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CULTURE AND MANAGEMENT IN CHINA

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John Child and Malcolm Warner

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INTRODUCTION

This chapter examines the relationship between culture and management in the People's Republic of China [PRC]. Culture will be treated as one of the main variables accounting for the specific management scenarios that have evolved in China over the last few decades[1] (Warner and Joynt, 2002).

While China is home to the world's oldest and most continuous culture, it has also been subject to massive institutional changes since the nation-wide establishment of the Communist regime in 1949. Comparison with other parts of China, namely Hong Kong and Taiwan, which have not experienced the same socio-economic regime, raises the question as to how much that is distinctive about management in China can be attributed to Chinese culture as opposed to the prevailing institutional system. Certainly, the chapters in this book on Hong Kong (Chapter 4 and Taiwan (as well as on Singapore) indicate that there are substantial differences in corporate and managerial behaviour between Mainland China and these other territories. The substantial divergence between East and West German management practice and performance, which created a massive challenge after re-unification in 1990, is a comparable example, as is also the two Koreas today. In these cases, differences in behaviour cannot readily be accounted for by culture

alone, and this warrants a brief consideration of what culture and national institutions can respectively be expected to explain.

As the introduction to this book notes, the cultural perspective has for some time provided the dominant paradigm in comparative studies of management and organization. It is indicative that Hickson and Pugh (1995) chose to subtitle their review of the field 'The Impact of Societal Culture on Organizations around the Globe'. Even before Hofstede's seminal work (1980), international studies of organization generally regarded culture as the key explanatory factor for cross-national differences, as reviews such as Roberts (1970) make clear. Attention to culture also has intuitive appeal to practising international managers, for whom it serves as a convenient reference for the many frustrating difficulties they can experience when working with people from other countries, the source of which they do not always comprehend.

A contrasting perspective emphasizes that management and business have different institutional foundations in different societies. Key institutions are the state, the legal system, the financial system and the family. Taken together, such institutions constitute the distinctive social organization of a country and its economy. The forms these institutions take and their economic role are seen to shape different 'national business systems' or varieties of capitalism (Whitley, 1992a, 1992b; Orru et al., 1997). In turn the norms and rules of such systems impact importantly on corporate and managerial behaviour. It has to be admitted that although the institutional perspective draws on a long sociological tradition, there is still not much agreement about, or understanding of, the processes whereby institutions are formed and in turn impact on

organizations (Tolbert and Zucker 1996). There is, however, more consensus about the potential analytical power that the perspective offers.

Institutional theorists stress the historical embeddedness of social structures and processes. This implies that nations have their own logic of social and economic organization, and that this is difficult to distinguish from their cultural heritage. In China, for example, the foundation of Chinese respect for hierarchy and the family social collective is based upon the relational norms expounded by Confucius and legal codes such as those developed during the Tang Dynasty[2] (Gernet, 1982). This institutionalised relational logic has shaped a society whose transactional order rests on social obligation to higher authority and to the family rather than on rules oriented to protecting the individual. Chinese capitalism is seen to be intrinsically different from Western capitalism because of this contrast in institutional framing over a long period of time (Gerth and Mills, 1946; Weber, 1964). The hierarchical and collective orientation it has produced has become today commonly regarded as an inherent characteristic of Chinese culture.

In other words, over historical time, the distinction between cultural and institutional causation becomes blurred by the inter-relationship between the two. While many institutions are initially shaped by political and legislative actions, those that survive do so because they express and support enduring cultural values. Nevertheless in the shorter term, institutional regimes condition the attitudes and behaviour to be found in organizations, and they can modify cultural effects. As 'same culture, different system' examples like Mainland China and Hong Kong illustrate, the impact of institutional

differences is sufficient for Hong Kong managers to regard managing operations in the Mainland as problematic (Child et al. 2000).

At any given time, culture and institutions tend to influence different aspects of management and organization. Culture impacts primarily on individual attitudes and behaviour, including inter-personal behaviour. Its influence in organizations is therefore likely to be pervasive, extending to matters such as the motivational consequences of managerial practices and styles, norms of communication, the willingness to take individual responsibility, the conduct of meetings, and modes of conflict resolution. Institutions, by contrast, impact directly on features that are shaped or constrained by formal norms and rules. These include systems of corporate ownership, accountability and governance, conditions of employment and collective bargaining, and the reliance on formal contracts for intra- and inter-organizational transactions (Child, 1981).

There are further qualifications we need to bear in mind in the case of a huge and highly complex country like China. First, China embraces many regions with their own sub-cultures[3] (Cannon and Jenkins 1990). Fairbank was of the view that, in China, 'regional differences are too great to be homogenized under a unitary state' (1987: 363). Second, over the past twenty or so years it has experienced the world's largest social experiment in the shape of its economic reform, which has led to rapid industrialization and significant generational differences. These changes have been most evident in coastal regions, and they have added to regional differentiation. Third. China's business system now includes a variety of enterprise forms, ranging from state-owned enterprises, former state enterprises converted into joint stock companies, collectively-owned companies, a rapidly developing privately-owned sector, and enterprises with foreign investment either

in joint venture or wholly-owned subsidiary form (Child and Tse, 2001). This changing and extremely varied scene raises questions about whether or not one can detect a single characteristic and culturally determined model of Chinese management.

HISTORICAL BACKGROUND

China's long history has until very recently been marked by two over-riding social imperatives. The first imperative concerned the preservation of its integrity in terms of protecting its immensely long borders and maintaining internal unity. This justified and reinforced the hierarchical status and centralized powers of the Emperor and imperial officials. While they normally treated imperial authority with great deference, the peasantry occasionally revolted against the abuse of this authority, especially when driven to desperation by famine. The second imperative in fact concerned the need for communal self-help in the face of recurrent natural disasters, particularly famine and flood. The precariousness imposed by a combination of threats from natural causes and arbitrary imperial rule led to a reliance on mutual support within extended family units and the local community. This historical legacy helps to account for the paradox characterizing China today, that high trust is accorded to group members or those with whom there are special relationships, while others are actively mistrusted.

