

The Legacy of China

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In the Far East, for the Overseas Chinese and arguably the Japanese and Koreans also, there are no indigenous textbooks, no recognizable management theory, and the Western textbooks penetrate hardly at all. . . . The design of organizations is more instinctive, less openly discussed, somehow more natural. Organizations are cultural artifacts just as are their Western equivalents, but in the search for productive efficiency, they appear to have found a formula closer to the needs of their participants.

—S. Gordon Redding (1990, p. 238)

Rapid economic progress in East Asia has spurred much interest in Confucian zone business and management practices for many reasons, including the following.

Here are the only non-Western nations other than oil exporters to have attained a high material standard of living. Japan was first, followed by the Four Tigers (Hong Kong, Singapore, Taiwan, and South Korea), all now advanced industrial economies.

The Overseas Chinese (emigrant ethnic Chinese) have proven their entrepreneurial prowess in East and Southeast Asia and beyond. Unique, too, have been the private Korean *chaebol* business groups and China's emergent state-favored "national champions."

China holds one fifth of the world's population, but produced just one ninth of world output in 2007 (adjusted for purchasing power; cf. Central Intelligence Agency, 2008). If its economic reforms continue, and with well-managed organizations, it could astonish the world in the years ahead. It might also disappoint.

It can be debated whether traditional Chinese management practice and style are compatible with global competitiveness. For example, few

private ethnic Chinese businesses grow very large. However, through extensive business networking some have overcome limits of scale and breadth. Some sources view their networks as a pathbreaking structural prototype worldwide. (Schlevogt, 2002).

Outsiders see a growing need to understand and engage more effectively with East Asian customers, suppliers, rivals, regulators, and allies both at home and abroad.

Chapter Objectives

- To profile the culture, economy, and polity of Confucian East Asia (China, Taiwan, Singapore, Hong Kong, and South Korea)
- To note prevailing management practices, pressures, and problems, including intraregional and Western comparisons

The Chinese Macroenvironment

CHINA LEGACY

Chinese civilization was one of seven major ones to emerge independent from others.¹ Its origins go back to agricultural villages in the Yellow River valley of northern China around 5,000 BC. It eventually spread to include today's China, Taiwan, Hong Kong, and Singapore (three fourths ethnic Chinese) and influenced Korean and Japanese society and culture. China coalesced politically in the Qin (Ch'in) Dynasty (221 to 206 BC), from which came its name in English. It often surprises Westerners to hear about early Chinese technological advancements (gunpowder, block printing, paper, magnetic sailing compass, complex pest control systems) that predate exposure to Western science (Needham, 1954). There were grandiose public works projects such as the Grand Canal (1,200-mile north-south waterway, part natural, part constructed), started in the 6th century AD, stretching from Tianjin in the north nearly to Shanghai; there was the Great Wall (about 1,500 miles long) in the north, begun in 220 BC. Early Chinese traders traveled the Silk Road to Central Asia, and fleets reached India, the Arabian peninsula, and east Africa before the Spanish and Portuguese crossed the Atlantic (*The Explorers Map*, 1998; *History of China*, 1991).

Figure 6.1 and Table 6.1 characterize the area covered in this chapter.

