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Chinese-ness Legacy? A Study of Ethnic Chinese Entrepreneur-controlled Banks in Malaysia

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Abstract

In pursuing the mammoth Belt and Road Initiative (BRI), China is counting on the perceived cultural similarities with the overseas Chinese to promote better bilateral understanding and business flows. This presents unprecedented opportunities but also risks because these communities are not identical. Among the overseas Chinese, Malaysia is unique because of its multiracial context, economic significance and growth prospects. As a start, this paper seeks to understand the risk psyche of ethnic Chinese entrepreneurs in Malaysia. It examines whether some traditional Chinese values may differentiate the ethnic Chinese entrepreneur-controlled banks compared with institutional-controlled banks. It traces the historical background of ethnic Chinese businesses and draws upon studies regarding family businesses and entrepreneurship, which yield mixed findings on their effectiveness as compared with institutional-controlled businesses. Using discriminant analysis on a survey of 135 risk management professionals, the findings suggest that the entrepreneur-controlled banks differ from the others through lower scores on two elements taken combinatively: (1) proactive awareness of new techniques, and (2) extent of learning in the course of developing their own risk models. These findings provide an empirical basis for some insights into these banks' risk psyche and enduring success. While such values are beneficial, one may also wish to consider adopting newer and institutionalized approaches to progress further.

Keywords: *overseas Chinese, banks, competency development, risk management*

1. Introduction

China's rapid economic growth, increasing trade with the Association of Southeast Asian Nations (ASEAN) and the mammoth Belt and Road Initiative

(BRI) have placed her even more prominently in the global radar screen. This, coupled with China's call for the Chinese diaspora's engagement in the BRI, will continue attracting discourse at unprecedented levels. It is greeted, on the one hand, by awe and excitement, and on the other, caution and suspicion. It therefore warrants a deeper inspection and reflection of the China and Chinese diaspora links. While many aspects have to be examined from different lenses, this paper takes the approach of *first, understand thyself*. This paper seeks to understand the risk psyche of the Chinese diaspora entrepreneurs. Much has been written on the Southeast Asian Chinese diaspora. Most draw on discourses of historical analysis, some on selected case studies but hardly any are empirically-based. It is in this regard that this paper departs from extant literature. This paper seeks to obtain insights from a survey of 135 risk management professionals of various seniority levels of banks in Malaysia.

The Chinese diaspora is also sometimes labelled as overseas Chinese so as to differentiate them from China's citizens. Yet, there are strong refutations to the use of such a term because this community is no longer sojourners who view China as their homeland. Instead, they have decided to reside in their respective host countries and hence, they are sometimes called "ethnic Chinese". As Chan & Ng (2004) put it, the ethnic Chinese have moved from identifying themselves as "overseas Chinese" in the earlier days of the pre-1950s to one of a local national first, and Chinese descent or ethnic Chinese second. Yet, the ethnic Chinese have complex and dynamic bipolar dimensions which are simultaneously communalistic/cosmopolitan and local in nature. While they identify with the locals and pledge allegiance to their local home (instead of China), they are often seen to differ from the local natives, both outwardly and culturally (Jakobsen, 2015, p. 620). In fact, the wave of migration from China to ASEAN seems to be growing again, in line with China's increasingly globalization moves and increasing China-ASEAN economic integration (Zhuang & Wang, 2010).

The ethnic Chinese continues to attract attention because of their contributions, growth and mythical complexity. The fascination grows with the rapid ascendance of China as a global economic powerhouse and the increasing China-ASEAN bilateral trade flows. Within ASEAN, Malaysia stands out for five reasons. First, within ASEAN, Malaysia is China's top trading partner (Tan, 2017). Second, China has been Malaysia's top trading partner for eight consecutive years since 2009, in the order of some USD60 to 100 billion per year (Ministry of International Trade and Industry, 2017). Third, unlike the majority Chinese-descent countries, such as Taiwan and Singapore, multi-racial Malaysia's Chinese-descent people constitute only 25 per cent of its population but contribute 60 to 70 per cent of its economy (FMT Reporters, 2016; Jakobsen, 2015). Fourth, China's expansion into ASEAN will see Malaysia being one the biggest beneficiaries, as manifested in mega port and rail projects worth USD93 billion (Y.N. Lee, 2017). Fifth, three of China's major banks operate in Malaysia. China's fourth largest bank, Bank of China, recommenced operations in 2001, having previously ceased operations in 1959. China's (and the world's) top two banks by assets, Industrial and Commercial Bank and China Construction Bank, commenced operations in 2010 and 2017 respectively.