Chinese culture and tradition is therefore deep rooted and before the nineteenth century was largely undisturbed by foreign influence. The majority Han people had managed to absorb foreign invaders, such as the Mongols and the Manchu, into that culture. Their culture is a strong attribute of Chinese society and its members remain very self-conscious of it. As Fairbank noted (1987: 367), 'the influence of China's long past is ever-present in the environment, the language, the folklore, and the practices of

government, business and interpersonal relations'. Many writers have stressed the influence of China's culture on the way that its organizations are managed (e.g., Pye 1985, Lockett 1988, Redding 1990, 2002).

ECONOMIC BACKGROUND

The PRC has been one of the fastest growing economies in the world in recent times. China's achievement has been a dazzling success and quite unanticipated in many respects, particularly after the debacle of the Great Leap Forward and the woes of the Cultural Revolution under Mao Zedong. Since Deng Xiaoping initiated the 'Open Door' reforms in 1978 however, it has expanded by leaps and bounds. By the start of the new Millennium, China was hailed as a coming economic superpower. Living standards have risen greatly but the distribution of benefits has been uneven. By 2000, nominal GDP growth was around over eight per cent per annum. Industrial production grew even faster than this. Per capita GDP was just over US$800, a modest level by international standards but purchasing power parity was much higher, around US$4,500 for that year, according to World Bank estimates. The last few years have seen more deflation than price rises. Those living in towns have done better than those inland over the decade; urban workers have benefited more than peasants but living standards of both have risen absolutely even if there have been differences in their relative degrees of prosperity. A new middle class has also emerged, and a consumer revolution has been unfolding, if unevenly.

Labour resources, a main feature of China's comparative advantage, have been increasingly been more effectively channelled into productive uses than under the command-economy system. As of April 2001, the latest available official Census

statistics indicate that over 705.75 million people were 'employed' in the Chinese economy at the end of 1999, out of the 'economically active' population aged 16 and over of around 720 million. The employed represented 56.1 per cent of the total number of Chinese people working. Women comprised 46.5 per cent of total employment, which is on the high side by international standards, though one should bear in mind that the Chinese Population Census of 2000 suggested that there were 117 females for every 100 males in the PRC.

The PRC has to date avoided the worst of the late-1990s Asian economic crisis, but it may not be wholly invulnerable vis-à-vis the possible next one (*The Economist* 2002b). GDP growth is still buoyant, but bad debts continue to an albatross around the neck of the financial system. Asian devaluations risk undercutting its strong exports. In addition, the downturn in the US economy in 2002 augurs poorly for future export expansion. Recent US tariffs against imported low cost steel from the PRC and elsewhere may signal stormy times ahead (*The Economist* 2002a). No doubt, there are further threats (as well as opportunities) just around the corner.

SOCIETAL CULTURE

There have been many different strands in the cultural evolution of China over the centuries. Historians like Fairbank and Goldman (1998) ably bring out both the cultural homogeneity and diversity of China over its long chain of evolution. We have already signalled the presence of considerable regional and generational differences.

The core Han culture is probably the most important factor in understanding how China developed. It is almost impossible to discuss any aspect of Chinese life without

referring to it. It dominates both the map and the mind-set of modern China. Despite the strong influence of institutional features, informed by communist ideology and a totalitarian state, as in other countries cultural variables have also help to mould the institutional ones. They permeate social relations in everyday life, both inside and outside the basic work unit (*danwei)*. China is widely assumed to be 'different' from the West. Both outsiders and locals tend to emphasize its cultural distinctiveness or even uniqueness, although perhaps not to the same degree as the Japanese (Dale 1986). Today, the qualifier 'with Chinese characteristics' is still often heard.

One of the most important influences on Chinese everyday life was Confucianism in its many varieties, and it remains so. Three bonds of loyalty bound the society (loyalty to the ruler, filial obedience and fidelity of wife to husband). Two of these were set within the family and all represented relationships 'between superior and subordinate' (Fairbank and Goldman 1998: 19). Confucius (Kongzi, 551-479 BC) writing around the time of Socrates but a while before Jesus Christ, based his ideas on absolute respect for tradition, on a strict hierarchy of primary relationships between family-members, and then again between the people and their rulers. His was a philosophy intended to guide people's daily life and it established a mode of thought and habit that has persisted and that blended well with other belief systems that many of its adherents often held at the same time, such as Buddhism and Daoism. The major ideas of this Confucian system of beliefs were three basic guides (ruler guides subject, father guides son, and husband guides wife), five constant virtues (benevolence, righteousness, propriety, wisdom, and fidelity), and the doctrine of the mean (harmony). Confucius laid down that *Ren* or benevolence was the supreme virtue the follower can attain. As a strictly natural and humanistic love, it was based upon spontaneous feelings cultivated through education. To

attain *Ren*, you have to practice *Li*, which represents social norms. The latter can be interpreted as rituals, rites or proprieties and includes all moral codes and social institutions.

As *Li* is a term for moral codes and social institutions, many assume that the practice of *Li* is to enforce social conformity at the cost of the individual. However, an individual personality is not an entity cut off from the group. Confucius said: 'In order to establish oneself, one has to establish others. This is the way of a person of *Ren*' (McGreal, 1995: 5).

