



## Impact of Culture and Knowledge Acquisition to Organizational Success: Study on Chinese and Malay Small Firms

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### Abstract

Research generally concludes that small businesses contribute to economic development. In Malaysia, small firm's particularly Chinese small firms have played a very important role for economic growth in this country. Chinese firms have managed to survive, grow and succeed either in Malaysia or anywhere else in the world. Most prior research found that the success factor was related to their socio-cultural context. However, previous studies have found the similarities on the cultural values of the Malays and Chinese which derived from 'Budi Complex' and 'Confucianism' respectively. It was particularly on certain selected values related to self, time and epistemology. Therefore, this paper tries to identify other reasons behind the success factor of the Chinese as compared to the Malay small firms. Thus, looking at the perspective of Knowledge Base View theory, this paper proposed that cultural values are not a mere factor that affect the way Chinese small firms market their operation. The current study thus proposed that how Chinese and Malays acquire and share knowledge, have significant contribution to their success or their failures.

**Keywords:** Budi complex, Confucianism, Market orientation

### 1. Introduction

Small and medium enterprise (SME), or sometimes just simply being referred to as small business can make remarkable contribution to a nation's economic prosperity. In line with that, research findings (Siu, 2000) generally concluded that small business (SME) contribute to economic development. In Malaysia and many other countries, small firms have played an important role for economic development. In the US, 99% of business establishment are SMEs, in Holland 95%, in Philippines is 95% and in Malaysia, SME constituted about 80% (Kheng, 2003). These findings reflect the importance of SMEs to nearly all countries in the world.

So what is actually an SME? There are a number of ways of how a country defines an SME. Bank Negara Malaysia for example, categorized that businesses with paid up capital less than RM250,000 (about USD82500) or fixed assets less than RM500,000 ( about USD1650000) are small business. World Bank on the other hand identifies small business in terms of manpower between 5 to 49 people. Despite the importance of small firms in Malaysia's economy, there has been minimal research conducted to examine why most of the companies that survived, grew and succeeded were mostly Chinese owner-managers. Given also, the importance of the role and behavior of the entrepreneur in the development of marketing, it is particularly surprising that there has been no research into how Chinese owner-managers and Malay owner-managers made strategic marketing decisions and maintain competitiveness. One of the related researches found was of Siu and Kirby (1999). They suggested that the broad small firm's marketing principles generated from the western countries, may not be fully suitable for, and applicable to, some specific socio-cultural context of Malay and Chinese firms in Malaysia.

## 2. Motivation of the study

The works of many western researchers have triggered the growing body of research into the relationship between market orientation, marketing philosophies and business performance. Better performing firms seem to compete more on the basis of providing value to their customer (Cavanagh and Clifford, 1986). Hence, Hong and Chen, (1998), revealed that for Chinese small firms in Taiwan and Hong Kong, their market orientation was a critical determinant for their performance. However, in contrast to Siu and Kirby (1999), their research found that Chinese small firms in Hong Kong had no formal marketing planning skills and did not apply systematic marketing research and forecasting techniques. Siu (2000) on the other hand also found that the success of Chinese small businesses in Hong Kong was not solely influenced by the marketing philosophy, but by doing favors for others. For Malaysian Chinese owner manager, Wah (2002) revealed that they lacked in operating management systems, had unclear structure, lacked formal planning, "Bossed Centered" leadership style and they also lacked the use of professionals and formal training. No relationship was found between the adoption of marketing philosophies and their company performance. Therefore, the reasons of how Chinese small firms managed to survive, grow and succeed are still open for research. On the other hand, for Malay small firms, Chong (1973) revealed that Malays were prevail marketing philosophies from the west as the country was once upon a time a British colonial.

Thus, it can be concluded that, marketing philosophies and marketing orientation are not the influential factors for Chinese business success. The high context culture namely the elements of flexibility, hard work, familism and value on education contributed to the success of the Chinese entrepreneurship (Goldberg, 1985).