While the outlook seems to be one of huge growth, some have cautioned the risks in being overly dependent on China whose growth is slowing or whose growth bubble may burst (Knowledge@Wharton, 2016). In fact, China's ambitious Belt and Road Initiative is a strategic move aimed at a more robust economic growth trajectory. This will see even greater China involvement especially because ASEAN is strategically located between the two Asian giants of China and India. China is also asking ethnic Chinese businessmen to contribute towards the Initiative's success. Two prominent scholars, Leo Suryadinata and Wang Gungwu, have cautioned the ethnic Chinese to be alert that China is putting its own national agenda as top priority (Cheong, 2017). Hence, there is a need to enhance understanding of the ethnic Chinese business psyche in Malaysia by first tracing the historical background of their forefathers' migration to Malaysia, the key figures' backgrounds, their unique societal context in Malaysia and gauging the extent of their Chinese-ness which may still prevail today.

Within the ethnic Chinese business, banks play a unique role for three reasons. First, their origins were closely tied to enabling business growth during the early migration days. In fact, these banks continue to be key growth enablers in Malaysia today. Second, they largely survived the onslaught of the Asian Financial Crisis and are among the top banks in Malaysia. Hence, understanding their risk management prowess may offer valuable insights. Third, bringing the China-Malaysia trade and economic ties to a new frontier would inevitably need greater engagement of not only Chinese banks but more so, banks in Malaysia, especially those controlled by ethnic Chinese entrepreneurs. Hence, this paper focuses on the three major ethnic Chinese entrepreneur-controlled banks operating in Malaysia, namely Public Bank, Hong Leong Bank and United Overseas Bank. Of the three banks, United Overseas Bank is a Singaporean rather than a Malaysian-owned bank. Nonetheless, it is included in this study because of its inextricably intertwined historical and current Malaysia-Singapore ties. Moreover, besides being a major player especially among the ethnic Chinese SMEs, United Overseas Bank's Malaysian operations is the second largest contributor to the banking group's business.

The remainder of this paper is organized as follows. Section 2 reviews previous works on the historical background of the ethnic Chinese business, ethnic Chinese entrepreneur-controlled banks in Malaysia and key concepts in entrepreneurship and family businesses. Section 3 discusses how prior work on risk management competency development is extended so as to identify the difference in the ethnic Chinese risk psyche, using discriminant analysis. Section 4 discusses the findings and Section 5 concludes.

2. Literature Review

2.1. Background – Ethnic Chinese Business

The Chinese who came to Malaysia and Singapore in the 1900s were mainly coolies and peasants. Many who were diligent and entrepreneur-inclined subsequently played intermediary roles between the local indigenous people (who largely remained in the agricultural sector) and the British colonial masters (Limlingan, 1986; Yen, 1998; Long & Han, 2008). The frequent interactions with the British enabled them to enhance their business knowledge and absorb modern Western values. The hybrid combination of the Chinese entrepreneurship traits and modern Western management techniques saw the later emergence of large, modern ethnic Chinese-controlled firms. While the Western approach to business was typically based on pure meritocracy and owner/manager separation, the Chinese approach emphasized personal connections and intertwined ownership and management. The contemporary ethnic Chinese, in adopting a hybrid approach, typically took the middle path. For instance, they considered both merit and matters of indebtedness and loyalty too. Likewise, the family would typically take ownership control, with a family member as the chief executive officer (Yen, 1998).

Having come to the newly-found and untested states of Malaysia and Singapore and being a new minority migrant group, the ethnic Chinese supported one another through informal but closely knit networks of kinship, collegiality and clans (Mackie, 1995). These reliable and personal networks provided access to a wide range of contacts, procurement sources, credit and market information – which facilitated efficient and successful business activities. A typical ethnic Chinese entrepreneur was averse to "unproven 'state-of-the-art' technology that involved high capital outlay" because of unfavourable past experiences and financial prudence; instead, they tend to gravitate towards cost-effective technology which suited the purpose (Jakobsen, 2015, p. 100). Businesses were built based on the time-tested gut feel and deep personal relationships with the business community to the extent possible. As businesses grew into large corporates, although more scientific methods of governance were required statutorily, it was still validated by personal knowledge and relationships (Hoflich, 2012).

