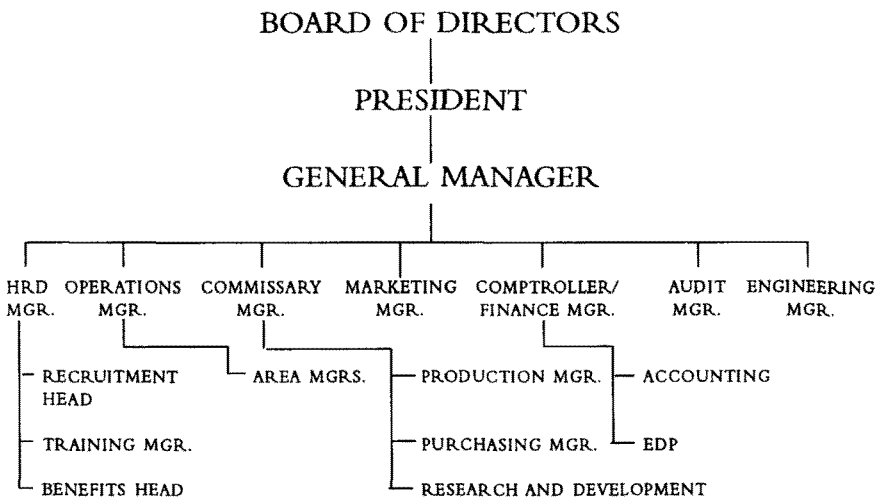
Every month, financial statements from all stores are reviewed. Stores cannot differ too radically from the 72 percent system-wide average for food cost. Once a particular store exceeds the system-wide average, company auditors check their inventory and attempt to find the causes. Pilferage is one problem which will be addressed through stricter control measures such as closer monitoring. Failure to follow procedures is another problem being corrected by regular orientation in particular procedures and values.

Return on equity compared to the previous year and return on net asset are reviewed monthly.

The review of monthly office expenses over system-wide sales is effective, particularly as more stores are opened. Robert emphasized that the percentage of monthly office expense should decrease through the years. He noted how big businesses in the United States are killed by monthly office expenses, which are increasing, even as sales are not. Contrary to the preference of department heads to expand at the expense of management resources, he believes that being big will not necessarily redound to greater efficiency. After all, monthly office expenses which do not grow as fast as sales are equivalent to profits. The critical ratio of these expenses to system-wide sales, which indicates efficiency, is carefully monitored by Robert Kuan and Tony Tan because its maintainance at an optimal level can be the company's competitive advantage.

Management control structures are in place. Cost centers, profit centers and responsibility centers are reviewed constantly.

Chowking is organized into several divisions headed by a corps of managers: Human Resource Development, Operations, Commissary, Marketing, Comptroller/Finance, Audit and Engineering.



Planning and Investment Decisions

The corporation has a five-year long-range plan.

Target-setting is fully participative. Explaining the difference between targets and projections (estimated sales), Robert Kuan pointed out that special rewards were given for hitting sales targets. Targets and projections are prepared by operations people: the area manager who is responsible for several stores discusses these with store managers. The mid-year review analyzes performance for the first six months and sets the target for the following six months. By September and October, additional action plans are in place; targets and budgets for the following year are also reviewed.

The President sets the ultimate directions: he decides on new business ventures, the expansion of business, or divestment from current businesses. Heeding the advice long given him, "Stay focused," Robert will not diversify: "To diversify is to dilute your energies." As a company does not double overnight, the system will develop and expand correspondingly.

Performance Measurement and Rewards

Quarterly monitoring of an employee's performance is done from the time of employment. It centers on formal written reports, direct supervision and observation of results. Performance, experience, educational qualifications plus training, are the fundamental bases for promotions and appointments of managers to key managerial positions. By 1999 the compensation of rank-and-file employees will be pegged to that of top management and to the level of system-wide sales.

The granting of bonuses and other incentive packages to all personnel is based on the performance of employees, their length of service or loyalty and the over-all business performance.

Bonuses for all employees are decided by Robert Kuan alone. Even as he admits subjectivity, Robert points out that he discusses employees' performance with their direct superiors. To him, a formula is a mere guide which does not guarantee satisfaction for everybody. It is the administrator of the bonus that must be respected and trusted; his decision about the bonus must not be questioned. Robert calls the employees to his office, where he talks to them one by one. This provides him the opportunity to talk with each employee about his work and bosses and thus to learn about what is going on in his company. Instead of a formal appointment on a set time and date, Robert chooses the moment when the bonus might be best appreciated. For example, an employee applying for a salary loan can be given his bonus instead; an employee's birthday can be made a distinctly happy occasion by a bonus. Bonus-giving is spread over a period of two to four months.

This is ideal for Robert who believes the company must be handled as one big family. Most big companies treat bonuses as a mere transaction where contribution to the company equals bonus. Often, interpersonal relationships no longer exist. In contrast to the big corporations' usual practice Geny Lopez of Meralco maintains a direct relationship with his employees. Lopez is known to call in his executives individually: handing him a car key, he informs him that his car is waiting outside. This is deemed ideal by Robert who believes the company must be ran similarly.

Bonuses are computed following a certain percentage of performance or bottomline targets (distinct from high targets which are always set).

According to Robert Kuan, a flat organization or one with few hierarchical levels and wider spans of control and a high degree of authority delegated to middle management is an advantage, not a disadvantage. The Chowking organization structure is flat precisely to provide a wide

range of employees to choose from and to develop. He cites McDonald's where chief executive officers (CEOs) rise from the ranks through the years instead of being chosen through executive search agencies.

Personnel

The president and the general manager hire and fire top-level managers. They also decide their compensation rates. The Human Resource Department director is responsible for mid-level to frontline managers as well as other employees. An existing salary scale is applied to all the employees except for top-level managers. References are required; referrals are not entertained.

For top-level managers, entrepreneurial skills and knowledge of the business are the desirable professional qualities. They must be effective, decisive and efficient leaders. Mid-level managers must be intuitive, impartial, systematic, innovative and must possess supervising and management skills. For frontline managers, alertness, assertiveness, cheerfulness and patience are necessary. The frontline managers must also be people- and results-oriented, possess entrepreneurial skills and be sensitive to customers' needs.

Vision for the Future

Robert Kuan's vision is a global one: to be the largest Oriental food chain in the world. The corporation plans to offer a wide assortment of Chinese, Filipino and other Asian fare. Why should only Western food chains such as McDonald's and Kentucky Fried Chicken be known and spread throughout the world? Therefore, starting 1996, he has began to set up a commissary and franchises in California. From there he will move to other parts of the world — South America, Europe, Guam and other Asia Pacific countries. The corporation will also offer an IPO in 1997 to raise enough capital to finance its expansion.

CHRISTIE

"The man of virtue makes the difficulty
to overcome his first business,
and success only a subsequent consideration;
-this may be called perfect virtue."

Christie, a manufacturing and trading firm dealing in jewelry, was established by Jeffrey Ching in the early 1970s. It was an offshoot of Gem Oriental, a jewelry store which Jeffrey put up in Quiapo in 1950. Today, Christie has three branches, employing twenty people. Their annual sales amount to less than 50 million pesos.

The Founder's First Business Venture

In the 1940s, Jeffrey Ching left China for the Philippines together with his brother and four sisters. A friend taught Jeffrey the skills and craft of jewelry-making and repair. He started very small—with just a table to serve his customers in Bambang, Divisoria. Through perseverance, hard work and frugality, Jeffrey managed to save enough to buy diamonds and gold and to rent store space in Quiapo. Gem Oriental was established and was run by Jeffrey and his sisters. The sisters attended to the customers while Jeffrey took care of production.

When Jeffrey married in the mid-1950s, he deemed it best to split store operations: the first floor for his sisters who went into retail trading; the second floor for his wholesale business. He also continued to take charge of production. Because all aspects of the business were in the family's hands, no records were kept. Jeffrey relied on his memory for most transactions. When he turned over merchandise to his sisters, there were no delivery receipts. He kept track of what was turned over only in his mind. Although there were no sales records, Jeffrey knew what his gross sales were but did not bother to compute his profits. The

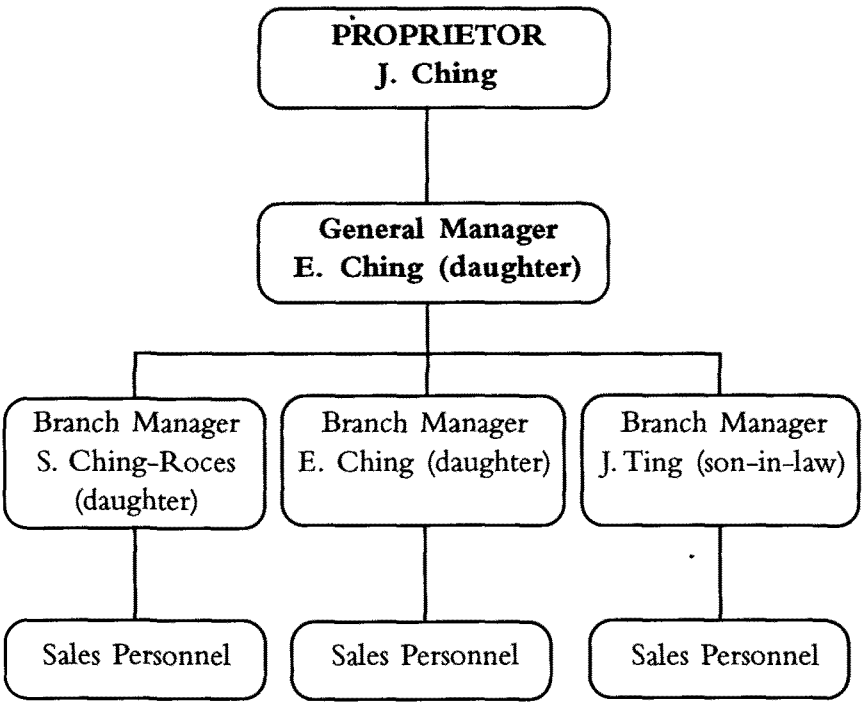
business then was a one-store affair and Jeffrey personally supervised store operations. Profits were reinvested and a portion of the savings went to real estate investments.