According to Confucius, the optimal way to govern is not by legislation but by way of moral education and by example. The ideal government is thus a government of *wuwei* (non-action) through a rock-solid groundwork of moral education. Confucius notes that: 'If you lead the people with political force and restrict them with law and punishment, they can just avoid law violation, but will have no sense of honour and shame. If you lead them with morality and guide them with *Li*, they will develop a sense of honour and shame, and will do good of their own accord' (McGreal, 1995: 7). This message is an appeal to the human heart: self-realisation toward world peace (harmony) to a peaceful world and to an orderly society as the ultimate goal of this belief-system. The strong Chinese cultural preference for basing business transactions upon the quality of inter-personal relationships and for settling disputes through mediation rather than relying upon contracts and legal process can be seen to stem from this philosophy.

By and large, Confucianism occupied the mainstream of Chinese philosophy for many centuries. The neo-Confucian project under the Southern Song, Yuan and Ming

dynasties formalized Confucianism into a set of rituals that then had a tremendous impact on thinking and behaviour throughout Chinese society (Faure 2001). Even so, other branches of philosophy before and after the Master's contribution were also influential, f with different focuses. Daoism, for instance, may be cited as another significant school of thought. The founding father of Daoism was Lao Zi (6th century BC) who introduced the idea of yielding to the deep-rooted 'flow' of the universe. This part of the belief-system remains deeply embedded in the Chinese psyche. Buddhism, Confucianism, Daoism, Legalism, Christianity and the rest, indeed Communism in its turn, all came and were integrated into contemporary mind-sets.

Chinese society today is the result of a long process of adaptation to changes in this cultural environment. Core cultural influences appear to have persisted as the bedrock of the Chinese system on the Mainland, but they were arguably submerged for the best part of half a century by newer layers of institutional change in the social archeology of people's mind-sets. The roots of this institutional change indeed go further back to the revolution of 1911. Cultural characteristics were suppressed for what turned out to be a historically brief period under Mao's rule but were, we would argue, so strong they prevailed and have re-appeared in recent decades as the system became more 'open' under the post-1978 reforms.

Various authorities have identified the values underpinning Chinese culture that are relevant to management and organizational behaviour (e.g. Shenkar and Ronen 1987, Lockett 1988, Redding 1990, 2002, Bond 1996). It is widely accepted that Confucianism has been the most important historical foundation for many of these values. Redding's (2002: 234-5) list is one of the more comprehensive and is quoted with permission:

1. *Societal order*. This reflects the sense of Chinese civilization as based on the learning and practice by individuals of clearly defined roles, all within a dominating state structure with a remit to preserve order, and all socialized into a belief in the need for appropriate conduct in the interests of harmony.
2. *Hierarchy*. Stemming largely from Confucian ethics, these values legitimate paternalism at the levels of family and organization, and patrimonialism at the state level, and provide a moral justification for hierarchy by stressing reciprocal vertical obligations.
3. *Reciprocity and personalism*. This is the currency of horizontal exchange, and the guarantor of the limited but adequate trust that maintains the particular structure of transactions.
4. *Control*. In a society of competing families, under conditions of scarce resources, and in an interventionist state, control of one's fate becomes a core ideal for many, particularly business owners, and sensitivities to control become highly tuned.
5. *Insecurity.* This is endemic in an essentially totalitarian state, with weak property rights, and it is associated with competitiveness and a work ethic. Building defences and reserves becomes a moral duty towards dependents, as well as a practical necessity.
6. *Family based collectivism*. The architecture of horizontal order in Chinese society is based on identity with family as the core social unit.
7. *Knowledge*. The Chinese respect for learning appears to have survived the ravages of the Cultural Revolution and the related persecution of intellectuals, although its support in the institutional fabric is less strong than in the Imperial period. The

value of learning, however, remains high, and there is doubtless some connection made with social mobility in its retention as a core ideal.

These values are commonly expressed in a number of forms that are of particular relevance to management in China. Respect for hierarchy and learning mean that long-serving senior figures in organizations are readily accorded leadership status. Family-based collectivism manifests itself in the survival, and today the resurgence, of family business, as well as in personnel practices such as recruitment of family members. Collectivism manifests itself in an orientation towards groups so that, for example, there is often resistance to the introduction of individually based performance-related pay. Insecurity and personalism combine to accord significance to the preservation of 'face', and non-Chinese people therefore need to be very careful when negotiating with older senior managers or officials who are lacking in modern technical knowledge not to cause them to lose face.

The perceived need to guarantee trust and maintain harmony leads to special importance being placed upon personal relationships. An example is 'relational networking' based on inter-personal connections (known in Chinese as *guanxi*)[4]. It works extensively as a co-ordination mechanism, as we find in both socialist and capitalist Chinese organizations. But there are also those who doubt if it is still important in today's more market-oriented economy in the PRC. This behavioural pattern is arguably basically East Asian and very much ascriptive, communitarian, and particularistic and thus quite distinct from the *Gesellschaft* type of social integration often associated with Western ways of doing things and with 'modernization' (n China's search for 'modernity', see He, 2002). It may even illustrate the persistence of Chinese societal

patterns, in spite of changes from Imperial rule to Republican, and from Revolutionary to Reformist. Indeed, such is the *continuity* in the culture, that the phrase 'Confucian-Leninism' has been used by Pye to link the past and the near-present (cited in Warner 1995:147).

Guanxi, for example, has been deep-rooted in China since Confucius codified the societal rules over 2000 years ago. These welded the hierarchies holding national Chinese (and Overseas Chinese) social structures together, such that fief-like loyalties and clan-like networks have long been the main links in the societal chain (Boisot and Child 1996). Together with *guanxi* (relationships), *li* (rite), *mianzi* (face) and *renqing* (obligations) reinforce the social bonds that make the Chinese system function smoothly. In terms of organization theory, this represents the elements of a reciprocal informal system that acts as neither market nor hierarchy; it acts reciprocally with whatever institutionalized bureaucratic structures exist at the time and may help to make them work more smoothly. As Chen (1995: 144) puts it, 'a Chinese should first and foremost know his place in society and how to interact with others in a proper manner. *Guanxi*, face and *renqing* are important components in regulating interpersonal relationships'.