Besides, they generally remain cautious of their precarious social position because their economic prowess was sometimes viewed with resentment and suspicion by the indigenous natives. Hence, the ethnic Chinese largely steered away from politics and focused on running businesses and were careful not to stoke unpleasant sentiments among the indigenous population (S.-W. Cheong, 2017). The disparaging gap between the wealthy ethnic Chinese tycoons and the indigenous majority was blamed for the racial riots of May 1969. In order to curtail racial tensions, the government initiated the New Economic Policy (NEP) which aims for a more equitable wealth distribution. This results in affirmative actions which favour the indigenous majority and present challenges to the ethnic Chinese, more so when there are alleged abuses accompanying the NEP implementation. Hence, despite having been citizens of two generations or more, the ethnic Chinese businessmen still typically adopt a low public profile mind-set and navigate cautiously, much like their earlier migrant forefathers.

Even within Chinese-majority but multiracial Singapore, the ethnic Chinese businesses and Chinese-majority government often tread carefully so as not to cause uneasiness among their substantial non-Chinese locals and also the neighbouring Chinese-minority countries such as Malaysia and Indonesia (Wang, 2016). Instead, they learn to be "highly flexible and adaptable" to survive and fit in to the local conditions (Long & Han, 2008), a positive trait which Malaysia's former premier, Dr Mahathir Mohamad, notices as he describes the ethnic Chinese as being "accustomed to fighting for their very existence because of their precarious social position…. Thus, the Chinese have developed a mind-set of entrepreneurship and robustness" (Jakobsen, 2015, p. 82). Indeed, the resilience of the ethnic Chinese businesses, despite the lack of direct government assistance, was a key enabler for Malaysia's ability to survive the Asian financial crisis (K.C. Cheong, Lee, & Lee, 2015).

Traditional Confucian values, such as moral standards, hierarchy, paternalism, filial piety, loyalty, harmony, prioritising communal over personal interests and reciprocity, were passed on through families and also the vernacular school system (Wu, 1975). Even as the ethnic Chinese became more exposed to the forces of globalization, studies find that some traditional values such as paternalism or centripetal authority are very much alive even in modern-day Malaysia and Singapore (Hurtado, Smythe, Farrell, & Kopecki, 2013). This is manifested by observations that Chinese business management "even in large business groups – is based on tight personal control" as manifested in the case of Hong Leong Malaysia's chairman, Quek Leng Chan. Moreover, the chairman's power "rests not only in his control of shares … but also in his personal hold as the head of the family" (Tong, 2014, p. 18) and usually, one of "commanding personalities" (Hoflich, 2012, p. 183).

The extent of Chinese-ness is, however, not very clear because the ethnic Chinese business values seem to be increasingly different from one country to another (Loy, 2012). Meanwhile, some interviews with businessmen familiar with China suggest that communism had largely broken down Confucianism, thus causing different business cultures among the Chinese nationals and the overseas ethnic Chinese (Redding, 1993). Nonetheless, with China's breakneck pace of economic growth and ascendance to the global arena, the age-old traditional Chinese values may gradually return to modern-day China. In fact, President Xi Jinping seems to be reviving Confucianism, or at least selectively, as a national ideology (Schuman, 2014).

2.2. Background – Ethnic Chinese Banks

The early ethnic Chinese banks were typically well connected through strong communal relationship. In order to mitigate their lack of Western banking technical knowhow, they were more particular about having collateral and dealt with customers of high credit standing. There are only two known failures thus far (Kwong Yik Bank in 1913 and Bank of Malaya in the 1930s). These failures were not attributed to customer defaults but rather customer deposit withdrawals due to alleged huge loans to directors (Gomez, 2013) and disruption of the remittances businesses due to China's political uncertainty (K.C. Cheong et al., 2015), respectively. In fact, K.H. Lee and Lee (2003) cite an OCBC study which suggests that the large ethnic Chinese businesses (which includes Public Bank and Hong Leong Bank) weathered the Asian financial crisis well.