Planning

The brothers of Jeffrey's wife were engaged in the appliance business. Twenty-one-year-old Franco, Jeffrey's eldest son, saw the potential of a combined appliance and jewelry business. He convinced his mother who in turn prodded Jeffrey into putting up Christie, a manufacturing and trading firm dealing in jewelry, watches and appliances. Later on, the family decided to concentrate on and specialize in the jewelry line. Gem Oriental in Quiapo was renamed Christie. Jeffrey got back the first floor and bought out his sisters' business. Thereafter, any decision to expand was initiated by Mrs. Ching and her children. In 1979, Christie opened its second branch in Cubao. In 1983, a third branch was put up in Makati. When SM City opened in 1986, Jeffrey's daughter, Evangeline, a graduate of the accountancy program of the University of the Philippines told her father that she would get a stall to put up her own jewelry business in partnership with her two brothers and a sister. The new store, 24 Karats, is separate from Christie although Jeffrey provided the initial capital; he paid the required security deposit and the rental fees for six months. He also consigned merchandise to 24 Karats to get the business moving. Today, 24 Karats has another branch at SM Megamall.

Organization and Management

Jeffrey's philosophy is to keep the business a family affair. Managerial positions are thus only for the members of the family, including a son-in-law. Shown below is Christie's organizational structure:



Jeffrey's interests are mainly in production and in finance. To this day, he holds the purse in the Ching household. Mrs. Ching is more deeply involved in the management of the stores, particularly the branch in Cubao. The family patriarch, however, has the final say on such decisions as business expansion or new business ventures. After all, he is the source of capital for these activities.

Major business decisions, including hiring, firing, promotion and compensation, are deliberated on by the brothers and sisters. As much as possible, Jeffrey does not interfere with their decisions. However, he retains veto powers and is occasionally asked to finally decide issues which the children cannot resolve. In a way, Jeffrey retains overall control through his children.

Of the major functions, sales has been delegated to the sales personnel. After all, the stores sell on a fixed price basis. All other important functions such as production, pricing, purchasing and finance are performed by the parents and the children.

Operations and Internal Control

In its early years of operation, particularly when Christie was just a one-store business, no reports on sales, inventory, etc. were prepared. Jeffrey primarily operated on trust. He also did a lot of mental recording of the business transactions. There were no manuals, no system, no written rules. Jeffrey supervised all operations and was present from the time the store opened until it closed.

As business expanded and as the children became more active in management, systems were put in place. Sales are now recorded in detail. There is now a computerized inventory control and accounting system. Cash is deposited intact. Accounts receivable are minimal; credit is extended but limited only to customers they really know. Inventory-taking is done daily. In fact, Evangeline admits that one strength of the business is its tight internal control. Good systems and procedures as well as personal and direct supervision by family members have to a large extent minimized losses and the incidence of fraud. But such stringent requirements on internal control have also limited the business' capacity to expand. In fact, Jeffrey is no longer interested in putting up more branches. Thus, when SM City opened in 1986, instead of setting up another Christie branch, the children decided to put up their own business.

The general manager who is a certified public accountant prepares such reports as income statements, balance sheets, inventory and sales reports. She also regularly briefs her father on how the business is doing.

The Ching Family

At age 15, and having finished only elementary school, Jeffrey was the family's breadwinner, assuming responsibility for the rearing of his brother and four sisters. He worked long hours to support the family. Having been denied the opportunity to go to college, Jeffrey and his wife taught their children the importance of a college education. They allowed their children to pursue college courses of their choice. Their children, while still very young, were required to help attend to customers. The discipline for hard work has truly been instilled among them. Of the ten children, three are now involved in Christie — Evangeline, Susan and Rhea, through her husband James. Four children manage another jewelry business — 24 Karats. The other children are managing their own businesses not related to jewelry. Interestingly, the two elder sons, Franco and Eduardo who were both instrumental in the decisions to expand and to set up formal systems and procedures are no longer actively involved in Christie.

Future Plans

At this time, business expansion is on hold. The children do not foresee the setting up of new Christie branches. After all, they are now busy with their own businesses. If expansion and diversification were to be pursued, Jeffrey will have no less than his children to help him manage Christie. There is simply no way the Ching patriarch will agree to dilute family ownership or management of the business. Diversification will have to be in areas that do not require too much personal involvement by family members as the jewelry business demands close supervision and control. Apparently, this poses a constraint to future expansion.

In the ultimate analysis, Jeffrey's main intention may not have been to build an expanded business empire but to inculcate the values of industry and perseverance in his children and prepare them for their chosen careers and business.

DRAGONWORKS STEEL COATING CORPORATION

"Victory can be created."
Sun Tzu

Dragonworks Steel Coating Corporation has a continuous paintline capacity of 36,000 metric tons annually. It has an annual sales of approximately 100,000 metric tons of its galvanized and pre-painted steel coils and sheets. Annual sales amount to over 500 million pesos.

Dragonworks currently employs 100 managers and 600 non-managers.

The Founder

Albert Chen and his father, Chen Po, both college graduates, founded the company. Their knowledge of the steel business led to the manufacturing of galvanized sheets/coils and pre-painted sheets/coils. In December 1979, the Chens entered a joint venture with two of Australia's leading industrial manufacturing giants: John Lysaght Australia (JLA) Ltd. and the Australian Mining and Smelting (AM & S) Company. At the time of the joint venture, JLA Ltd. was Australia's only steel sheet producer, while AM&S was an international company of a wide range of non-ferrous metals, metal products, chemicals and timber. AM&S was also part of Conzinc Riotinto, the second largest company in Australia.

The joint venture between the Chen family, JLA Ltd. and AM&S gave birth to: DRAGONWORKS STEEL COATING CORPORATION (DRAGONWORKS).

The Early Years

Competition was a problem in the early years of the business. The company, however, faced up to this challenge. Within three months, the new company's site had been developed and plant construction began for what was eventually to become the country's largest manufacturer of galvanized and pre-painted coils and sheets. The modern continuous hot-dip galvanizing line and the continuous paintline, the first of its kind in the Philippines, produced high-quality coated steel products comparable to the world's best.

In 1981, Dragonworks introduced GLUGALVA, the only galvanized steel in the country with exclusive lock-forming quality, a fully patented process that assures superior product quality. Used primarily for roofings, GLUGALVA was also used for air-conditioning, appliance parts, automotive, bus and jeepney bodies, electrical conduit, mufflers, walling and cladding applications, water and pressure tanks and other industrial and construction applications. Having set the standard for galvanized iron in the Philippines, GLUGALVA became the market leader.

In 1982, Dragonworks introduced GLUKOLOR, economical and durable pre-painted steel coils and sheets. GLUGALVA and GLUKOLOR catapulted Dragonworks to new heights. From a modest start of 1,200 tons per month, the company's annual sales average soared to 72,000 tons in just 10 years.

Dragonworks is the only local manufacturer in the membership list of the prestigious American Standard for Testing Materials (ASTM) and the National Coil Coaters Association of the United States. The superior quality of its products has passed the rigid specifications of the ASTM, the Japan Industrial Standard and the Philippine National Standards.

To meet the market's growing demand for high quality steel products, Dragonworks upgraded its equipment and facilities in 1992 to increase its production capabilities.

The Present Control System

A. Operations Control

None of the persons preparing the company reports is related to the owner/top management. Strict operation controls are in place: cash position and inventory reports are done daily; outstanding accounts receivable reports and sales reports, weekly; balance sheets and income statements, monthly.

The owner and president himself is in charge of inventory control. He and his finance officer are signatories for checks. The finance officer prepares check vouchers; the treasury, cash receipts and collections; and sales, the collection of accounts receivable.

A brother serves as the executive vice president of a sister company. A sister also occupies the position of purchasing manager while the wife serves as treasury manager. Except for these positions, all other positions are held by non-family members who are hired on the basis of experience, dedication and hard work.

Lastly, the company believes loyal employees as well as good systems and procedures are the best ways of protecting the business from losses.

B. Planning and Investment Decisions

Dragonworks engages in long-range planning, covering a period of more than five years. The president initiates; all senior officers (that is, vice-presidents, senior vice-presidents and the president) participate; the Executive Committee (composed of the president and senior vice-presidents) decides on major issues.

Formal sales targets are set by the Executive Committee; profit targets by the Board and the Executive Committee. Return-on-investment targets are historically based; they are set by the president/owner.

The president/owner alone decides strategic issues such as new business ventures, expansion of business and divestment.