The dismantling of the socialist order laid down during the Mao period might be expected to release the expression of traditional Chinese culture from the bounds, even rejection, that were imposed on it. Wang (2002), however, concludes that this has not happened to an extent sufficient to fill the gap left by the demise of the old order. Instead, she maintains that a serious contradiction between official ideology and China's socio-economic reality has given rise to a disorganized hedonism and 'above all, a devastating poverty of moral and cultural resources for self-critique and self-betterment'.

(p. 17). The huge scale of corruption in contemporary China appears to bear this claim out. In Wang's view, there is an 'almost total lack of a new type of person whose values and motivations can help sustain China's emerging capitalist society as the Maoist type of person did the old 'communist' order' (p. 1).

CORPORATE CULTURE

It is impossible to characterize a corporate culture that typifies China for two reasons. First, the context for Chinese business is changing rapidly, under the impetus of the economic reform. Second, as a result of the reform, Chinese enterprises vary extensively, ranging from state-owned enterprises [SOEs], some of which are still protected from market forces, through former SOEs which have converted to joint stock companies, to collectively-owned enterprises and private firms. In addition, companies with foreign ownership now make up a sizeable part of the non-agricultural economy.

The most recent landmark changes in corporate culture were initiated in late 1978. The 'new' Chinese managerial model may be seen as a pragmatic experiment that was first piloted in Sichuan Province in 1979 under the leadership of the then Party Secretary, Zhao Ziyang. In the early 1980s, those changes seen to be effective were then applied, with varying degrees of intensity, across the whole of the PRC but it was not until the mid-1980s that management reforms began to take root. As mentioned earlier, State-owned enterprises (SOEs) had once dominated industrial production, and their work-units (*danwei*) embodied the so-called 'iron rice-bowl' (*tie fan wan*) which ensured 'jobs for life' and 'cradle to grave' welfare for mostly urban industrial SOE employees (Lu and Perry 1997). The system was partly derived from earlier Chinese Communist experience

in the liberated zones, and Soviet practice, but in addition may have had roots in Japanese precedents in Occupied Manchuria.

Under the reform since 1979, there have been major shifts in enterprise ownership and growing exposure to market forces. Before the reform, China's SOEs dominated its national economy, producing three-quarters of its industrial output value. They operated according to bureaucratically mandated plans, including input and output quotas. By 2002, SOEs accounted for just under 25 per cent of industrial output. There is today a wide range of firms with contrasting ownership and governance structures. Urban and rural collective enterprises account for around 40 per cent of industrial output, firms with foreign investment over 15 per cent, and private firms over 20 per cent. Except for a few SOEs, all these firms secure resources and dispose of outputs through markets[5].

China's industrial structure has become complex and differentiated due to moves towards exposing firms both to markets and private ownership. Government policy is to retain SOEs in key industries, which are strategic in nature and/or where considerable economies of scale are anticipated, while others are to have their ownership restructured or to be sold outright. The government has also encouraged SOEs to merge into business groups, ostensibly to achieve scale economies, but often in reality to bail out weaker enterprises and avoid the social costs of closure (Keister 2000). A significant development in the 1990s has been the conversion of SOEs to joint stock companies, of which there were 13,103 by the end of 1997. Analysis of 40,238 SOEs surveyed in 1998 by the State Statistical Bureau indicated that 17 per cent of them had completed restructuring (Lin and Zhu 2001). Of the restructured SOEs, 55 per cent had become limited liability companies, 16 per cent had transformed into employee shareholding co-

operatives and 7 per cent had become private enterprises. Restructured enterprises generally had a significant private stake, though conversely some of the newly formed private enterprises still had a majority of their shares held by the state. The SOEs that had converted into fully private firms were generally small and in most the top manager was the main owner and likely to hold tight control.

Collective enterprises, especially so-called Township and Village Enterprises (TVEs) owned and operated by village and municipal governments, have become a unique and significant force in China's economy. Many of them are low-tech, wasteful, and poorly managed (*The Economist* 2002b: 10-11). Nonetheless, with the collapse of many SOEs, and the increasing authority delegated by the state to local governments in China, TVEs are likely to remain significant players in China.

In addition to the reconstitution of some SOEs as private firms, the core private sector has been the fastest-growing in China and now employs over 13 million people. In the past, private firms have experienced a harsh institutional environment (IFC 2000). In 2000, however, they were granted full legal rights, and the establishment of a venture capital market in Shenzhen may provide needed financial capital to the promising few. Not many private firms have so far become joint venture partners or acquisition targets for foreign firms, but some of them will become more attractive especially in areas such as software and internet development (Becker 1999). Another privately-owned part of the economy comprises foreign subsidiaries. Beginning in 1986, foreign direct investors were permitted to establish their own wholly owned subsidiaries (WOSs), and in 1997 the number of newly-established WOSs exceeded that of equity joint ventures (EJVs) with Chinese partners for the first time.

These developments mean that there are today many and varying Chinese corporate cultures. In many SOEs, the residual of the iron rice bowl model continues to persist, though under increasing threat from restructuring. There are, however, an increasing number of reformed SOE cultures; even very 'state of the art' entrepreneurial ones, especially in those SOEs which have converted to joint stock companies. Collective enterprises, including the TVEs, vary greatly between conservative unsophisticated cultures to some modern entrepreneurial ones. Different corporate cultures also arise through links with foreign firms and their different national ownerships. The greatest impact on Chinese enterprise cultures and practices appears to come when the foreign partner or owner is a multinational enterprise (Child and Yan 2001).