This paper therefore attempted to understand the cultural values and knowledge acquisition of the Chinese in comparison to Malay owner-managers in Malaysia. The role of knowledge that is manifested by Knowledge Based View theory (KBV) was examined for its contribution to their success while the role of culture as a determinant of management styles and functional area in decision-making was also examined. The authors were interested in the following questions: How does the cultural study and knowledge acquisition process lead to their success?; What are the differences between the Malay and the Chinese cultural values and knowledge acquisition that contributed into their business success?

The following section would provide a description on the cultural values of the Chinese and the Malays. The goal of this section is simply to introduce some important themes on the *Budi* Complex and Confucianism of the Malays and the Chinese respectively. The next section would attempt to deal with particular theory of knowledge and culture, and in the final section, the authors would take the position to propose the success factors of Chinese and Malay, related to the role of knowledge and culture.

## 3. Malaysian Cultural Values

Malaysia as a multicultural country which comprises the three major ethnic groups namely Malays, Chinese and Indians, has evolved into one economic key player in the South East Asia region. These three ethnic groups have been living together and cooperate harmoniously in their everyday lives and each of them maintains its own identity, practicing their own cultures, customs, behavior, language, norms, values and beliefs (Abdul Rashid and Ho, 2003). The Malaysian cultures are mainly influenced by the Malay social structure that overlaid by Islamic principles and leavened with British colonial management philosophies, and Chinese and Indians religious and cultural values (Kennedy, 2002). In general, all ethnic groups in Malaysia are motivated by their affiliation to group, families and individuals. Studies even indicate that Malay, Chinese and Indian Malaysian do not differ significantly in a number of factors. Lim (2001) for example, discovered that there is no significant difference between Malay and Chinese work related values. However, in term of cultural differences between ethnics in Malaysia, only religion was found to report different result (Asma and Lim, 2001). Overall, Malaysian seems to respond favorably to productivity increases whenever they see benefits ensuing not only to the organization but also to their family, community and nation (Asma, 1992).

This study however, will focus on the Malay and Chinese cultural values. The Malay cultural value is referred to as the *Budi* concept and the Chinese cultural value will focus on the Confucianism.

### 3.1 Malays and Budi complex

According to Storz (1999), in order to look at Malay culture, it is important to understand the *budi* concept. In general, its importance lies in understanding the behavior patterns of Malays in Malaysia and their business behavior in particular. *Budi* encompasses the Malay way of life. Tham (1970) views *budi* complex as the essence of Malay's social relationships. It formulates norms of individuals and social behavior. The way an individual should feel and think about himself or herself and others is guided by the *budi* complex. Dahlan (1991) on the other hand cited that *budi* embodies all the virtues ranked in the system of values in Malay society and it comprised the qualities of generosity, respect, sincerity, righteousness, discretion, feelings of shame at the collective level and feeling of shame at the individual level. These qualities, norms and expectations would produce a certain type of person. According to Dahlan (1991), it is a mental set that guides one's behavior. Alongside the *budi* complex is also the Islam religion. The spiritual and ethical

aspect of the *budi* complex and the Muslim belief that one's destiny lies ultimately with Allah. It is important to note that a treatment of Islam and its implications for business behavior are also of value and can be legitimately undertaken based on the conceptual analysis taken in this paper.

### 3.2 Chinese Confucianism

According to Smith, (1974) three Chinese beliefs – that is Taoism, Confucianism and Buddhism became the value base of Chinese culture. In the case of Chinese Malaysia, Confucianism is the core value that influenced how the Malaysian views the human being and the social world (Storz, 1999). Confucius drew attention to five crucial areas in which human beings have to learn to perfect themselves. They are (1) aesthetic, (2) ritual, (3) sense of history, (4) authority and power and (5) learning. The core values of Confucianism are derived from the concept of *ren*. The concept of *ren* (goodness, humanity) originally introduced by Confucius is seen by Tu (1979) in Storz (1999), as the concept of personal morality because it described, "Highest human achievement ever reached through moral self cultivation". Family, neighborhood, community, society and the cosmos were seen as one by Confucius.