The present control system would not be adequate for the company if it were to double in size. Its organization will have to be reviewed in light of the requirements of the company, depending on the extent of the expansion.

C. Performance Measurement and Rewards

Performance, measured annually, is the basis for promotions and appointments to key positions as well as for bonuses and other incentive packages.

D. Personnel

Those who have the power to hire employees have no relation to the owner/top management. A senior officer decides on the hiring of top level managers; managers, mid-level and frontline managers; a supervisor, employees.

The professional qualities required of managers even at the top are aggressiveness, honesty, and hands-on involvement in the operations. No reference/referrals are required for all managers from top to frontline. Compensation rates for all positions are based on an existing salary structure and on job levels.

Vision for the Future

Instead of resting on its laurels, Dragonworks continues to look for new opportunities and seeks to further improve its products and services. This drive has led to the establishment of Dragonworks Holdings Corporation to oversee the operations of Dragonworks and Tigerworks. In the near future, two other subsidiaries will be formed: Lion Corporation of the Philippines and Snake Frame Philippines, Inc.

Dragonworks is determined to maintain leadership in the Philippines. Its unprecedented success can be attributed to its aggressiveness, dynamism, foresight and an unrelenting commitment to quality and excellence. Dragonworks's vision is the creation of world-class products within the reach of the Filipino. The company will pursue strategic alliances, implement new technologies in steel manufacturing, and commit itself to total customer satisfaction in fulfillment of this vision.

FRENCH BAKER

"The supreme man loves quality;
he lives by ruling his desires, demands much of himself,
and is generous, kind and industrious."

Before 1979, the Koa couple — Raymundo Koa Sun Len and his wife Cristina — was engaged in the garment and food businesses. Raymundo managed the shirt company while his wife took charge of Yumy House, a specialty food shop located in the then bustling Cubao district in Quezon City. Cristina ventured into the restaurant business because she wanted very much to have her own income so she could augment Raymundo's earnings from the garment factory. While Raymundo was indeed the founder of a business that had become profitable, he could not freely dispose of the income for himself since he was managing the business jointly with his parents and brothers.

The Founding of Honeybread

The year 1979 was a turning point in the lives of Raymundo, Cristina and their third son, Johnlu. It was the year of Johnlu's graduation from the University of the Philippines where he took a course in business administration. It was also about that time that the EDSA Central shopping terminal was nearing completion. A close family friend intimated she could help them get a stall at the new terminal which was then touted as the next Sto. Cristo or Divisoria. Fresh out of college, Johnlu was deciding between employment and entrepreneurship. EDSA Central presented itself as an attractive option — it was a good place to start a new business. Johnlu was eager to apply what he had learned from business school. His product had to be appropriate for the market that would be attracted by EDSA Central: "low-priced, high-volume" one yielding "optimal profit." After studying the market, the family decided to put up Honeybread — a traditional neighborhood bakery serving

traditional household markets with little product differentiation. Eight months after Johnlu's graduation in 1979, Honeybread started operating at EDSA Central. Today, Honeybread has three branches: the original one at EDSA Central, another one on United Street in Pasig and a third one at Farmer's Market in Cubao.

Honeybread was managed jointly by the Koa couple and their son Johnlu. It was Johnlu's first managerial job after graduation. Delegating authority to her son, Cristina went along with most of Johnlu's decisions. In contrast, Raymundo questioned his son's decisions; often, he and Johnlu would argue. Johnlu acknowledges that the family patriarch was difficult at times but concedes that Raymundo Koa's anxieties were also valid. Thus, while Johnlu actively managed the business, he made major decisions only in consultation with his parents.

In 1986, Honeybread suffered such severe labor problems that the family thought of closing down. The family persevered and patiently fought their battles in court. The legal battles which lasted three years became an effective learning experience for the family. But they hindered Johnlu from accepting a British Council study grant in London. Also, the needs of the family business were sufficient to keep him in the country. Honeybread ultimately won all the cases but while the court battles were raging, Johnlu realized it was time to venture into something different. The bakery was doing well despite its labor problems, but the low barrier to entry encouraged others to go into this kind of business. There was a bakery in practically every neighborhood. Moreover, Honeybread was beginning to feel the difficulties of having to deal with the supermarkets through which it also sold its products. The Koas did not feel very comfortable with the fact that the supermarkets practically dictated the terms of business.

Embarking on a Related Business Venture - The Birth of French Baker

In 1987, a well-connected high school classmate tipped Johnlu about the opening of the annex of a well-known mall north of Manila. The annex was intended for shops catering to Class A customers. That piece of information immediately set Johnlu's mind in motion. He must have a Class A product for the target Class A market. His travels to Europe exposed Johnlu to the latest trends in baking, packaging and marketing. His "gut feel" was that consumers' tastes and lifestyles in the Philippines had improved. Given his knowledge of and experience in bakery operations, Johnlu thought of venturing into the production of first-class bread products for Class A customers. Thus, French Baker was conceived.

Initially Raymundo resisted, but Johnlu persisted. To set up French Baker, the family had to put up a large amount of capital, part of which had to be borrowed. The idea of getting a loan was partly the reason for Raymundo's initial resistance to the new venture. In the end, the parents agreed "to go for it." In 1989, French Baker opened its first store at the mall. After the founding of Honeybread, Raymundo had given up the shirt factory. Likewise, Cristina concentrated on managing Honeybread. It was decided that Johnlu would oversee French Baker operations while his parents attended to Honeybread.

Managing French Baker

Learning from their experience with Honeybread, the Koas looked at every detail of the store's operations. The family, especially Johnlu, felt it necessary to have absolute control over every aspect of the business, from finance to production to purchasing to marketing. Every single detail, such as the purchase of cups, napkins, calculators and paper plates, was the subject of close scrutiny. Personal supervision of all operations was done daily from 6 a.m. to 11 p.m. when the store closed. Following his own philosophy that one must know the process to be able to monitor

production, Johnlu studied baking in France and Belgium. Since he believed customers need to feel important, he personally attended to his customers' needs. Johnlu himself was deeply involved in all the major functions: production, marketing, and finance. His mother took charge of purchasing while his father controlled the finances.

Upon Johnlu's suggestion, the family agreed to hire only professional managers and avoided hiring relatives from its first year of operation. His parents were discouraged from making their presence felt at the store. Although Johnlu "called all the shots," he made major decisions only in consultation with his parents.

Planning and Investment Decisions

In less than seven years, French Baker has expanded operations to 14 stores: 12 in Metro Manila and two in Cebu. One more store was to open before the end of 1996.

The decision to expand or to open new stores is Johnlu's domain. Yet, he acknowledges that getting clearance on the major decisions from his parents is essential. The patriarch, who no longer bothers with the details of the business, still retains veto powers.

French Baker undertakes long-range planning. Johnlu as chief executive officer (CEO) together with key managers are primarily involved in this activity. Annual planning sessions are also undertaken by the CEO with key managers to analyze the business environment, review the company's direction, and set formal targets. For example, sales targets are set by the CEO based on the previous year's sales as well as industry trends. The CEO also determines profit and return on investment (ROI) targets. On the other hand, cost control targets are set by the operating managers. Area managers also prepare annual budgets, subject to the CEO's approval.

Operations and Internal Control

To closely monitor business operations, formal written reports are prepared regularly. Balance sheets and income statements are prepared annually. The CEO receives monthly reports on the company's cash position, inventory, and sales. Daily reports on accounts receivable and accounts payable are also submitted. All these written reports are prepared by the manager for submission to the CEO. In addition, oral reports are also given by the managers to the CEO.

Cash receipts and collection of accounts receivable, and check voucher preparation are undertaken by the managers and their staff. However, checks are signed by any one of Johnlu's parents and/or the CEO. Adhering closely to the principle of checks and balances, the CEO has put up a system to prevent connivance among employees. Responsibilities are split — for example: the preparation of checks is done by one person while the issuance of checks is done by another. Surprise audits are undertaken occasionally.

As Johnlu says, "We've been able to protect the business from losses because of our good systems and procedures." Indeed Johnlu has personally supervised every single control point of the business. But he admits that controls are not foolproof. Pilferage still occurs despite the control mechanisms that have been set up. And if business were to continue expanding, Johnlu argues strongly for more operating and marketing controls.

Performance Measurement

Performance is measured through direct supervision, *i.e.*, personal observation by the CEO or by trusted persons, or through formal written reports. Measurement is done on a regular basis, which could be annually, quarterly, monthly or daily, depending on the activity being monitored. Annual reviews are usually done in November but mid-year evaluations are not uncommon. For example, around June of each year, an evaluation

is undertaken to ascertain if plans are on track or if targets are being met. Any deviation is analyzed and carefully studied by the CEO together with his key managers.

Personnel

Although he was deeply involved in every operation including hiring, firing, performance evaluation, etc. in the early years of French Baker, Johnlu has had to share some of his authority with his trusted managers as operations expanded. Early on, the firm depended on referrals for hiring; now French Baker recruits through advertisements in the national dailies. Educational qualifications and personal qualities such as honesty, drive and attitude are major considerations in the hiring of managers and employees.

French Baker has grown considerably since its establishment in 1989. It now has a total workforce of 400, 60 of whom hold managerial positions. With the expansion of operations, the authority to hire employees and managers has been delegated to the lower levels. Key managers now have the authority to hire mid-level and front-line managers and other employees. But the hiring of top level managers remains the CEO's prerogative.