Through inheriting a culture with strong feudalistic origins, China provides a favourable context for paternalistic corporate cultures (Farh and Cheng 2000). Enterprises at both extremes of the range, traditional SOEs and private firms, both exhibit corporate cultures that reflect paternalistic cultural values. In traditional SOEs, the culture has been one of top-down leadership and authority, collectivism and mutual dependence, with an emphasis on conformity and attachment to the organization based on moral rather than material incentives (Child 1994). A kind of 'noblesse oblige' has prevailed. Loyalty to superiors and to the work unit has been complemented by employment protection and the provision of welfare benefits. This moral contract is now fast breaking down, as SOEs either reform or go bankrupt. There is little evidence as yet of what the corporate culture of reformed SOEs may turn out to be, though case studies suggest that it will combine an emphasis on personal achievement with a strong collective spirit (e.g. Xu Jian 1997, Nolan 2001).

In the private sector, most firms are still small and their culture is very centred on the owner. In a questionnaire survey of 628 private firms in China, supplemented by interviews with 338 private company chief executives, the IFC (2000) found that the most usual forms of ownership were sole ownership (40 per cent of the firms) and partnership (30 per cent). In such firms the proprietor or a small group of close associates, which often included spouses and relatives, made most decisions personally and informally. Only among some larger and longer-established private firms was there evidence of decisions being made by more formal bodies such as a board of directors or a management meeting. A small-scale, but more ethnographic, study of rural private firms conducted by Pleister (1998), found that the direction of these firms was almost exclusively in the hands of their owner-managers.

Within private firms, be they urban or rural, workers do not normally participate in decision making, even on questions concerning benefits. In the typical urban private firm, employees can be divided into two groups. The first comprises local people and externally recruited university graduates. These employees generally hold better positions in the firms, enjoy superior wages and benefits, and stay with the firm longer. They are regarded as long-term primary members of the corporate collectivity and are likely to identify with its culture. The second group consists of migrants from rural areas, who occupy a much more marginal position.

MANAGERIAL BEHAVIOUR

Managerial behaviour in modern China has been greatly influenced by political circumstances and the institutional regime that government decreed. Initially, the

People's Republic of China managed its labour-force using a 'top-down' model that endured for half a century. Studies of Chinese economic management in the critical years after 1949 (such as Schurmann 1966) show the links between Chinese Communist practices before 1949 as well as Soviet influence after that date. In addition, established Chinese capitalist and foreign-owned businesses before these were 'nationalized' in the 1950s left a legacy of personnel procedures. Other influences came from the Japanese public and private enterprises set up in Manchuria from the turn of the century (Warner 1995).

What we call contemporary Chinese management dates from period after 1978. Even here, which model of management predominates depends on the period chosen, as well as which sector and region of the economy it is located in. At the time of writing, in 2002, it is hard to identify one single stereotypical model as such. The most useful way of approaching the subject is to focus on the two contrasting types of firm that are likely to have long-term prominence within the system. These are SOEs, which it is official policy to maintain at least within strategic sectors of the economy, and private firms.

SOEs tend to be larger enterprises than those in the non-state categories. A conjunction of size and the legacy of government administration means that such enterprises tend towards bureaucratic behaviour. The behaviour of SOEs also exhibits some influences from Chinese culture that reinforce this tendency. A large 'power distance' tends to be maintained between top managers and other members of the organization, with relatively little delegation of authority and a strong emphasis on vertical links within hierarchies. The structures of SOEs are often quite elaborate, with many specialized departments, which tend to experience face major problems of

communication and collaboration of a horizontal kind between themselves. Identities and loyalties are primarily vertical in nature, and reflect the traditional respect among Chinese people for loyalty to the 'ruler'. The problem is accentuated by group orientation. This tends to be most strongly directed towards the immediate working group and its leadership, which is the workplace equivalent of the family, the focal social unit in Chinese culture (Child 1994). The combination of a strong group orientation with a penchant towards egalitarianism generates reluctance among many Chinese to accept responsibility and systems that reward performance on an individual basis. These attitudes and behaviours are now showing signs of weakening among members of the urban younger generation. In addition, modern management methods are being introduced into SOEs at an accelerating rate often spurred on by their conversion into joint-stock companies enjoying both greater autonomy and responsibility for their economic survival (Tse and Lau 1999).

Private Chinese firms tend to operate in a highly centralized manner, in which the entrepreneur-owners tend to maintain their authoritative position through keeping tight control of information and decision-making. They do not bear the socialist legacy of SOEs nor suffer from the same bureaucratic rigidities. This means that private firms more clearly exhibit the application of Chinese cultural values to managerial behaviour. While conflict can arise between members of the owning family, a high value is attached to preserving loyalty to the 'boss' and overt harmony within the general body of the firm. As Chen (1995) notes, the owners of private Chinese firms tend to attach greater significance to the loyalty of their subordinates even than to their performance. They develop special ties with those upon whom they can rely and give special ad hoc rewards to them rather than adopting a standardized reward system. The Chinese cultural

preference for an implicit and moral basis for business dealing rather than a more formal footing is very characteristic of private firms. The viability of their business dealings rests heavily upon trust between the transacting parties.

Both SOEs and private firms depend on *guanxi* to develop their external networks and to acquire business opportunities. This is especially true for private firms. They lack the institutional supports offered by government agencies, and good *guanxi* connections therefore provide an important substitute for gaining access to scarce raw materials and other resources (Luo 2000). Similarly, it has been the tradition in China to rely more on the mutual obligations expressed by a relationship rather than on legal contracts. In fact, resort to a contract was taken as a sign of bad faith, a feature that many western firms investing in China found it hard to understand. Yet again, however, the scene is changing with more positive attitudes growing towards commercial law in general and the use of contracts in particular (Guthrie 1998, Luo 2002). Luo (2002) suggests from the results of his research that, while business transactions between local Chinese companies may still often be conducted on the basis of personal relationships rather than by arms-length contractual principles, the latter become significant in joint ventures with foreign firms and in such cases are accepted, even welcomed, by Chinese partners.