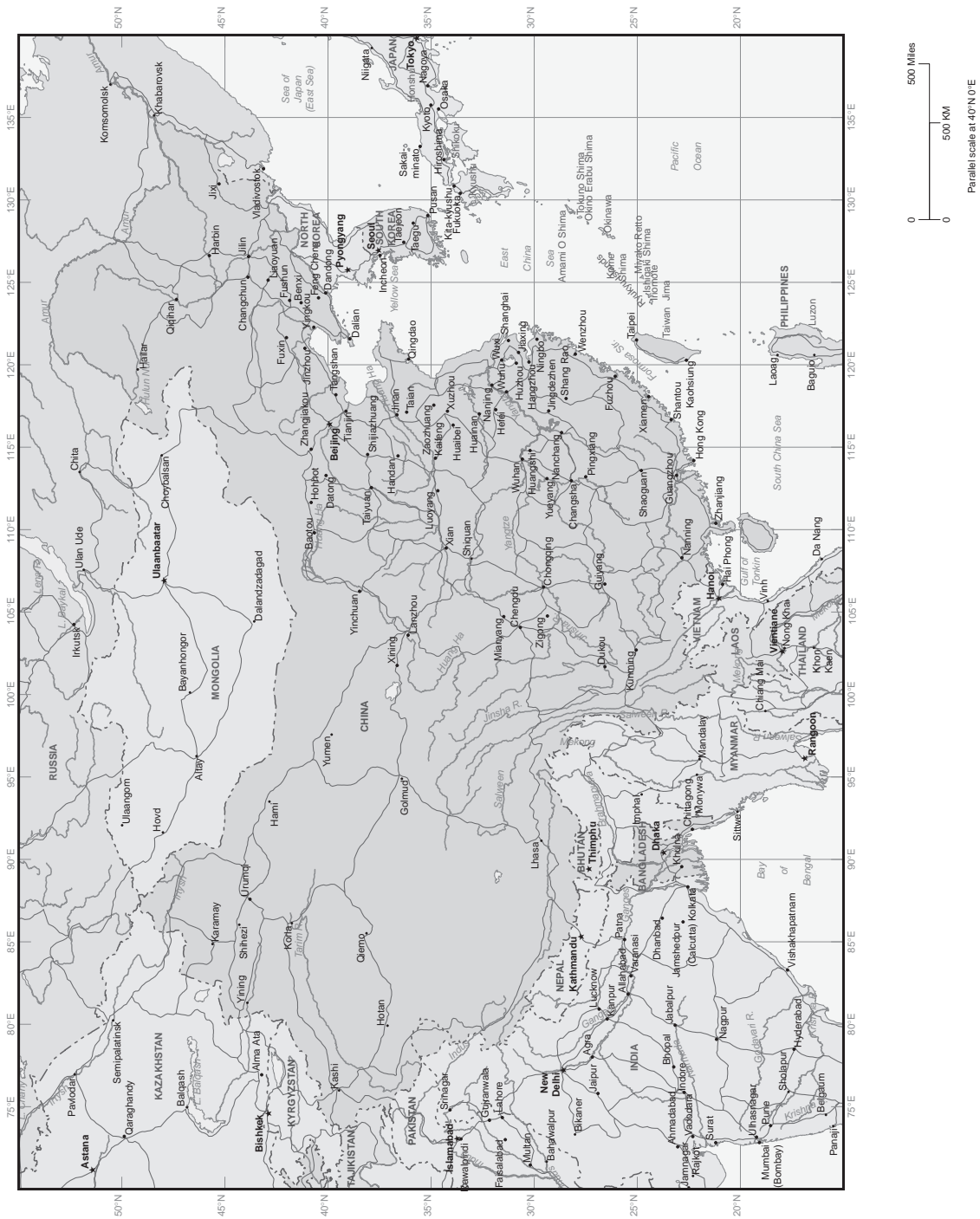


Figure 6.1 Map of East Asia

Table 6.1 The East Asian Economies

	Population (million)	Gross Domestic Product per Capita (U.S. dollars)
China	1,322	5,300
Taiwan	22	29,800
Hong Kong	7	42,000
Singapore	5	48,900
South Korea	49	24,600
North Korea	23	1,900
Japan	127	33,800

SOURCE: Estimates; gross domestic product numbers adjusted for purchasing power from Central Intelligence Agency (2008).

CULTURE

Chinese culture is called Confucian in reference to its early, long-revered, and oft-cited sage Confucius (Kung Fu-tzu, c. 500 BC), whose thinking and teaching influenced its social value system (Leys, 1997). Confucian tradition draws mainly from custom rather than from religion, ideology, or law, and with the following features.

The social structure values order, hierarchy, and deference to authority, as reflected in long-standing *wu-lun* rules of deference (e.g., of child to parent, student to teacher, young to old, wife to husband, citizen to ruler, and, by extension, employee to employer or boss). In this respect, Chinese culture is high on Hofstede's power distance, that is, it readily accepts interpersonal differences in power.