Managers' compensation rates are still decided by the CEO. In the case of top managers, these are decided by the Management Board composed of the owners. On the other hand, employees' compensation rates are decided by key managers.

The Koas give paramount importance to loyalty. It is a prime consideration in promoting employees to positions of responsibility. Managerial positions are given to those who are loyal and who command the respect of their co-workers. Needless to say, performance and trust are equally important factors in decisions on promotions.

Organization

Interestingly, managerial positions in French Baker are shared with qualified employees who are not related to the family. Even in its first year of operation, Johnlu decided to hire professional managers. He deliberately avoided hiring relatives to managerial positions.

The expansion of the business gave the CEO no choice but to delegate authority. Among the major functions, production was the first to be delegated. The production process is so structured that it can be easily learned; thus, it was easy to assign production to a non-relative. Advertising has also been subcontracted to an agency, with the CEO setting the tone for the advertisements. However, finance and marketing remain the family's domain. Johnlu believes that to be able to appreciate the business' total picture, one must be in control of its finances. Because he regards marketing as vital to the business' success, the CEO personally attends to this aspect of the business. Another function that has not been delegated is purchasing. Cristina still takes overall charge of purchasing as well as inventory control. She deals with about 120 suppliers and takes care of all supplies and materials needed by French Baker and Honeybread.

Johnlu devotes full time to French Baker. The increasing demand on his time prompted his resignation from the faculty of the business school which he joined in 1980 while he was managing Honeybread. After his graduation from college, a younger brother was given charge of Honeybread. The brother, however, consults with Johnlu and his parents on many of the decisions that have to be made. His authority is limited to transactions involving 20,000 pesos or less.

Johnlu also realized that French Baker needed an identity of its own quite separate from Honeybread. The umbilical cord had to be cut. To operationalize this, the CEO decided to rent a new building for the offices of French Baker. He also established the Training Center to highlight French Baker's message that human resource development

is a major concern of the company. The CEO felt that nurturing a good external image is crucial to establishing French Baker's identity. Testimony to his success is the fact that French Baker is now a household word.

French Baker's organization structure is shown as Exhibit B.

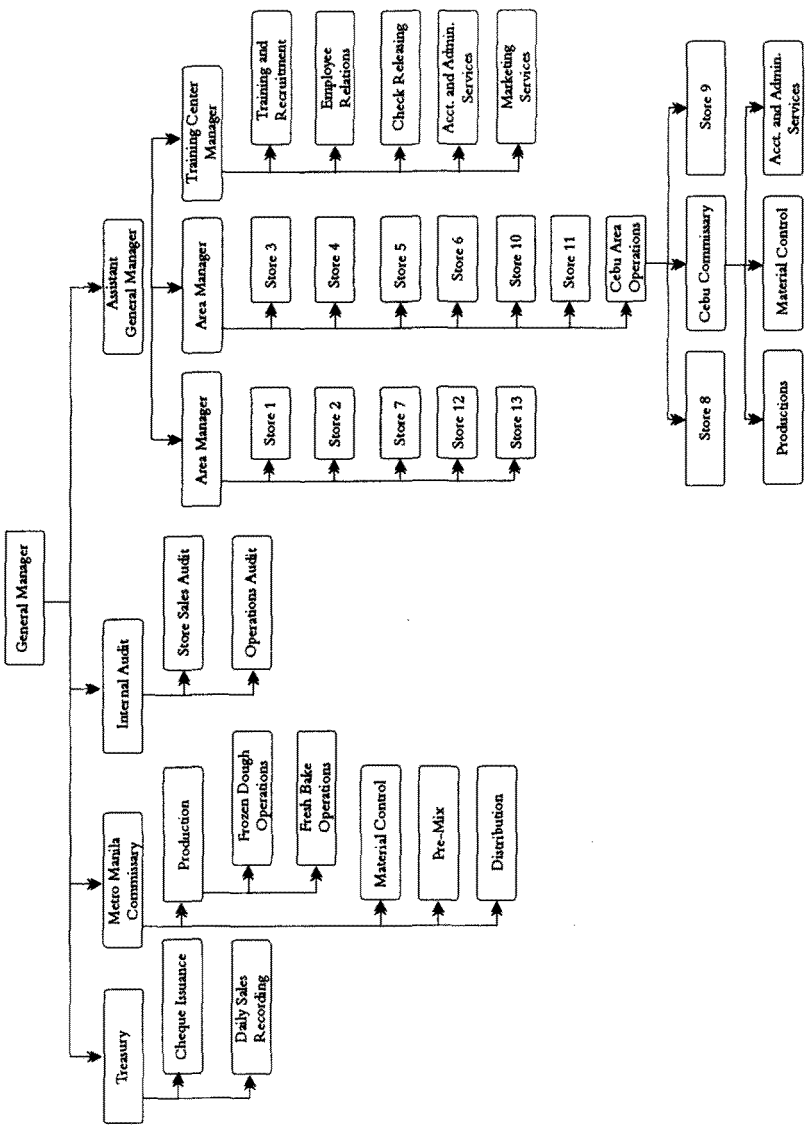
The Koa Family

Johnlu, like his father, was born in the Philippines. His father studied in China. His mother Cristina was born and educated in China. Johnlu's mother ensured the best education for her children. Possessing the foresight that education would determine her children's future, she sent them to the best schools in the country.

When asked what was really Chinese in him, Johnlu replied - "It's the passion I have for whatever I do — a passion for striving to always do things better, to excel. We are also a frugal family and that has helped us a lot." Johnlu added,

> *"The Chinese are very business-oriented and they can be very materialistic with too much concern for profit. In the beginning, we were more concerned with making money. But we have, to some extent, transcended this preoccupation with profits. Now we have made it our concern to preserve our reputation. We value quality, thus we are very particular about quality control. A good image is not easy to create. We've labored hard to build a good image and we will do our very best to maintain the image we have projected. We value our customers and we will continue to do that which will keep them happy."*

Exhibit B
The French Baker, Inc. Organizational Structure



Future Plans

Unlike other Chinese-Filipino enterprises which involve family members heavily in the management of their businesses, French Baker seemingly holds a different view of the role of family members in the enterprise. Raymundo and Cristina have five boys, only two of whom are actively involved in the family businesses — Johnlu and the younger son who took charge of Honeybread after graduating from college. This younger son's authority remains limited, however. Johnlu and his parents are still consulted on major decisions concerning Honeybread. Apart from the two sons, none of the brothers are involved in French Baker. They are engaged in other businesses. One is president of a large multinational company operating in the Philippines.

There is no intention to involve family members and the in-laws in the management of French Baker. In fact, the plan is to continue hiring professional managers as French Baker continues to expand and diversify. To a large extent, this thinking is influenced by a second-generation Koa — Johnlu. A strategic thinker and risk-taker, Johnlu holds a Bachelor's and Master's degrees in Business Administration from the University of the Philippines and has undergone post-graduate training in Europe.

The Koas are open to the idea of going public in time, specially as they are aware that investors are interested in businesses that are supervised by the founders.

GREATWALL STEEL FABRICATORS, INC.

The company is in the business of manufacturing reinforcing steel bars and wire rods for the construction and fastener industries. In 1995, sales were approximately 1.5 billion pesos; for 1996, sales were estimated to rise to over two billion pesos. Currently, the company has close to 250 employees and ranks among the Philippines's top 200 corporations.

Greatwall Steel Fabricators, Inc., was established in December 1964 by Jaime Ty in partnership with three other Chinese-Filipino families and with 66 percent long-term financing from the National Industrial Development Corporation (NIDC). Actual operations started in 1966; the NIDC loan was paid promptly upon due date. From the mid-1970s to the mid-1980s (that is, from the early years of Martial Law to the fall of the Marcos regime), the three other families sold out their interests to the Ty family.

Prior to Greatwall Steel Fabricators, Inc., Jaime Ty worked for 15 years as a trusted manager of Philippine Blooming Mills (PBM), the largest reinforcing steel bar manufacturer in the country. He had no ownership participation in PBM. In 1962, when he felt that he had reached his limit as an employed manager in PBM, he left to try his hand in other lines of business. It was not until almost three years later that he stumbled once again, quite unintentionally, into the steel business.

Profile of the Ty Family

The founder of Greatwall Steel Fabricators, Inc. is a native-born Chinese-Filipino whose grandfather immigrated to the Philippines from Fujian, China in the 1910s. He has five children (four sons and one

daughter). The eldest son, Joseph, graduated as a mechanical engineer from the then De La Salle College and is now the president of the company. The second, Richard, also graduated from De La Salle College as a mechanical engineer and served for a time as plant manager. The third son, Solomon, graduated with a degree in Economics from Ateneo de Manila University and is currently the general manager. The fourth son, Ryan, graduated with a Bachelor's degree also from Ateneo de Manila University and is now the sales manager. The daughter, Evelina Maria, graduated in Accountancy from the University of the Philippines and is now the treasurer. In the early 1980s, the founder distributed the shares of stock of the company to his children. Although the father has retired from the business, his children continue to keep him informed on company matters. Today, the management of Greatwall is squarely in the hands of the second generation.

Control and Reporting Systems

Since the company began with multiple owners, formal accounting and reporting was instituted from the start. This continues to the present. The company prepares monthly balance sheets, income statements, and reports on the accounts receivables and inventory position. Weekly sales reports and accounts payable reports are prepared, whereas cash position is monitored daily.