The first bank in the then Malaya was the British-headquartered Chartered Bank in 1875. Together with the other foreign-controlled banks, it catered to the upper class elite, multinationals and cross-border trade, especially with the then colonial master, Great Britain. In order to meet the needs of the masses, the ethnic Chinese set up banks along dialect and clan groups. The first ethnic Chinese entrepreneur-controlled bank traces its roots to Kwong Yik Bank in Singapore. It was set up in 1903 by Wong Ah Fook, a Cantonese, Johor Baharu-based building contractor (S.-Y. Lee, 1974). Kwong Yik Bank set up its operations in Malaya in 1913 but was liquidated soon after because of sudden depositor withdrawals in the midst of alleged abuse through big loans taken by directors. Over the next 30 years, some 15 banks were established. Among the more prominent ones was OCBC Bank, established in Singapore in 1932. OCBC turned out to be a training ground for Khoo Teck Phuat, Teh Hong Piow and Khoo Khay Peng who are the founders of Maybank, Public Bank and MUI Bank (which later evolved into Hong Leong Bank today) respectively.

Teh, born in Singapore in 1930 into a poor migrant family from China, started his career as a bank clerk in OCBC and was appointed to a managerial position within five years. He subsequently joined Khoo's Maybank in Kuala Lumpur, where he quickly rose to become a General Manager. Teh's aspiration of having his own bank came true in 1966 when he obtained a licence to run Public Bank (Jain & Kumar, 2014). Teh remains at the helm, surrounded by his faithful top management team whose average age exceeds 70, "and its IT infrastructure could do with an expensive upgrade" (Sidhu, 2017). Teh and Public Bank have won many accolades over its 50 years of history. Despite announcing his plan to retire in 2019, he will remain influential as Chairman Emeritus and Director. Most modern banks tend to centralize their back-room operations. But Public Bank counts on its branch managers to drive its business. Nazir Razak (Chairman of CIMB, Malaysia's second largest bank) says this facilitates "quick and de-centralised decision-making for small businesses that most institutionalised banks found hard to challenge" (Sidhu, 2017). This structure is said to be set by Teh, perhaps a reflection of his preference for a personalized "on-the-ground" approach for customer dealings. This bodes well for its both business development and risk management considerations.

Meanwhile, Hong Leong Bank, which started as Kwong Lee Mortgage and Remittance Company and controlled by the Lam family, was incorporated in Kuching, Sarawak in 1905. In 1982, the Khoo Khay Peng-controlled conglomerate, MUI Group, acquired Kwong Lee and renamed it Malayan United Bank and subsequently, in 1989, MUI Bank. In 1994, Quek Leng Chan's Hong Leong Group acquired MUI Bank and renamed it Hong Leong Bank. Quek beat another prominent ethnic Chinese entrepreneur, Vincent Tan, to the acquisition. Quek, born in 1941 in Singapore to a Chinese migrant family, is a UK-trained lawyer, who inherited part of his father's business but propelled it to greater heights and breadth when he was sent to run the Malaysian operations.

While Public Bank's Teh and Hong Leong Bank's Quek were both born in Singapore and migrated to Malaysia, United Overseas Bank's Wee family is the reverse. United Overseas Bank was founded as United Chinese Bank in 1935 in Sarawak by Wee Kheng Chiang, the late father of Chairman Emeritus, Wee Cho Yaw and grandfather of current CEO and deputy chairman, Wee Ee Cheong. Wee Kheng Chiang was born into a poor migrant Hokkien Chinese family in Sarawak and lost his father at the tender age of six. He grew up in harsh poverty and started off his career with a British company in Sarawak. He subsequently joined a company controlled by a local ethnic Chinese millionaire, Ong Tiang Swee, a local Chinese community leader. Soon, his diligence and good job performance caught his employer's attention who, in turn, match made Wee with his daughter. Wee's background of dealing with agricultural products and being sent to his ancestral home in China during his childhood put him in good stead to be a good trader. Wee's entrepreneurial traits, combined with Ong's networking with the elite, enabled him to prosper and eventually set up United Chinese Bank (Lam, 2012). Cho Yaw took full control of United Overseas Bank in 1960 and took it further through innovative forays into foreign exchange dealings, overseas expansion, and mergers and acquisitions. Among the major recent mergers was Overseas Union Bank (in 2001), a large Singapore-based bank founded by Lien Ying Chow, a migrant ethnic Teochew Chinese. Cho Yaw's son, Ee Cheong (now aged 64), took over as deputy chairman and CEO in 2007. Although Cho Yaw (now aged 88) retired as chairman in 2013, his influence continues through his position as Chairman Emeritus and Adviser.