### 3.3 Values of Budi Complex and Confucianism

Hence, the similarities of *Budi* Complex and Confucianism can be viewed through one-self, epistemological area (how human being viewed social reality), and temporality (how time is viewed) (Storz, 1999). Self is seen as a totality encompassing the physical, mental, emotional and spiritual. Both *Budi* Complex and Confucianism look at self as one that is socially constructed by others. The Malay and Chinese view of self is an 'eastern one' which differs from "western" concept of self and man (Nobels, 1973). Self is seen as a dualistic split between body and mind, the physical and the spiritual, the intellectual and the emotional.

Epistemology, in terms of how people viewed social reality is similar in both the Malay and Chinese system of values. For Malays, the *budi* complex points to knowing not simply a cerebral and intellectual but instead, it entails *rasa* (feelings) (Storz, 1999), which is related to experiential and intuitive knowing. For Chinese, in the process of how to be human, one knows through the 'heart-mind' – knowledge gained not only through the head but also through the heart. (Allinson, 1989). Chinese and Malays both share a view that knowledge is to do with the 'head' and the 'heart'. Therefore, value is placed on subjective knowing.

Temporality or time is crucial in the overall scheme in which people relate to their world. Thus, how people relate to time, how they view it and how they construct its reality have implications for the business relationships they form with others. For Chinese Confucian, the past, present and the future are dialectically connected. One cannot do without the other. For Malays, temporal dimension is very much related to social reality; therefore time for Malays is not only through his mind, but also through 'rasa', his feeling which means that time will always incorporate other social beings. For Both Malays and Chinese, concept for temporal is similar, and they view it as subjective and relative, not objective. It does not capture time in terms of 'clocktime'.

The cultural, social and religious backgrounds of each group influence their business strategies. For Chinese, this is demonstrated in their use of *feng shui* to increase their prosperity. In the case of Malays, resorting to fate or the will of Allah is a typical practice. For both Chinese and Malays, their cosmological vision intrinsic in the value systems also implies a co-operative and harmonious alliance with nature. Therefore, the Malays and Chinese may have a greater tendency to work with it, rather than against it.

## 4. Relationship between Malays and Chinese cultural values and business performance

### 4.1 Chinese business performance

Malaysian Chinese marketing activities are influenced by the growth and development of East Asian economies such as four Newly Industrialized countries (NICs) of East Asia, Hong Kong, Singapore, and Taiwan and even South Korea whose culture was under the influence of Confucianism (Wah, 2002).

How do Chinese business owned-managers achieve economic success? Some studies emphasized on the significance of their cultural values as a significant contribution especially when the political and economic factors failed to provide a complete explanation. Several studies have revealed that Confucian culture has a significant and positive correlation with economic success. These cultural values have significantly influenced the Chinese way of life and personality (Wah, 2002). Confucianism also has found to foster self-enhancement and work values of Chinese employees (Jaw, Ling, Wang and Chang, 2007).

From the sociological point of view, the family is a basic unit of society for Chinese. In the Chinese Confucianist society, the family is the center of all relationships. Being managed and owned by family members is one of the main characteristics of the Chinese organization. Business ownership and management are normally retained within the circle of family members. It is common to find that the Chinese businesses were normally started by the first generation of the family with the intention to be passed them down to the second generation or even third generation.

According to Wah (2002), one of the main strengths of Chinese management is the element of “trust” among family members. Therefore, they are committed to the family business. This is important particularly during difficult periods or an economic downturn when family members were willing to hold on and together pull through the difficult times. Moreover, it would be more difficult for competitors to “pinch” your own family member employees to work for them. Therefore long-term relationship will be developed.

Another success factor that leads to business success among Chinese is the moral values and responsibilities of Chinese leaders and their roles as guardian and provider of the employees’ welfare. To a certain extent, the Chinese enterprise also implements lifetime employment as long as the employees do not make any major mistakes. These values of moral responsibility and obligation are part of the Chinese cultural values, which are still observed in some professionally managed Chinese organizations. It is said that Chinese management is more relationship-oriented “*guanxi*” than performance-oriented. This relationship has the advantage of avoiding competitors “pinching” company staff, having social and personal networking with the staff and refraining them from cheating the social and family networks. All these have greatly enhanced the success rate of many Chinese businesses.