Internal control is the responsibility of the owner-managers, although check voucher preparation is done by the company accountant who is not a member of the owning family. The company also conducts long range planning and prepares formal targets for revenues, costs and profits. The key actors in these exercises are the owner-managers themselves. Strategic decisions, *e.g.*, expansion, diversification, divestments, *etc.* are decided upon by the owners at the Board of Directors level.

On the whole, it can be said that the company is managed through the formal control and reporting practices typical of large modern business organizations. In response to the questionnaire item on "What is the best way of protecting business from losses?," Solomon rates "good systems and procedures" first; "personal surveillance" second; and "loyal employees" third. The response "putting family members in charge" was not checked by Solomon.

Management Values and Climate

The company may be classified as owner-family managed. For now, the management's preference is for key top positions to be occupied by members of the owning family. "Competent" third-generation members are expected to manage the company since the younger Tys have grown up with the dictum that serving the family business is "a duty and an obligation" of the members. Nevertheless, the rapid growth of the business in recent years and its expected continued growth in the future are convincing the Tys that professional managers will have to be brought in and developed to occupy key positions in the firm. "But they must prove themselves first" answers Solomon in the questionnaire.

The recruitment of professional managers who have no blood relations with the owners seems to be the trajectory of Greatwall Steel Fabricators, Inc. It appears that the growth of the corporation rather than the preservation of family management is the main motivation of the second generation Tys.

The family is, however, pragmatic about management and is particularly strict in enforcing no conflict-of-interest rules for all employees, including owners. The Tys believe in avoiding conflicts of interest among family members serving in the company. The tacit understanding is that when company officers enter into new deals or business transactions, it should always be in the name of the whole family,

and not for themselves alone. This was the arrangement when Solomon joined as one of the principal investors in Terra Development Corporation, a real estate firm. In maintaining this strict code, it is hoped that harmonious family ties will be better preserved, and misunderstandings that may undermine family unity avoided.

The family rule is that in-laws "even if they are competent"—should not participate in the management of the company. They are are not allowed to participate in the family's business meetings. It is assumed that the participating members represent the views of their side of the family in these meetings. These practices also appear to be designed to minimize the potential for disagreement and discord in the family by limiting the participants in business decision-making to the subset of first-degree relations.

The strengths of the current management structure of the company is described by Solomon Ty as "fast decision-making, leaner organization, and lower overhead." The weakness is described as "shallower bench" and "systems overload."

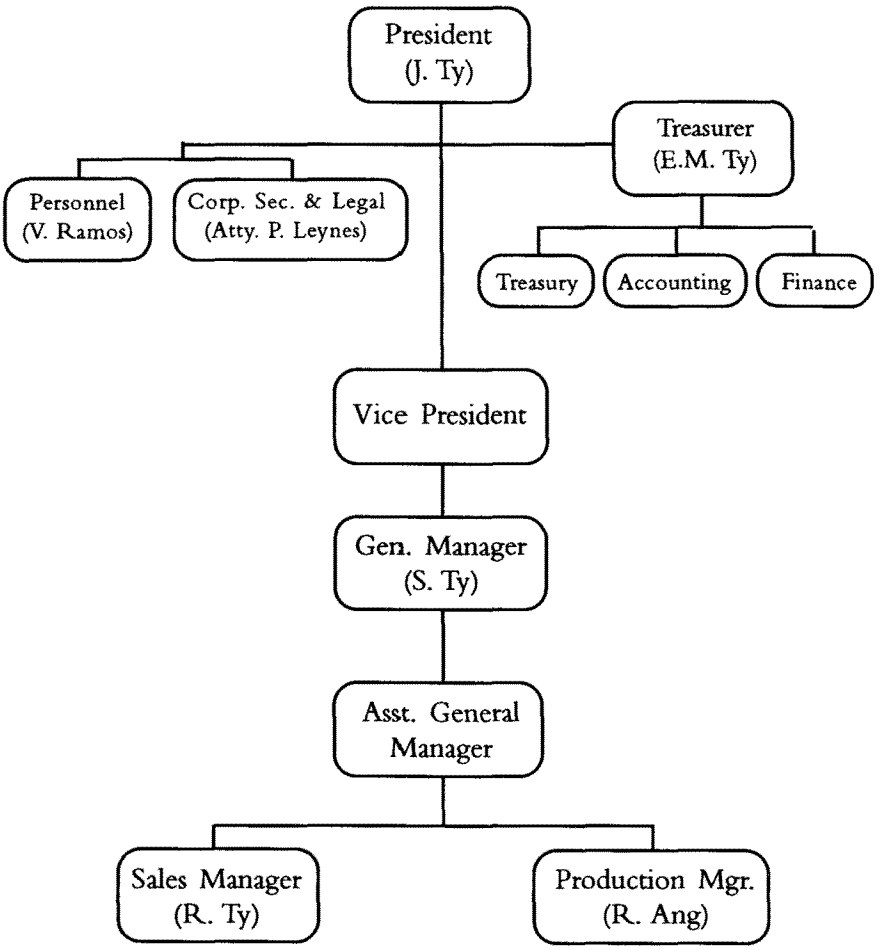
Views on Employee Relations

The Tys have what may be considered an old-fashioned and paternal view of employer-employee relations. They believe in being close and highly visible to their employees. Direct involvement in operations and presence during critical incidents, *e.g.*, accidents or major machine breakdowns, is seen to serve this purpose. They are convinced of the value of encouraging worker initiative and, more important, of giving explicit recognition and public praise for exemplary acts of initiative and diligence among employees. Finally, they believe that recognition should be translated into the size of the bonus package received by the employees, usually at the end of the year.

Summary

In Greatwall Steel Fabricators, Inc., an educated second-generation group of family managers strives to reconcile the values of traditional Chinese family management with the pragmatic imperatives of an expanding business, whose managerial manpower requirements may exceed the resources of even an expanded Ty family in the future. The value of keeping family control of the business intact is clearly evident in the various norms and observances governing family relations adopted by the current generation of company owner-managers. The size of the company does not appear to exceed the family's capacity to manage it effectively as yet, although the family appears to accept the necessity of eventually diluting family control of the business.

Exhibit C
GREATWALL STEEL FABRICATORS, INC.
PARTIAL ORGANIZATIONAL STRUCTURE



JGS GROUP OF COMPANIES

"Things get done when leadership is clear, firm and exclusive."

The history of the JGS Group of Companies started 28 years ago when Joseph Sheh put up FoamChem Corporation. Over the years, the company grew into what is now considered the country's leading firm in the polyurethane foam industry. Today, Joseph Sheh not only has one firm but also a group of companies engaged in foam manufacturing, textile manufacturing, monoblock furniture manufacturing, and automotive parts manufacturing. The JGS Foam Group is made up of FoamChem-JGS International Corporation, Pacific Foam Philippines, Inc., and Conlex Industries. These companies are located in six geographically strategic sites in Quezon City, Marikina, Muntinlupa and Laguna. The JGS Textile Group is composed of Sierra Fabrics Manufacturing Corporation and JGS Textile Manufacturing Corporation with factory sites in Pasig, Metro Manila and Valenzuela, Bulacan. The JGS Engineered Products Group partly consists of Joseph's Automotive Corporation with manufacturing plants at the Canlubang Industrial Estate in Laguna.

The JGS Group of Companies employs about 4,000 people. Annual sales are estimated at over 500 million pesos.

Beginnings

In 1968, Joseph Sheh, then engaged in the buying and selling of foam products, felt it was time for him to put up his own foam manufacturing firm. He then founded FoamChem Corporation. What started as a very small-scale foam manufacturing plant is now a multi-million peso business venture called the JGS Group of Companies.

Joseph Sheh did not have a master plan of what he wanted to do. He lived from day to day and relied mainly on "gut feel." He and his wife started small: they bought and sold foam. After a few years, Joseph felt it was time to be on his own. Together with his wife, an in-law, and a close family friend and with only about 10 workers, he set up a small production plant in the garage of his home in Malabon. Financing was a big problem at that time but Joseph knew how to get started. He linked up with a Taiwanese company, bought machines from Taiwan, and got a very good technician to make the foam. He borrowed money from close friends, bought raw materials on credit, and most important, personally supervised everything.

Because of his deep involvement in foam manufacturing, he became aware of the growing needs of the furniture, bedding, footwear, garments and automotive industries. Keeping in mind the needs of these industries, Joseph Sheh decided to diversify into the manufacture of other products seemingly unrelated to the core business of foam manufacturing. It was essentially out of curiosity that he made the decision to diversify. Starting with foam manufacturing, he asked himself and his customers what other products related to foam-making he could venture into. Then he went on to produce mattress box-spring assemblies. He needed fabrics for his mattresses; he therefore went into textile manufacturing. He bought machineries for knitting and weaving so that his business could produce fabrics for toys, hats, slippers, furniture and automotive upholstery.