There are some similarities among all three key players – Teh Hong Piow, Quek Leng Chan and Wee Cho Yaw. First, they are not direct Chinese migrants. They are at least second generation Malaysians/Singaporeans, have lived here for more than 70 years and have their affinities tied to these countries rather than to China. Nonetheless, they are cognisant of the potential sensitivities of their dealings with the non-Chinese government authorities at home and in the region. The adverse impact of the NEP on ethnic Chinese business is particularly pronounced in the banking sector. In the 1970s, virtually all of Malaysia's domestic banks were ethnic Chinese-controlled but this sector is now controlled either by government-linked companies or privately-held indigenous capital (Hara, 1991), leaving the ethnic Chinese with only two, namely Public Bank and Hong Leong Bank (Sidhu, 2017). Second, just like many typical ethnic Chinese businesses, these highly respected business leaders remain hands on in running their banks. Third, their dominant positions are well entrenched, not only in terms of having the largest shareholdings but also because of the patriarchal respect given to them (Tong, 2014).

Conversely, there are two differences. First, unlike Teh and Wee who focus on banking, Quek runs a conglomerate in several diverse industries and is said to adopt the business philosophy of "buy low, sell high and never fall in love with any of [his] businesses" ("Leng Chan's business", 2016). Quek's foray into Hong Leong Bank is also relatively shorter, some 20 years as compared with Teh and Wee's 60 years and more. Nonetheless, Quek already had his finger in banking back in the 1980s, in the form of Dao Heng Bank in Hong Kong.

Second, Teh is the only true founder of a bank. Nonetheless, Wee significantly transformed the bank he inherited from his father, through diversification, internationalization and several acquisitions. Likewise, Quek acquired MUI Bank from founder Khoo Khay Peng and renamed it Hong Leong Bank. Five years later, Hong Leong Bank's existence was threatened; it was not listed as an anchor bank in the government-initiated banking rationalization plan. This was in the heat of the Asian financial crisis and after the dramatic sacking of Finance Minister and Deputy Premier Anwar Ibrahim, with whom Quek was said to be affiliated. Nonetheless, Quek fought hard to have his bank included in an expanded anchor bank list. Quek also saw through the acquisition of EON Bank, all of which leads to Hong Leong Bank's position as the fifth largest banking group in Malaysia. Hence, although Wee and Quek are not the original founders of their banks, they significantly transformed and grew their banks. As such, their engagement level would be similar to that of an original founder, such as Teh.

2.3. Entrepreneurship and Family Business

The question of whether entrepreneur-controlled businesses are managed better remains unresolved. On the one hand, employing Jensen & Meckling's (1976) agency theory, there should be closer goals alignment between the owners (as principals) and the managers (as agents) because the owners are also actively managing the firm. In fact, goals alignment or deeper engagement levels may not be limited to the proportion of shares owned but also applies to psychological ownership (Mustafa, Ramos, & Man, 2015). If firm ownership is more concentrated, the intensity of monitoring the business should be greater, and there would be fewer incidences of free-riders and hence, such firms should perform better (Shleifer & Vishny, 1986). In fact, if the firm is still controlled by the founding family, it would perform even better (Anderson & Reeb, 2003). This is exemplified by what a United Overseas Bank director says of Wee Cho Yaw's thinking: "I have a billion dollars in the bank. It's my interest at stake. You think I will make a fool of myself?" (Tsui-Auch & Yoshikawa, 2015, p. 15). Studies on banks suggest that the greater involvement of the controlling (and founding) entrepreneur help improve firm performance and reduce default risk (Barry, Lepetit, & Tarazi, 2010). Such firms tend to have a longer-term emphasis oriented towards ensuring intergenerational survivability (James, 1999; Stein, 1989; Wong, 2010). Specifically, in the case of Chinese businesses, the longevity and honour attached to the family name is of paramount importance (Redding, 1995).