In many instances, Chinese businesses are controlled by a number of guilds and chambers of commerce. They are designed to minimize competition in a particular trade and to lessen the cost of overheads. In business being established is all-important for Chinese (Mahathir, 1970).

Another main strength of the Chinese leader is his remarkable high entrepreneurship or business sense. This extraordinary high business sense is very much shaped by the Chinese cultural values, emphasizing especially on the importance of glorifying the family name.

#### *4.2 Malays business performance*

The concentration of Malays in agriculture and their poor representation in commerce were plain. Malays only contributed 12 per cent (RM40 billion) to total country's GDP (Mahathir, 2003). Differences in cultural orientation towards capital accumulation were partly responsible to this contribution. Organizationally, Malays lacked institutions that could mobilize capital and pool economic resources effectively. Therefore; in 1953, the most politically visible programme to promote Malays’ commercial development was established. It was known as RIDA (the Rural and Industrial Development Authority). However in 1966 it failed to make a strong impact on Malay commercial development since it was suffering from poor funding, bad management and high losses (Jesudason, 1989).

At the time of independence, the level of Malay business development was weak. They were small and were concentrated in traditional cottage industries. The ratio of business units to the population was 1:623 for the Malays compared to 1: 40 for the Chinese (Goh, 1962). In the nineteenth century, it was actually the Chinese who were more successful economically. The Chinese have a salient role in the economy. In contrast to the Chinese, Malaysian Malays were only exposed to business environment after the New Economic Policy (NEP) was introduced. This new economic policy paved the way for a vastly expanded economic role for the state. It was officially promulgated in 1971 in the 2<sup>nd</sup> Malaysia Plan (1971-1975). The most salient aspect of the plan was the restructuring of wealth ownership Malays. The Malays’ interests were targeted to own at least 30% of the share capital of the corporate sector by 1990. Due to that, NEP had developed a Malay business class even though it comprised only 29.6% of the total the capital of corporate sector (Abdul Rahman, 1995).

### **5. The success of Chinese over the Malays**

#### *5.1 Role of Culture*

Culture can be defined as a beliefs system which is deeply embedded within the society and is reflected in the behaviors of its organizations and people (McDermott and O’Dell, 2001). The emphasis on cultural values and beliefs, as the determinant of Chinese success, was well documented in many literatures. One of the most prominent studies on cultural values is done by Hofstede (1993, 1980) whereas, four cultural dimensions: power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity, were used to compare and contrast the similarities and differences between/among cultures. The results of the study revealed that Chinese respondents were found to have higher value of Confucian dynamism as compared to western respondents. Confucian dynamism seems to value the virtue of thrift and perseverance and also the respect for tradition and protecting one’s “face” (Hofstede, 1993). Despite these favorable findings, it is still questionable whether culture is the only determinant factor for their success. There are studies that found the cultural, social and religious backgrounds of each group either Malay or Chinese influenced their business strategies. For example, as stated by Crawford (2000), the success of Chinese capitalism is through their personal strategic alliances which are linked to their cultural values, whereby kinship and personal relationships were their basic network.

However, as a comparison, there was lack of studies on the success factor of the Malays related to their culture. Looking at the similarities between the cultural values of both Chinese and Malays, the authors however viewed that there are other factors besides culture that led to the success of the Chinese small firms in Malaysia. Based on that

assumption, the authors perceived that culture alone is not a mere factor for the Chinese success but how they acquire knowledge also contributes to their success. In relation to this, many studies reveal that a culture that promotes information sharing and employees' active participation can result in effective knowledge transfer which subsequently helps knowledge acquiring process among the employees (Gordon and Di'Tomaso, 1992; Lucas, 2006; Lucas and Ogilvie, 2006; Weiss, 1995). Thus, based on these findings, culture can be regarded as one important antecedent to knowledge acquisition level and process among employees, which will then influence the success rate of a firm. Pertaining to these findings, it is proposed that;