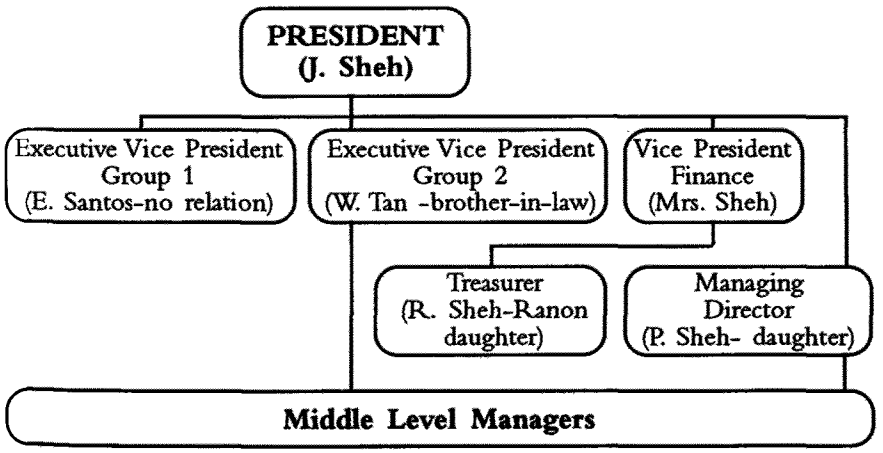
His company now also produces tricot derivatives for footwear and lining materials, and spacer fabric for cushioning materials for footwear and automotive markets. Because he had his eye on the automotive market, he decided to go into the manufacture of radiators and other stamped metal products for the industry. He further diversified into the production of wire spring units, vaccine box carriers, plastic ice packs and monoblock garden furniture.

All the decisions to expand and diversify were his own. Joseph Sheh did not engage in sophisticated market analyses nor did he have formal feasibility studies to back up his plans to expand and diversify. He simply had a feel for the market. For as long as he believed in the product and as long as there was a market for it, he would go for it. Joseph Sheh had the energy, the zeal, and the time to do many things at the same time.

Joseph Sheh's foresight has served him well. Living a very low-key and frugal lifestyle, he reinvested earnings to make his business grow. He bought real estate which he believed were good investments. He never stopped thinking about what else he could do. In fact his wife and two daughters have their hands full but Joseph Sheh never seems to stop. He always seems to be on the look-out for new products and new markets.

JGS Group's Management Structure

With six companies to manage and with over 4,000 employees to supervise, one can expect a more decentralized structure of the organization. But such is not the case for the JGS Group of Companies. There are only 16 managers, with most of the top-level positions consigned to members of the family. The Group's management structure is presented below:



Joseph Sheh continues to be actively involved in the management of all his businesses. He is assisted by his wife who handles the companies' finances, a brother-in-law who is in charge of a group of companies, a close friend who handles another group, and his two daughters — one of whom acts as treasurer and another as managing director of a group of companies. A son, the youngest of three children, is not yet deeply involved in the family's businesses, but is expected to be a major participant eventually.

Two top level positions — the executive vice president (EVP) positions — are occupied not by immediate members of the family. One is occupied by a brother-in-law and another by a close family friend who has been with the Sheh family since the early years of the business. The brother-in-law takes overall charge of the textile firms while the close family friend, along with Joseph Sheh's daughter, oversee the plants and factories of the other businesses. But while Joseph Sheh is willing to share management prerogatives with others who are not immediate family members, he is not ready to share ownership of these companies.

Decision-making is so highly centralized that no moves can be made without Joseph Sheh's go-signal. The founder is consulted on practically every aspect of all businesses. His decisions are taken as law.

Operations and Internal Control

Operating a small business did not require the setting up of formal systems and procedures. Records were kept but these were limited to the more important and major transactions. In its early years, the founder and his managers had very simple ways of doing things. Joseph Sheh's management style was to personally supervise everything and this was how he controlled his business.

Business expansion and diversification, however, necessitated the setting up of a more formal system of control. The company's accounting system was firmed up. Financial transactions were recorded and activities monitored on a more regular basis. One of Joseph Sheh's daughters, an honor graduate with a business degree from one of the country's leading universities, became very involved in formalizing the system. Records and procedures are now computerized.

Financial reports such as income statements, balance sheets, inventory, sales, accounts receivables, accounts payables are prepared monthly by middle-level managers. Cash receipts and collection, inventory control, accounts receivables collections have also been delegated to trusted managers. But the owners continue to sign the companies' checks. Target-setting, which is done by the owner himself, is limited to sales.

Joseph Sheh continues to oversee the hiring of managers at all levels. He also decides on their compensation. Hiring of employees, however, has been delegated to the managers or supervisors.

Control is exercised mainly through the family and trusted managers. In fact, personal direct supervision has been described as the most important strength of the companies. Admittedly, however, this approach has overworked the key managers including the family members.

The Sheh Family

Both Joseph and his wife were born in the Philippines. Joseph's parents were both Chinese. Theirs is a small family with three children who were sent to Chinese schools to learn the language that is necessary for the business. When on vacation from school, the children were encouraged to help in the office. It was the parents' way of instilling in them the passion and commitment considered crucial to the life of the business. Now the two daughters participate more actively in the affairs of the business and are consulted when major decisions have to be made.

NEW HORIZON INDUSTRIES

"A great fortune depends on luck,
a small one on diligence."

In the late 1940s, the Lees, with their daughter Consuelo, migrated to the Philippines from Xiamen, China. They engaged in retail trade in Tabora, Divisoria, Manila, a well-known trading center for textile. The nationalization of the retail trade in the late 1950s prompted the Lee family to shift to manufacturing.

It was as a member of the National Chinese Government's diplomatic mission after World War II that the first generation of the Tan family came to the Philippines. A son, Jose, completed his studies in China in 1949. He began working as a teacher but was later employed by the Lee family. That was how Jose Tan and Consuelo Lee met and married.

The Initial Years of the Enterprise

The addition of two children, Joyce and Sharon, to their family motivated Consuelo and Jose Tan to set up their own business. They chose garment manufacturing, which was made attractive by the nationalization of retail trade. It was also an endeavor similar to the Lee family business of knit manufacturing. The early years were purely "a Consuelo show." Since he was employed as an accountant in a textile company, Jose assisted Consuelo only on a part-time basis.

The manufacturing operations employed 35 workers. Everything was under their direct supervision — from purchasing to production to marketing. Consuelo took charge of operations and marketing while Jose was in charge of purchasing and finance. Even while in school, their two daughters assisted Consuelo in various ways on a part-time basis.

Planning for Growth

The family focused on improving profitability in general. They experimented with subcontracting which they subsequently abandoned due to more problems than they could manage. They also attempted to increase profit margins by going into retail but likewise found it problematic. They tried to diversify to other product lines but later shifted back to and concentrated on knitted fabrics. All these changes were undertaken only to the extent that members of the family could continue to directly supervise them.

Attitude Toward Education

The children's education was of prime importance to the Tan family. The parents decided that their children should go to reputable schools. They were liberal about the careers chosen by their children. Two out of four children are now significantly involved in the business although not all of them completed their courses in business management.

Operations and Internal Control

The family's perspective can be described as control via direct supervision by family members. Areas such as production scheduling have been identified as those that may be delegated to non-family members. Purchasing, materials control, and cash control are not delegated to non-family members.

In addition, Sharon feels very strongly that it is most critical to monitor cash. Accounts payable and accounts receivable monitoring is being undertaken to track down the level of cash of the business. Currently, Jose is still on top of the cash monitoring situation.

On the aspect of internal control, Sharon takes charge of cash receipt and collection. Disbursements like voucher preparation and check signing and preparation are likewise done by her. Collections of accounts receivables delegated to non-family members are immediately audited by Consuelo. Inventory control is likewise under the close scrutiny of family members.

Report Preparation and Frequency

Due to the level of skills and competence of the family members in the field of accounting, report preparation is sophisticated. In the past, Jose (by reason of his training), prepared all the reports for management's use. After Sharon's college graduation, this task was assigned to her.

The following reports are prepared regularly: Balance Sheet, Income Statement, Cash Position, Outstanding Accounts Receivable, Outstanding Accounts Payable, Inventory Report, and Sales Report. Cash position as well as the inputs to cash position — Outstanding Receivables and Payables are prepared monthly. It is clear that the family considers its cash position to be crucial. Sales reports are also prepared monthly to give management a firm grasp of the market. The Balance Sheet, Income Statement and the Inventory Reports are prepared on a quarterly basis. The less frequent preparation of the inventory report may be due to direct supervision of inventory by the owners.

Attitudes of the Current Generation

It appears that the family is not likely to go into a different line of business. Growth will likely be achieved through vertical integration, i.e., the development of an embroidery business and raw materials manufacturing. Another avenue for growth is selling to non-traditional outlets such as retail outlets. The third-generation family members are

now involved on a full-time basis and have taken over most of the activities of the enterprise.

The firm evaluates current performance in comparison with the previous years' performance. The family's conservativeness is reflected in the absence of loans in the last twenty years. However, management has availed itself of many trade credits.

Expansion has always been tied with the availability of family members who can be directly or indirectly involved in the business. Thus, the enterprise only grew moderately in terms of volume. It even decreased the number of workers by replacing them with more sophisticated machines.

Jose's and Consuelo's vision for the future puts primacy on the maintenance of family control over the business. For example, one child is planning to establish a separate business/company but the family prescribes that it be related or complementary to their current business. It would seem then that the family is not willing to dilute ownership at any cost even as they accept this as a major constraint to faster growth.

PLAINFOLKS DEVELOPMENT CORPORATION

"The superior man thinks of virtue; the small man... of comfort."