In addition to the acceptance of legal contracts, the influx of foreign investment into China since 1978 is having an impact on Chinese managerial behaviour in other ways, and in so doing is distancing it from its traditional cultural roots. Child and Yan (2001) concluded from a study of 67 Sino-foreign joint ventures that transnational companies - those with production facilities in two or more continents and with worldwide sourcing and/or distribution - are particularly influential agents for the inward

transfer of management practices, especially the use of formal provisions for governing joint venture behaviour and the adoption of foreign company cultural norms. Three distinctive characteristics of transnational partners that supported the transfer of practices into China were their appointment of expatriates to key joint venture positions, the heavy emphasis they placed on training local personnel and their tendency to supply a higher percentage of the venture's inputs. Even Hong Kong companies, few of which are transnational, have an impact on managerial behaviour within their Mainland China operations through the transfer of practices, which on the whole appears to have a positive impact on the performance of the Mainland units (Child et al. 2000). In these ways, companies investing into China are playing a part in developing managerial behaviour beyond its traditional cultural forms. However, as we note in the following section, the cultural impact of China's opening to the outside world appears to be extending beyond in-company behaviour. It appears to be changing cultural values themselves.

A concomitant of the drive by transnational corporations to import their management practices into China is that they experience greater conflict with local managers (Child and Yan 2001). Wang (1998) notes that managing conflict can be particularly difficult, yet important, within settings where two cultures - Chinese and foreign - are involved. He reports several studies of conflict management covering both conflict between Chinese managers themselves (intra-cultural conflict) and conflict between Chinese and foreign managers (intercultural conflict). When presented with cases of intra-cultural conflict, Chinese managers showed a concern to restore harmony and always responded to the situation. They might act indirectly and behind the scenes by approaching the colleagues with whom they disagreed in an attempt to resolve the

conflict, or alternatively regard it as their duty to take the issue to their boss or raise it in a formal meeting. In cases of inter-cultural conflict, however, Chinese managers were reluctant to contemplate dealing directly with the foreign colleague. Wang suggest that problems could arise since foreign managers may be offended if their Chinese colleagues fail to approach them directly to discuss a problem and instead make the conflict public through raising the issue in a formal meeting or telling their friends.

MANAGERIAL VALUES

We noted earlier that regional and generational differences were to be expected in Chinese managerial values. People in the coastal regions, especially the cities, and who belong to the younger generation have been more exposed to new economic and social forces such as consumerism, the Internet, and contact with foreign firms. Such exposure might be expected to encourage them to deviate from traditional Chinese cultural norms and possibly to question that some of that culture's underlying values as well.

Ralston et al. (1996) surveyed the values held by 704 managers located in six cities in China. They found that 'individualistic' attitudes (individualism, openness-to-change, and self-enhancement) were more prevalent among the 'cosmopolitan Chinese' – those located in regions exposed to foreign influence – than in 'local' Chinese. On the other hand, managers in all six regions maintained the same strong commitment to 'Confucianism' (societal harmony, virtuous interpersonal behaviour, and personal and interpersonal harmony). The differences in adherence to the components of individualism tended to be greatest between coastal and inland areas. A further comparison of Chinese managers from the relatively cosmopolitan city of Guangzhou with those from the more traditional city of Chengdu (Ralston et al. 1999a) confirmed this conclusion. The

Guangzhou managers attached greater importance to individualism, openness to change, and self-enhancement. They also attached significantly less importance to collectivism than did managers from the more traditional location, though Ralston and his colleagues again suggest that Chinese managers (and those in other countries with a Confucian heritage) may be reluctant to forsake long-held Confucian values such as collectivism. They concluded that these value differences are primarily due to (1) the historic impact of the geographic location, (2) its level of industrialization, and (3) its level of educational development.

Ralston et al (1999b) also compared the work values of 869 Chinese managers and professionals employed in SOEs. These differed systematically between three generational groups: the 'New Generation' of managers who were 40 years old or younger, the 'Current Generation' aged between 41 and 51 years, and the 'Older Generation' of managers aged 52 years or more. Even when controlling for other demographic factors such as region, gender and position held in their companies, generational factors emerged as significant predictors of value differences. The New Generation managers scored higher on individualism and lower on collectivism and Confucianism. The decline in adherence to the latter two values was monotonic from older, through Current to New Generation managers. Ralston and his colleagues conclude that 'the emergent profile of the New Generation of Chinese managers and professionals who will be leading China into the 21st century is one of a generation whose values are clearly more individualistic, less collectivistic and less committed to Confucian philosophy than their previous generation counterparts...[they are] more similar to Western managers than are the previous generation, especially in respect to individualistic behaviour' (1999: 425).

This conclusion has, however, been challenged by a survey of 210 PRC managers (Heffernan and Crawford 2001) which employed a more comprehensive assessment of Confucian values. This study suggested that among the new generation of Chinese managers some elements of Confucianism are weakening while others are maintained[6]. Exposure to, or even adoption of, a Western lifestyle did not reduce their adherence to three fundamental Confucian values, namely benevolence, temperance (including harmony) and persistence (which included perseverance, patience and adaptation).

Taken together, these studies and others (e.g. Chiu et al. 1998) of Mainland Chinese managerial values suggest that younger managers in urban coastal locations are adopting new values. This points to the impact that modernization and increased contact with the rest of the world may be having on Chinese managerial values. However, the extent to which traditional Confucian values are being diluted or forsaken remains open to question. Whether the 'new' Chinese managers hold a combination of new and traditional values deserves further investigation, as does the possibility that such managers maintain a distinction between the values apply to the workplace and those they regard as appropriate to private and community life. The apparently changing nature of Chinese managerial values reflects, at the individual level, China's paradoxical struggle to compete and succeed in the modern world economy while at the same time maintaining the social traditions (the unique 'Chinese characteristics') that have preserved the unity of the country for over 2000 years (Boisot and Child 1996).