*Proposition 1a: Culture is positively related to knowledge acquisition process*

*Proposition 1b: Knowledge acquisition is positively related to organizational success*

*Proposition 1c: Chinese experiences a more effective knowledge acquisition process than the Malay*

*Proposition 1d: A more effective knowledge acquisition leads to higher organizational success*

## 5.2 Role of Knowledge

Study on the success of Chinese in terms of knowledge creation, acquisition and sharing is very lacking. Most of the success factors of Chinese in business and marketing activities were always associated to their cultural underpinnings. Limited study was found related to knowledge. Knowledge management, however, was also portrayed as a cultural accomplishment within the literature. When seen in this way, knowledge management centers on the development of a set of shared organizational values and identities, facilitating inter-personal interaction and collaboration (eg. Inkpen, 1996; Dixon, 2000). Therefore, the authors found that in spite of cultural values and beliefs, Chinese owner-managers are successful economically due to their strategy in knowledge acquisition.

According to Knowledge Base View theory (KBV), knowledge is divided into experiential knowledge and informational knowledge. Both types of knowledge are crucial for the success of the firm. KBV theory indicates that these two types of knowledge differ. The experiential knowledge tends to be tacit and generally difficult to codify and communicate while informational knowledge is generally explicit and easier to codify and communicate. Despite these differences, KBV theory also indicates that these two types of knowledge are interrelated.

Therefore, for this study the authors identify the common learning mechanism in organization (as being introduced by Forsgren, 2002) that might also be used by both Malays and Chinese, that is: (1) learning through experience (2) learning through business relationships, (3) learning by observing other firms with high legitimacy and acting in similar way, (4) acquiring other organization with specific knowledge and (5) hiring people with the necessary knowledge.

### Experiential knowledge

Experiential learning reflects the need for tacit (market) knowledge; such knowledge is difficult to acquire (Forsgren, 2002). The behavioral model of organization is based on the theory of the growth of the firm (Penrose, 1959) and asserts that the growth of a firm is an incremental process (Johanson and Vahlne, 1977). The model rests on the assumption that firms have imperfect access to information and the model explains business as a process of increasing experiential knowledge. It also posits that experiential knowledge of the market; the clients, the problems and the opportunities abroad, is acquired by operating in the market (Eriksson, Johanson and Majkgard, 1997).

According to Mahathir, (1970), the Chinese are established and have penetrated all the retail business and wholesale business locally and globally. Another main strength is the Chinese leaders have remarkably high entrepreneurship or business sense. This extraordinary high business sense is very much shaped by the Chinese cultural values especially the emphasis on the importance of glorifying the family name and their huge experience in the market. Therefore, it is proposed that:

*Proposition 2a: Chinese has higher experiential knowledge than the Malays*

*Proposition 2b: Higher experiential knowledge leads to higher organizational success.*

### Learning through incorporating other units

According to Huber (1991), besides learning through experience, market knowledge can also be acquired by acquiring local units that already possess the necessary market knowledge. The way knowledge is acquired will make business process faster (Forsgren, 2002). Thus, organizational behavior often seems to be characterized by a combination of learning through experience and learning through the incorporation of units which already have the knowledge. Chinese businesses are controlled by a number of guilds and chambers of commerce. They are designed to minimize competition in a particular trade and to lessen the cost of overheads. Therefore acquiring other units is a normal phenomenon for the Chinese. Thus, it is proposed that:

*Proposition 3a: Chinese utilize knowledge through incorporating other units*

*Proposition 3b: Learning through incorporating other units will leads to higher organizational success.*

**Learning by Imitation**

According to the institutional theory, adopting mimetic behavior is a common way to reduce uncertainty, especially among competing firms (Di Maggio and Powell, 1983). In Uppsala Model, by imitating other organizations with a high degree of legitimacy, the firm can reduce its perceived uncertainty about the foreign market without having to wait until its own market-specific knowledge has reached the required level.