On the other hand, overly concentrated ownership may yield suboptimal results for minority shareholders (Shleifer & Summers, 1990; Shleifer & Vishny, 1986). This is especially true in two possible contrasting scenarios pertaining to the controlling entrepreneur's character. The first is when the entrepreneur is overly focused on maintaining family control and hence, becomes too risk averse (Morck, Shleifer, & Vishny, 1988). This results in suboptimal returns because opportunities for reasonable risk/reward deals are not taken up. The second scenario is when the controlling entrepreneur is too aggressive and hence, takes on too much risk (S.-W. Cheong, 2017; Haw, Ho, Hu, & Wu, 2009). In fact, (Tschoegl, 2001) reasons that "owner-managed firms possibly have[ing] a higher variance in their performance [because] … the owner-manager does not have to persuade others"; he also cites a study of banks in East Asia which finds that "family-owned banks were among the most risky". Besides suboptimal risk/return trade-off considerations, the entrepreneur-controlled firms may tend to limit top positions to family members and close associates, not all of whom may necessarily be the best for those positions (Anderson & Reeb, 2003; Shleifer & Vishny, 1986). This would hamper attainment of the firm's true growth potential (Shleifer & Summers, 1990).

2.4. Summary

The ethnic Chinese's thinking is not only shaped partly by traditional Chinese culture but also tempered by challenges they faced as migrants or even refugees at some point in their ancestry. The foregoing discussions suggest that while some traditional Chinese values are likely to exist among the ethnic Chinese entrepreneurs today, the question as to which aspects are more pronounced remain unclear. The search for this answer is guided by Redding's (1995) three broad themes of *paternalism*, *personalism* and *insecurity* which he observes from a study of 72 executives from four countries. These themes also nicely summarize the foregoing discussions. *Paternalism* is the Confucian core value to promote social order. Ethnic Chinese businesses typically see power highly concentrated in their key leader, an extension of the family unit, who provides long lasting and stable leadership which facilitates the building of deep knowledge and strong networks. *Personalism* refers to informal but deep-rooted personal connections built on trust and reputation. *Insecurity* arises from the hostile environment faced both in China's history and also as migrants in their new host countries. This in turn leads to the traits of defensiveness, thrift and wealth accumulation (Redding & Hsiao, 1990).

3. Methodology

This paper extends the work of Koh, Avvari & Tan (2015) who developed an integrated framework which facilitates the continuous churning of talent for banks' risk management functions. This was done through a two-stage process. First, literature reviews and interviews with nine leading chief risk officers yielded a list of 23 operationalized elements. Second, a survey of 135 risk management professionals was conducted to test the framework. The results reaffirmed the appropriateness of the integrated risk management competency development framework.

This paper, however, aims to identify the areas in which the ethnic Chinese's risk psyche differs from the others. Hence, this section focuses on the process of conducting a discriminant analysis of the survey responses. Discriminant analysis seeks a combination of elements which best differentiates between category groupings. It identifies a regression equation (comprising these pertinent elements) which best predicts membership into these category groupings (Field, 2009; George & Mallery, 2009). In the context of this paper, the category groupings are the ethnic Chinese entrepreneur-controlled banks and the others, i.e. the non-entrepreneur-controlled banks.

Some authors seem silent on the data prerequisites for discriminant analysis (e.g. Field, 2009; Malhotra, 2007). Hair, Black, Babin and Anderson (2010), however, suggested consideration of five criteria: sample size, subsample size for each category, dividing the sample into analysis and holdout subsamples, normality of the elements and the dependent variables having unknown but equal dispersion and covariance structures. While ideally all five criteria should be met, some non-conformity does not necessarily invalidate the use of discriminant analysis if the other requirements are largely met.