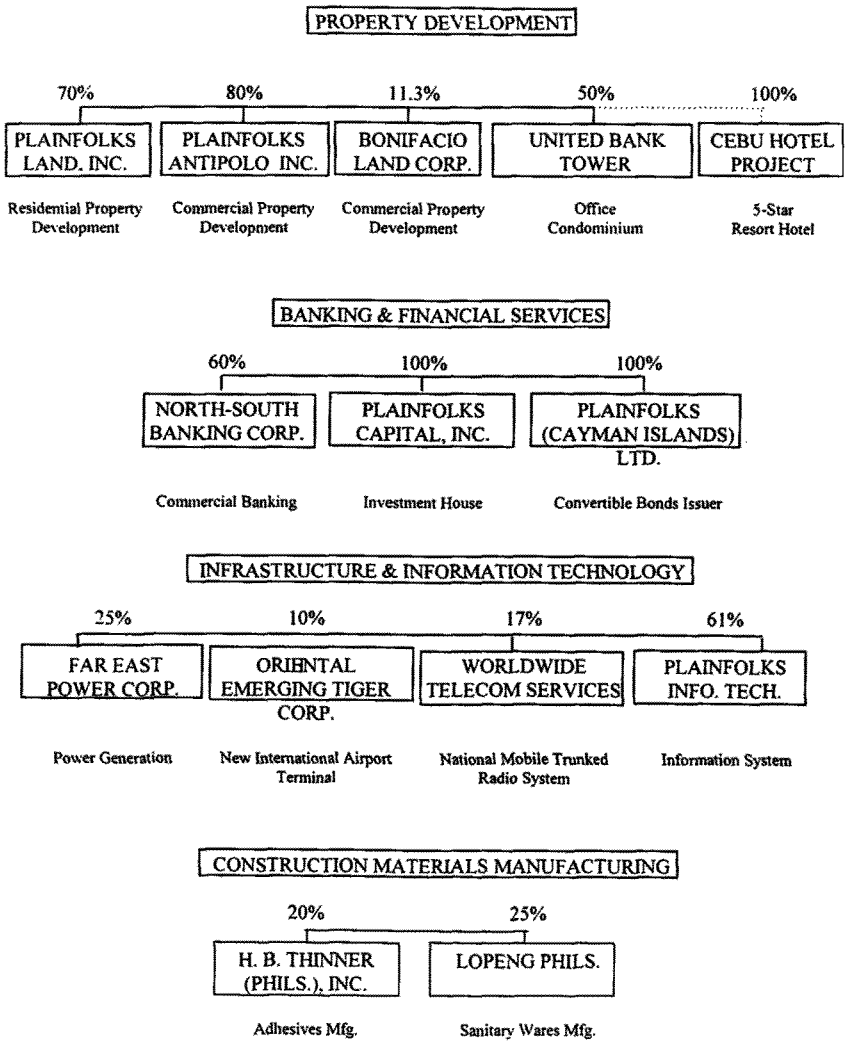
The Company

In 1967, Raymond Lim, Sr. founded Plainfolks Development Corporation (PDC), a company engaged in property development. Plainfolks has expanded its residential market by serving a cross-section of the nation — from low-, middle- to high-income earners. Plainfolks is a key participant in the country's commercial property development: the Angono Stock Farm, the Plainfolks City in Antipolo and the Fort Bonifacio property in Makati. Commercial buildings are also the company's best known product line. By 1994, Plainfolks's total assets amounted to 10 billion pesos.

Today, Plainfolks Development Corporation has diversified investments in property development, banking and commercial services, infrastructure, information technology, and the manufacture of construction materials. Exhibit D shows that only three subsidiaries are 100 percent owned by the PDC. The other subsidiaries are jointly owned with other institutions. For example, Far East Power Corporation is a joint venture with Van Steuben Ltd., an international engineering firm and power plant builder, while the Makati building project is a joint venture with the United Bank to construct a 50-storey office condominium building.

One of its subsidiaries, Plainfolks Land Inc. (PLI) is publicly listed and has been cited by Forbes as one of the 100 best small companies in the world. In 1994, PLI joined a 19-member consortium in bidding for the Fort Bonifacio Development project, the single most important real estate transaction in the Philippines.

Exhibit D
PLAINFOLKS DEVELOPMENT CORPORATION



The Founder

From a 300 thousand-peso loan in the mid-1950s, Raymond G. Lim, Sr. with the assistance of his wife, Rosario, steered the company to a 10 billion-peso conglomerate. Rosario was also a founder of the Unity Bank and Trust Co., where she served as president and chief executive officer from 1978 to 1984. She is now a director of Plainfolks Development Corporation (PDC), the company which holds the family assets.[1]

At a very early age, Rosario and Raymond Lim's children participated in the family business. To sustain their interest, Raymond Sr. gave each child different responsibilities in the company but enough leeway to explore new avenues of business. After school hours, the children were expected to log in work just like any executive of the company. Raymond, Sr. set a no-work, no-allowance policy for them.[2]

To ensure his children's competence in managing the business, Raymond gave his children the best education money could buy: Eloisa obtained a Master's in Business Administration (MBA) from the University of Chicago in Illinois; and Gerardo, an MBA from Northwestern University, also in Illinois. Other than the skills necessary to survive and succeed in business, the children consider the values imparted to them by their father — hard work, integrity, honesty and fairness — as the biggest influence in their lives.[3]

The patriarch taught his children the value of hard work, commitment to the family business and simple living. Their simple lifestyle probably sets the Lims apart from other rich families in the country. While the other less endowed businessmen have coveted steel and glass towers along Ayala Avenue, the Lims have chosen to keep their headquarters in a modest structure in San Juan.

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[1] Gil C. Cabacungan, Jr., and Rita Villadiego, "Preparing the Taipans' Heirs," *Philippine Daily Inquirer*, 12 April 1996, p. B1.

[2] Cabacungan, *Philippine Daily Inquirer*, p. B1.

[3] *Ibid.*, p. B14.

The Lims all agree that earnings should be plowed back into the business and not consumed.[4]

The Present Control System

Operations Control

Operations control is in place. The majority of the reports are done monthly except cash position reports which are done weekly by the funds manager.

A controller (not a member of the family) prepares the balance sheet and income statement; the General Accounting division does the outstanding accounts receivable reports and the outstanding accounts payable reports. No division head is related to the owner/top management.

Cash receipts and collections are primarily the responsibility of the vice-president for finance; check voucher preparation, of the expense controller; and collection of accounts receivables, of the assistant controller.

Financial control, to this day, is retained by family members. The Lim children are empowered to sign checks: Raymond A. Lim, Jr. as senior vice-president; Gerardo A. Lim as director; Luis A. Lim as vice-president; Eloisa Lim-Chua as senior vice-president; and her husband, Alfonso M. Chua, as senior vice-president.

Family members occupy significant positions in the corporation: Raymond G. Lim, Sr., founder and owner, sits as chairman of the Board of Directors and president of the company together with his wife, sons, daughter and son-in-law: Rosario A. Lim; Raymond A. Lim, Jr., Gerardo A. Lim, Eloisa Lim-Chua, and Alfonso M. Chua, all Board members. Only one member of the board is not related to the owner: Executive

[4] *Ibid.*

Vice-President Julio Q. Lazaro. The daughter, Eloisa Lim-Chua, and her spouse, Alfonso M. Chua, occupy key positions: Senior Vice President (SVP) for Business Development and SVP for Finance and Administration, respectively. Raymond A. Lim, Jr. also serves as SVP for Operations.

Non-family members are appointed to key positions for their performance, and for their professional and personal qualities. Unrelated to the family but with power to sign checks are: the Director and Executive Vice President (EVP) Julio Q. Lazaro, Vice-President Walter B. Tayag, First Vice-President Maria N. Valdez; and First Vice-President and Comptroller Tirso P. Torres.

Planning and Investment Decisions

The corporation plans for a three-year period. This is initiated by the Corporate Planning office with the participation of division and department heads. Although Raymond G. Lim has the final say, decision-making is normally done on consensus basis by an Executive Committee composed of the following who are also Board members:

Raymond G. Lim, Sr.	Chairman/President
Julio Q. Lazaro	Executive Vice President/Director
Eloisa Lim-Chua	Sr. Vice-President/Director
Raymond A. Lim, Jr.	Sr. Vice-President/Director
Rosario Lim	Director
Gerardo A. Lim	Director

The Executive Committee sets two targets: the profit targets and return on investment targets. The Board of Directors decides all matters concerning new business ventures, expansion of business, and divestment from present business.

Formal targets are set periodically. The SVP Business Heads set the sales target. Cost control targets are set by the Technical Committee

for the following departments: Construction Group, Purchasing, Bid and Awards, and Project Accounting.

Performance Measurement and Rewards

Performance is monitored annually through an assessment of formal written reports, direct supervision and observation by trusted persons and members of the family.

For promotions, performance, experience, and educational qualifications and training are considered. For bonuses and other incentives, satisfactory performance, length of service and loyalty as well as overall performance of the business are the main considerations.

Personnel

Persons responsible for hiring and firing employees are mostly related to the owner/top management. The exception is Julio Q. Lazaro (EVP) who shares the task with Mrs. Rosario A. Lim in hiring and firing top-level managers.

Eloisa Lim-Chua is responsible for mid-level and frontline managers. Division heads are tasked to handle low-level employees.