Malaysian Chinese small firm's business activities were influenced by the growth and development of East Asian economies such as four newly industrialized countries (NICs) of East Asia, Hong Kong, Singapore, Taiwan and even South Korea whose culture was under the influence of Confucianism. Thus, imitating their way of doing business is normal for the Malaysian Chinese entrepreneur. However for the Malays, it is assumed that their influence is more towards western countries. This may be due to their educational background that is more associated with the western. Therefore, it is proposed that:

*Proposition 4a: Chinese learn through imitating the East*

*Proposition 4b: Malays learn through imitating the West*

*Proposition 4c: Learning through imitating leads to higher organizational success.*

**Learning through business relationship**

Many researchers agree that learning from other organizations or inter-organizational learning through network of existing business relationship can also create the opportunity to facilitate the assimilation of tacit knowledge from the different actor of other firms (Andersson, Forsgren and Pedersen, 2001). Interfirm relationship describes the personal relationships that people have developed with each other through history interactions (Granovetter, 1992). Corporate relationship with external channel members on the other hand can ensure motivation to engage in exchanges and ultimately contribute to the acquisition of knowledge from the relationship (Ling-Yee, 2004). Therefore, market-specific and tacit knowledge can be acquired through interaction with other organizations.

From the sociological point of view, the family is a basic unit of society for Chinese. In the Confucian Chinese society, the family is central for all relationships. Being managed and owned by family members is one of the main characteristics of the Chinese organization. Business ownership and management is normally retained within the circle of family members. It is common to find that the Chinese business is normally started by the first generation of the family with the intention to be passed down to the second generation or even third generation.

According to Wah (2002), one of the main strengths of Chinese management is the element of "trust" among family members. Therefore they are committed to the family business. This is important particularly during difficult periods or an economic downturn when family members are willing to hold on and together pull through the difficult times. Moreover, it is more difficult for competitors to "pinch" your own family member employees to work for them. Therefore long-term relationship will be developed.

Therefore the success of Chinese capitalism is related to their personal strategic alliances, which are linked to their cultural values, where kinship and personal relationships was their basic network (Crawford, 2000). It is proposed that:

*Proposition 5a: Chinese has greater personal relationships with other business than the Malays.*

*Proposition 5b: Higher personal relationship leads to higher organizational success.*

**Learning through hiring people with specific knowledge**

Hiring people with special knowledge can be another mechanism to enquire knowledge, and the faster's one. Having quality managers may be one of the most critical resources of an organization's capability to compete globally. Therefore, developing an adequate supply of "transnational" managers, who can effectively manage across national and subsidiary boundaries, becomes paramount to global organizations (Gregersen et al., 1998). These sophisticated global managers must possess a broad set of competencies (Harvey et al., 1999) and market-specific knowledge needed by the organization to be shared with.

Due to the lack of market knowledge among the Malays and lack of historical and networking relationship, it is proposed that Malays acquire knowledge through hiring specific persons for a specific knowledge either locally or internationally. Therefore it is proposed that:

*Proposition 6a: Malays learn through hiring people with specific knowledge.*

*Proposition 6b: Hiring people with specific knowledge leads to higher organizational success.*

**6. Conclusion**

Based on the previous research done by Storz (1999), particularly on the cultural values for both Malays and Chinese, and the work of Dahlan (1991) showed that both Malays and Chinese possessed the same cultural values, attitude and

behaviors although Swettenham looked at Malays with negative attitudes. Similarly, Muhammad and Lau (1988) and Habrizah (1996) in Shukor (2003), also discovered that, there were common values between the Chinese and the Malays. Their beliefs and values affect their business and marketing activities. Many studies found that western marketing philosophies were not adopted by the Chinese owner-manager, but they still managed to survive, grow and succeed either in Malaysia or anywhere else in the world. For Chinese, culture was an important element for their success specifically *guanxi* – that is “the old practice of continuously cultivating and valuing relationships”. Westerners however, seeking success with modern capitalism, disregarding any aspect of culture. Westerners didn't create and maintain networks of respect, trust and value-adding interdependence with customers, suppliers and distributors. To many Malays, the west provides the inspiration and a model to follow. However, what differentiates their level of success could be attributed by their cultural value and knowledge acquisition process that has taken place from one generation to another.

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