Of these five criteria, only the sample size requirement was not met. The ideal minimum sample size should be 115 (based on the guideline of at least five observations per element, i.e. 5 x 23 elements = 115). Of the 23 elements in the questionnaire, two are conditional because they relate to advanced banking practices which are less prevalent in Malaysia and hence, did not apply to all banks. These two elements gauge the extent to which the respondent's bank staff: (1) learn risk dynamics if the bank develops its own quantitative risk models, and (2) leverage sophisticated mathematical skills to complex derivatives. Not all banks develop their own risk models and not all banks utilize the mathematical skills of staff (from quantitative, non-business disciplines) for complex derivatives. The inclusion of these two conditional elements reduces the effective sample size from 135 to 79. This presents a statistical versus theoretical trade-off. Using the entire sample and ignoring these two conditional elements would mean that the sample size criterion is met but with the theoretical trade-off that these two elements are excluded from the analysis. Conversely, inclusion of these two conditional elements reduces the effective sample size to 79, which is below the required minimum of 115.

The remaining procedures for discriminant analysis follow Malhotra (2007), namely to estimate the function coefficients, to determine the function's statistical significance, to interpret the results and finally, to assess the function's validity. First, in estimating the coefficients, there is a choice between the simultaneous and stepwise estimation methods. Also, besides the *SPSS*'s default F value cut-off points, the more liberal points of 1.15 and 1.0, following George and Mallery (2009) were also run.

Second, the function's significance is tested using a p value benchmark of 0.05. Third, the discriminant function's results were interpreted by focusing on three items: standardized coefficients because these values are more useful than the unstandardized ones (Field, 2009), discriminant loadings using absolute values exceeding 0.4 as being substantive (Hair et al., 2010), and group centroids. The coefficients represent the explanatory weights and show the power of that element across the two categorical groups. The loadings show the correlation between each element and the discriminant *z* score for each discriminant function. The group centroid shows the mean value for the discriminant *z* scores.

Fourth, assessment of the function's validity was done by comparing the proportions of correct classifications with proportions that would have been obtained by chance. To recapitulate, the discriminant functions which were considered, were those run based on three sets of variations: (1) include all elements versus exclude the two conditional elements, (2) the simultaneous versus stepwise estimation method, and (3) the default versus the more liberal F value cut-off. A total of six discriminant functions (i.e. *a1* to *a3* and *b1* to *b3*) were studied. The results of these functions are summarized in Table 1.

A review of Table 1 suggests that although *a1* has the highest eigenvalue, it does not comply with the covariance matrix equality assumption.

Table 1 Comparison of the Discriminant Functions

	Includes All Elements			*Excludes Two Conditional Elements*		
Criteria	*a1 simultaneous*	*a2 stepwise F default*	*a3 stepwise F liberal*	*b1 simultaneous*	*b2 stepwise F default*	*b3 stepwise F liberal*
Equality of covariance matrix?	no	no	yes	no	yes	yes
Eigenvalue	0.726	0.299	0.544	0.297	0.099	0.249
% variance in the dependent variable accounted for	42	23	35	23	9	20
Wilks' lambda significant?	yes (marginal)	yes	yes	no	yes	yes
Benchmark for validation %		66			71	
% correctly classified:	n/a – no substantive discriminant loadings					
– original		73	84	78	67	70
– cross-validation		72	75	62	66	67

Likewise, all the other functions (except for *a3*) have at least one area of non-compliance, as shown in the shaded cells. Function *a3* is the only one with no violations and has decent results for all the other tests. Hence, *a3* is selected as the model for further discussions. The benchmark criterion for validation (66 per cent and 71 per cent respectively) is computed such that the proportion correctly classified should exceed that obtained by chance by ¼, i.e. using $\sum pi^2 * 1¼$ where p_1 and p_2 are the proportions of respondents in the entrepreneur- and non-entrepreneur-controlled banks respectively (Hair et al., 2010).

4. Findings

The results of the discriminant function are shown in Table 2. A review of the table shows the two elements which form the discriminant function and also have substantive loadings. Both the coefficients are positive. Hence, taken together with the function at group centroids (i.e. entrepreneur: -0.930, non-entrepreneur: 0.570), responses with higher scores for these two elements are more likely to have come from non-entrepreneur-controlled banks. Put another way, the entrepreneur-controlled banks are more likely associated with lower scores for these two elements.