LABOUR-MANAGEMENT CONFLICT RESOLUTION

The Chinese model of labour-management conflict resolution since 1949 has been based on a 'top-down' structure that was imported from the Soviet Union. Workers were enrolled in the only trade union that was permitted, namely the All-China Federation of Trade Unions [ACFTU] (Chan 1995). Most of its members were to be found in SOEs until recently. There was often no alternative to being a union member and there was widespread passivity rather than activism amongst workers.

Trade unions in the PRC have been for a long time, on paper at least, the largest in the world in terms of the numbers they recruit. These unions are mass organizations in the Chinese Communist parlance. They have currently over 103 million members in all, with their component parts belonging to the official state-sponsored union federation, in more than 586,000 primary trade union organizations.

No worker organization is allowed to organize outside their ranks. Independent unions may not freely organize; if they do, they are most likely to be suppressed. There is also no 'right to strike' and the hypothetical 'right' to do so was deleted from the Chinese Constitution in 1982; however we find a complex arbitration and conciliation system for dealing with whatever disputes occur.

Since the rate of unionisation varies between one SOE and another, one may rightly conclude that membership whilst socially encouraged is not mandatory. Indeed the Trade Union legislation of 1993 gives the worker scope to opt out. But, many of the state-owned plants have official union membership of as much as 100 per cent with an average of 92 per cent found on many sites (Ding et al. 2002). It is also worth noting that only

full-time urban industrial workers have normally been permitted to join unions over the last fifty years, as opposed to temporary workers or peasants.

The rate of unionisation is very much lower in firms outside the state-sector. It is larger in larger joint ventures but very limited in smaller foreign-invested enterprises [FIEs], as well as collective and private firms. Among rural private firms, trade unions are almost completely absent (IFC 2000). By contrast, urban private firms quite frequently choose to have a union within the company represent the interests of the workers when disputes arise, rather than allow the matter to be handled externally by a court or government agency. For the alternative runs the risk of inviting external interference. Some private firms, especially in Beijing, also consciously use labour unions and Communist Party organs to strengthen their management and to secure legitimacy for party members to work for a private capitalist.

The ACFTU unions proclaim their ambitions to recruit the Chinese 'masses'. It is formally stipulated in the Constitution of the ACFTU for example 'that membership in trade unions is open to all manual and mental workers in enterprises, undertakings and offices inside China whose wages constitute their principal means of livelihood and who accept the Constitution of the Chinese Trade Unions irrespective of their nationality, race, sex, occupation, religious belief or educational background' (ACFTU Constitution 1993, Ng and Warner 1998).

The ACFTU was set up in 1925, organizing workers on industrial lines, although also with occupational groupings. After 1949, this set-up prevailed and was perpetuated in the Trade Union Law of 1950, the first in the Chinese Communist state, which

systematized the trade union structure, with the ACFTU was designated as its highest body. It was designed on Leninist lines, as a 'transmission-belt' between the Party and the 'masses', when it was set up after the Liberation. Trade union organizations, at least *prima facie,* may be said to have institutionalised the power of the workers as 'masters' (*zhuren).* They had the role of implementing labour-management relations in enterprises to boost production output; this was a persistent theme through most of the unions' existence in the PRC, including the present. They had an administrative as well as a representative function (Child et al 1973). But they also provided adequate collective welfare services, and organized workers and staff in spare-time cultural and technical studies, vocational training and recreational activities. To this end, they had - and still - retain, considerable funds to finance their activities, since enterprises deduct two per cent of payroll for ACFTU welfare and associated purposes. However, the unions were formally dismantled during the Cultural Revolution in 1966.

With the onset of the economic reforms at the end of the 1970s, the All-China Federation of Trade Unions (ACFTU) was encouraged to promote economic development and maintain social stability (White 1996, Ng and Warner 1998). The trade unions were formally re-introduced in 1978, through the influence of Deng Xiaoping. They gradually built up their influence over the 1980s, helping to support the economic reforms. Today, their goals remain consistent with those laid down in 1950, at least on paper. It is worth noting that the 'right to work' is still included (unlike the 'right to strike') in its goals, although many Chinese workers are being 'downsized', particularly in the SOEs (Lee et al. 1999).

Worker representation such as it was, was integrally linked with the above institutional framework of the 'iron rice bowl', the 'jobs for life' and 'cradle to the grave' welfare system found mainly in Chinese SOEs and urban collectives. Wages were centrally laid down under this pre-reform system; the pace of work steady; dismissals were rare (Takahara 1992). Everyone, there it was said, ate 'out of one big pot' (*daguo fan*); incentives were minimal in many plants. But only about one in seven Chinese workers out of the huge workforce, whether urban or rural, enjoyed this protected status, some with greater protection than others.

Whether most Chinese workers were content with the labour status quo, is hard to say. Social critics (Chan 2001) point to 'black holes' in labour standards, especially in FIEs in the coastal areas, such as those near Hong Kong. For many years, independent studies of living- and work- conditions were not possible. Those in the cities, particularly in public employment, appeared at least to have a relatively protected existence, with the virtually lifetime employment in the system referred to above until recently. But life has changed in the last decade or so and the social costs of economic restructuring, as in other parts of Asia, are now being increasingly felt in the PRC (Warner, 2002). Over-manning is now being confronted by both government as well as corporate policy; downsizing and unemployment are now increasingly de rigueur.