All managers from top- to mid-level to frontline must possess college degrees and a professional license as well as integrity, honesty and loyalty. References or referrals from previous employers or acquaintances are required only if deemed necessary.

The compensation rates of key personnel are decided by the family members. Rosario A. Lim decides for top-level managers while Eloisa Lim-Chua decides for mid-level as well as frontline managers. The various division heads decide on the compensation of employees.

Vision for the Future

For the coming years, Plainfolks plans to further diversify its product line and regional reach. Its long-term vision is to be the country's largest full-line residential property developer with products that cover the entire spectrum.[5]

Plainfolks is jumping into the development of two newly-proclaimed economic zones (in Calamba, Laguna and General Santos City in Southern Mindanao). With 1.56 billion pesos earmarked for these two projects, Plainfolks will use "cross border interaction and multilateral linkages forged among the East ASEAN Growth Area (EAGA) member countries."[6]

The corporation also plans to continue investing in some vital infrastructure projects such as power generation, international resort hotel projects and construction materials manufacturing on a selected basis.[7]

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[5] Raymond G. Lim, Sr., "Prospects," *Plainfolks Land Corporation 1994 Annual Report*, p. 7.

[6] Narisma, *Philippine Daily Inquirer*, p. B1.

[7] Lim, Sr., *Plainfolks Annual Report*, p. 3.

SUPERIOR STEEL CORPORATION

"Let the will be set on the path of duty."

Superior Steel Corporation was founded and registered with the Securities and Exchange Commission in February 1967. It is engaged in the manufacturing and marketing of iron, steel and other kinds of metal products. Several plants now operate in one site in Quezon City. The mill was purchased in Taiwan and assembled in the Philippines. Both the raw materials and the finished products are now produced in the plant site. The products manufactured and carried by the company are hot rolled sheets, mild steel plate, cold rolled sheets, profiles, channels, angle bars, flat bars, square bars, round deformed bars, purlins and other types of shapes and section bars.

Mr. Huang holds the dominant shares of the steel company, although his cousins also own shares. One son who studied in Canada is in a separate steel venture company, while another son is in Superior Steel Corporation. The other two sons are still studying. One daughter is married.

The Founder

The founder of the enterprise, the father of Mr. Huang, came from a town in Fujian, China, where many of the residents engaged in the hardware store business. When he immigrated to the Philippines in the 1930s, the more senior Mr. Huang worked as an employee in a hardware store. With some friends, he decided to venture into the business he knew best — the hardware store. He later separated from his friends and went on his own, with his brothers and family of procreation as associates.

The founder had a daughter and two sons. Since one son is dead, the remaining son, Mr. Huang, is now the majority stockholder and president of Superior Steel Corporation. Involved early in the business, the younger Mr. Huang took over the management of the hardware store. In 1967, Mr. Huang together with all the families of his father's three brothers who had immigrated with him to the Philippines converted the hardware store into a steel company with one mill. In 1970, the only living uncle split from the family to return to his own hardware store business.

The Early Years

During the early years of the steel business, Mr. Huang had to personally handle the various aspects of the business. Eventually, his wife took care of accounting. A cousin handled marketing and sales while another managed the factories.

By the 1980s, the corporation had several mills; the company's size made the delegation of work necessary. However, while his executives are given free rein over their respective areas of responsibility, Mr. Huang continues to have the "final say" in decision-making.

The Son

During vacations and even after classes during the schoolyear, the owner's son spent time at the plant. After college graduation in 1986, the son joined the company: his sense of duty and his interest in the business converged. For the first few years, the son studied how the family business was run. He had to admit that systems and procedures put in place by his father and mother — no matter that they were elementary control systems — were working well. He believes that the present system works and will continue to work given the same people, i.e., family members owning and running the company.

The accounting and inventory control systems installed by his father, who did not have the benefit of a university education, were simple. But the son who enjoyed a specialized university education considers simplicity an advantage over the complex process of formal controls, so much so that he feels he is "retrogressing" to the "simple way of managing." The steel business requires decisiveness and focus which must be unhampered by complex procedures. Often, big decisions are made based on "gut feel" and experience. Feasibility studies only delay decision-making, which result in opportunity losses.

It has not been necessary for the son to start his own business as he can and does pursue new directions within the family business. For instance he ventured into the real estate business even while working with the corporation.

Now 32, the son believes that working with the company gives him the chance to make an impact. It is a matter of personal pride for him to see the company that his parents painstakingly built to be more successful due to his efforts. Now that the son is managing the business, his father engages in civic work among the Chinese-Filipino community.

The Present Control System

Operations Control

Operations control is very much in place in this company of 11 managers and 600 non-managers, with sales of over 500 million pesos. Occupying sensitive positions, the family has full control of operations. The son of the owner holds the position of vice president for administration. A long-time employee, who holds the position of accountant, prepares the monthly reports on sales, outstanding accounts payable and outstanding accounts receivable and the bi-weekly inventory report. The owner's cousin holds the position of treasurer and prepares the daily cash position statement.

The owner is president of the organization; the sons of his brother and his own son are vice-presidents. The plant, purchasing, sales and import managers are non-family members. The plant manager was appointed for his technical skill; the sales manager, for his experience in sales and honesty; the rest of the managers, for their loyalty, dedication and honesty.

Loyal employees, family members in charge, good systems and procedures and personal surveillance are means to maintain control of the business.

Checks are signed by the owner himself as president and by his son and nephews as vice presidents. Inventory control is in the hands of a nephew. Cash receipt/collection, check voucher preparation and collection of accounts receivable are in the hands of in-house accountants.

Planning and Decision-Making

Long-range planning — for five years — is informal and may be initiated by the owner, his sons, or his nephews, all of whom participate.

No formal targets of any kind are set — neither for sales, nor for cost control, profit, and return on investment. The owner and his son decide on new business ventures; both decide on business expansion together with the owner's nephews. Officers of the board have remained the same over the years: the wife and two sons of Mr. Huang who are members of the board are usually present for meetings. There being no formal agenda, they review the financial statements (certified by an external auditor) and discuss targets versus actual performance of critical variables such as sales and profits.

Performance Measurement and Rewards

Performance is carefully and strictly monitored through formal written reports, direct supervision and observation by trusted persons or members of the family. Performance measurement is done semi-annually.

Membership in the family is a main consideration for appointment to key managerial positions and/or for promotions. Performance and experience are also principal considerations. Depending on business performance, incentives are provided for performance and for length of service/loyalty of employees.

Personnel

Top-level managers are hired by the owner; mid-level managers as well as frontline managers, by a cousin of the owner, who is vice-president for production while non-managerial employees, by a non-relative who holds the position of personnel manager.

Honesty and industry are the personal characteristics expected of all managers, from top to frontline. Frontline managers are further expected to be technically proficient.

References are not required for top-level managers but mid-level as well as frontline managers are asked to provide references from previous employers or family members.

The size of the organization does not permit the family to know rank and file employees. A collective bargaining agreement between a union and management is renewable every three years.

Vision for the Future

The son believes that the present organization is still adequate for the firm even if business volume doubles. He considers the simplicity of the firm's decision-making process and its management systems as the strength of the company.

The family has also discussed the possibility of going public in the future. Initial public offering proceeds are projected to be used for expansion. But for now, ownership is still limited to family members and close friends.

SUMMARY AND CONCLUSIONS

SUMMARY AND CONCLUSIONS

The case studies in this research show that Chinese-Filipino businessmen have adopted control systems and practices similar to those used in modern large-scale enterprises as a consequence of several factors — exposure to Western management practices through formal business education; the growth in the size and complexity of the firm; the strains on the system of family management resulting from an increase in the number of family owners in later generations and the weakening of family ties among them; and the dilution of family ownership interest due to diversification and continued expansion. The management control practices of the firms in the study are depicted in a three-stage evolutionary model which shows a progressive narrowing of the scope of involvement in and control by the owners of the activities of their firms.

Most of the firms (including the largest ones) are still in the Stage II mode, but it is tempting to speculate that the presence of the Stage III mode of management in some of the subsidiaries and affiliates of the sample companies points to a trend toward convergence with the pattern of management of large enterprises in advanced countries where the ownership of the firm is widely dispersed, and its actual management completely divorced from the owner groups. But this does not seem to be the necessary outcome for two reasons. First, all the owner-managers interviewed in this study appear strongly committed to owner management as the preferred mode of enterprise management. They are thus not likely to abandon the control they currently exercise (at least not for the core business). In the interviews, some of the respondents clearly expressed their ambivalence with regard to the prospect of transitioning to the more pluralistic and transparent forms of management which may be required by the dilution of their ownership interest in the firm through joint ventures and or public listing in the stock exchange. Second, it is not clear that the separation of management from ownership is an inherently superior structure for managing large and diversified firms.

Although one can argue that the decision to relinquish direct family involvement in the management of these companies in response to continued growth and multiple ownership will better ensure that only qualified managers (chosen for their professional qualifications and training) will run these businesses in the future, the loss of two important beneficial characteristics of Stage I and II management in Stage III must not be overlooked. These are greater coherence and continuity in management policy through time; and the strong motivation of owner managers with a direct proprietary interest in the business to ensure the firm's success. Perhaps family-managed firms can combine such strengths with the best features of professionally-managed firms, namely their transparency and meritocracy, and thus continue to deliver superior performance and growth even at much larger firm sizes than those observed in this study.

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