First, the entrepreneur-controlled banks are likely to score lower for the extent of learning in the course of developing their own quantitative risk models. This may reflect *paternalism* in that staff members are more accustomed to tight and central directives from the key patriarchal figure (Tong, 2014) rather than actively engaging in reflecting processes at the ground level. They may be more respectful and submissive to the views and directional guidance from the patriarch, a core of Confucian tradition (Wu, 1975). Moreover, the financial conservatism and defensiveness arising from the ethnic Chinese's sense of *insecurity* would mean that they tend to avoid over-spending on purchase or even developments of risk models which may be overly complex (Jakobsen, 2015). Instead, they may adopt a more

Table 2 Discriminant Function: Ethnic Chinese Entrepreneur-controlled Banks versus Non-entrepreneur-controlled Banks

Elements	*Standardized Coefficients*	*Discriminant Loadings*
Extent learnt risk dynamics in developing own model	0.773	0.439
Proactive – new risk management techniques	0.556	0.431

pragmatic approach and rely more on information readily obtained from informal *personal* networks (Mackie, 1995).

Next, the entrepreneur-controlled banks are likely to score lower for proactive awareness of new techniques because *paternalism* largely prevails; the controlling entrepreneurs are still hands on, actively involved in their respective banks' daily activities and exerting tight controls (Tong, 2014). Given their conservatism, they probably emphasize a more *personal* touch to risk management. This may manifest in various ways. For instance, they may insist on tighter internal controls, be more personally involved in business deals or monitoring of risks and rely more on their personal business insights or network of contacts (Mackie, 1995). Besides, the controlling entrepreneurs may be more conservative in terms of spending or allocating resources for new risk management techniques. They may emphasize conservative and time-tested techniques which focus on fundamental issues rather than newer, less-proven risk management techniques (Hoflich, 2012).

In sum, each of the two elements which combinatively differentiate the ethnic Chinese entrepreneur-controlled banks can illustrate Redding's (1995) three broad themes of the ethnic Chinese – *paternalism*, *personalism* and *insecurity* – in different ways. Put another way, the ethnic Chinese in Malaysia today still exhibit some, though not all, aspects of Chinese-ness corresponding to all the three broad themes

5. Conclusion

China's phenomenal growth and increasing ties with ASEAN is poised to reach new heights with the mammoth BRI. Although it is unclear how the BRI will actually be run, China has already sought the support of ethnic Chinese abroad. This provides a two-edged sword of opportunity and risk. The China-ethnic Chinese link is dynamically complex. While many aspects have to be deliberated, this paper takes the first step of providing an empirical basis for understanding the risk psyche of the ethnic Chinese entrepreneur-controlled banks in Malaysia.

It begins by tracing the background of the ethnic Chinese businesses and the ethnic Chinese entrepreneur-controlled banks so as to understand the forces that mould them. It also looks at some key studies on entrepreneurship and family businesses which present mixed findings of the risk psyche of the entrepreneur-controlled businesses. Applying discriminant analysis on a survey of 135 risk management professionals, this paper finds that two elements combinatively differentiate the ethnic Chinese entrepreneur-controlled banks from the rest. These banks tend to have less intensity of being proactively aware of new risk management techniques and also the extent of learning risk dynamics in the course of developing their own quantitative risk models.

These two elements suggest that some aspects of Chinese-ness in terms of *paternalism*, *personalism* and *insecurity* still exist today. While such traits have put these banks in good stead, one may also consider adopting more institutionalized risk management approaches so as to adapt to increasing complexity, volume, diversity and opportunities beyond these banks' traditional realm. Moreover, efforts to engage a wider spectrum of the staff members with more open dialogue may deepen psychological ownership and encourage more robust learning. Such approaches and efforts would help propel these banks to newer frontiers of excellence.

As in all research, this paper has limitations. The findings are based purely on a survey. A carefully administered post-hoc interview may help shed more light, facilitate triangulation and enhance the validity of the findings. Besides, the survey was limited to risk management professionals of banks. Inclusion of other business professionals from other key industry sectors would provide a more comprehensive picture of the ethnic Chinese entrepreneurs' risk psyche. Nonetheless, these limitations do not dilute the value of the insights obtained; rather, it provides avenues for future research to deepen and widen the understanding of this topic.

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Note

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