IMPLICATIONS FOR MANAGERS

The implications of the shift from a centrally planned economy to market socialism so-called and from the iron rice bowl model to a more market- oriented one has been considerable for managers. Translating high-level macro-economic policy into micro-economic detail is no mean task but many key shifts have taken place. Before the

early 1980s for instance, managers had very limited autonomy and could neither hire nor fire their workers. Like their employees, their performance was not linked to their effort; motivation was low; mobility was very restricted and in many cases, non-existent. Today, all that has changed and managers have significantly expanded powers but it did not occur at once. Over the 1980s and 1990s, China underwent a 'managerial revolution' (Warner 2000).

The enterprise and management reforms of 1984, the labour reforms of 1986, the personnel reforms of 1992 and so on were to prove to be major landmarks on the 'long march' to market-driven management. After these reforms of the 1980s and 1990s promoted by Deng Xiaoping, managers found their roles were made much more market-driven. But more than strategy and structure changed; mind-sets also were radically transformed. Chinese managers became responsible for financial performance targets and could be more significantly rewarded if they did well. Some larger formerly state-owned firms have been floated on the internal and external stock exchanges. Recently, there have even been a significant number of 'management buy-outs'.

The strong element of particularism in Chinese culture (Trompenaars 1993) has a practical significance for business transactions there in terms of who you know and the basis on which the relationship is understood to rest. This accounts for the considerable attention given to the notion of *guanxi* that captures this characteristic. It contrasts with universalism, which denotes that it is culturally appropriate to apply the same rules and standards whoever the person may be. Given the latitude that local officials generally enjoy in dealing with the foreign firms located within their purview, particularism adds

considerably to the uncertainty that China presents as an environment for international business.

Now that China has committed itself to full engagement in international trade and investment through membership of the WTO, the question of how it will adjust to the competitive requirements for modern effective management has become even more pressing. While Chinese management values and behaviour have been importantly conditioned by the country's political and economic system, Chinese culture has also had an enduring influence and is today free of the active hostility it experienced under Maoism. The big issue has become the extent to which management in China will be fashioned according to international 'best practice' as opposed to following its own principles and practices.

Given the external competitive pressures to adopt new forms of organization such as teamwork (Child and McGrath 2001), it will be instructive to see whether Chinese cultural attributes help or hinder this process. As Chen et al. (2000) note, the collectivist orientation, importance of relationships and concern for harmony in Chinese culture might assist crucial aspects of teamwork such as a common purpose, task interdependence and a group orientation. On the other hand, the Confucian emphasis on rigid hierarchies and upward deference to leaders could maintain top-down control in a way that contravenes the essence and distinctive contribution of teamwork to processes such as innovation and learning.

CONCLUSIONS

It is clear that China has been shaped by its history and that in turn modern Chinese management has been sprung from deep cultural roots, whatever the economic and institutional changes of the last half-century. We have seen in the above account, that the Dengist reforms of the last two decades have changed the management system from a one based on a command economy to one more market driven and with increased private ownership. However, Chinese people are quick to maintain that these changes have been given 'Chinese characteristics', implying that whatever the immediate institutional and organizational details, the underlying norms and values may reflect continuity as much as change.

In a rapidly changing and varied context such as contemporary China, it is very difficult to assess the degree to which traditional culture continues to exert an influence on management values and behaviour. Rather than attempt any definitive conclusions, it is more helpful to re-iterate the issues and questions that we need to bear in mind when addressing this subject. First, we always have to recognize China's great diversity and start by asking 'to which China are we referring? Which sector, which region, which generation?' Second, what is taking place in China, keen to learn from the outside world yet also conscious of its history, may force us to abandon the notion that people necessarily conform to a simple notion of 'culture'. In these circumstances, they may not necessarily fit neatly at a single point along the cultural dimensions beloved of cross-cultural psychologists, but instead display apparent paradox. We noted, for example, how studies of the values held by PRC managers suggest that those who have internalised certain 'Western' values such as *individualism* may at the same time continue to value traditional Confucian precepts such as *collective* loyalty and responsibility. The social

identity of modern Chinese managers may be more complex than has generally been appreciated, requiring a cultural theory that is more complex and subtle than present formulations.

A third possibility deserving of further investigation, is that Chinese managers, and perhaps people in general, are more flexible in their cultural referents than theorists such as Hofstede (1980, 1991) assume is normal for adults. Chinese people who are exposed to 'Western' values through their roles at work, or equally through their roles as consumers, may retain the option to segment their cultural mind-sets and switch between them. For instance, if conforming to certain Western norms and practices offers material attractions, such as higher pay in return for accepting individual responsibility for performance, then Chinese staff may decide to go along with them within the confines of their workplace roles. They may also be encouraged to accept practices imported from another culture if these are perceived to be part of a more comprehensive policy, justified as 'best international practice', offering other benefits such as equitable treatment, comprehensive training, and good prospects for advancement. This is why employment with a multinational corporation's joint venture or subsidiary is usually highly prized by Chinese managers. At the same time, as they switch social identity in 'converting' to their non-work roles in the family and community, they could well revert to a more traditional Chinese cultural mind-set.

In short, China offers a challenging and fascinating arena for further exploration of the theoretical and practical issues associated with culture and management. Whether the future will lead to a degree of convergence is not the question; it is what will be the pace and ultimate limit of such change.

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END-NOTES

[1] For definitions of 'culture', see Warner and Joynt (2002)

[2] Confucian influences are interpreted here relatively broadly.

[3] Sub-cultures include, for instance, regional, ethnic, as well as religious ones.

[4]The role of '*guanxi*' has been given great prominence by most writers on contemporary Chinese culture but may be diminishing as market forces become more predominant.

[5] The non-state sector has expanded relentlessly each year and will no doubt do so further with WTO entry.

[6] This occurrence is also happening in the Overseas Chinese communities, see the chapter on Hong Kong or Taiwan, for instance.