Group consciousness is strong (high collectivism, low individualism); daily life, including business, relies heavily on personal connections and trust, based variously on family and kinship ties, community, geographic region, language dialect, school, or other bonds. The following is an example based on family surname:

Dateline, San Jose, California: About 1,000 people from 20 countries are here for the seventh Teo-Chew International Convention, which unites Chinese from all over the world whose ancestors hail from the same region in China, a cluster of provinces on the country's southeast coast near Hong Kong. . . . There are nine Teo-Chew associations in the United States, and scores of others scattered around the world, though they are concentrated in Southeast Asia. . . . Family Associations are common in Chinese communities, providing scholarships, financial help, community services and a

social network to Chinese with the same surname. The Teo-Chew group is similar, though its communality is based on linguistic and regional, rather than family ties. (Gomes, 1993)

In Southeast Asia, local Chinese chambers of commerce, benevolent associations, and surname groups nurture and sustain family business networks. For instance, Malaysia has thousands of Chinese associations and guilds. In Taiwan, mutual aid societies mobilize capital for small business (Pao-an, 1991). In lower Manhattan (New York), immigrant Fujianese and Cantonese help newcomers of similar origin to find lodging and sustenance (Sachs, 2001).

Personal relationships are nurtured and sustained through *guanxi* (mutual reciprocal trust, favors, influence, obligations) (Tsui, Farh, & Xin, 2000).

The lifeblood of a Chinese company is *guanxi* connections. Penetrating layers of *quanxi* [is] like peeling an onion: first come connections between people with ancestors from the same province in China; then people from the same clan or village; finally the family. It does not matter much whether a Chinese businessman is in Hong Kong or New York, he will always operate through *guanxi*. (Cowley, 1991, p. S6)

La (pulling) *guanxi* is the most commonly used strategy by the Chinese in network construction. Pulling *guanxi* means the efforts to establish and build up relationships with others where no previous relationships existed, or where an existing relationship is not close enough to be useful. There are many ways of pulling *guanxi*, involving a wide range of skills and strategies. Depending on these to manage their daily relations, the Chinese living in mainland China have rightly used a special term, *guanxixue* (relationology) to describe this complicated phenomenon. (Chen, 1995, pp. 53–54)

Confucian culture shows a predominantly masculine value orientation (i.e., competitive, aggressive, work oriented). A patriarch commonly heads the family business, a role that normally passes eventually to a son or other male relative. Women have subordinate social status, and upon marriage they join their husband's family.

Confucian culture is characterized by an aversion for shame, emphasis on saving face, and self-conscious awareness of the expectations of others (e.g., parents, siblings, friends, colleagues, teachers, the boss).

Confucian culture emphasizes social harmony.

Major spiritual influences include Taoism (a Chinese folk religion) and Buddhism (introduced from South Asia after the 2nd century AD). Both emphasize selflessness and harmony with nature. Although Confucianism is sometimes called a religion, it is more of a code for living and has no institutional infrastructure. However, one feature is reverence for ancestors.

Patience, perseverance, and maintenance of composure are emphasized; people tend to suppress expressive emotions in public.

The culture includes a flexible, transcendental view of time with a long-term perceptual horizon. These and some other cultural tendencies are listed in Table 6.2.

Table 6.2 Sinitic² Cultural Tendencies

Confucian sociocultural foundation; emphasis on order and hierarchical relationships, embodied in deference or submission of child to parent, student to teacher, young to old, wife to husband, citizen to ruler.
Predominantly high-context culture (Hall, 1959, 1976), that is, inclined toward indirect and implicit (rather than blunt) communications; relationships in business (and life) depend heavily on trust; polychronic view of time (flexible, unregimented); in organizations, the tendency to centralize (and to hoard) decision-making authority at the top.
Strong core group identity (family, clan, village, province, language dialect, school) and basis for developing and sustaining <i>guanxi</i> (mutual favors, connections, obligations); low trust of outsiders.
Propensity for personalism, favoritism, nepotism.
Taoism and Buddhism have been the dominant spiritual traditions.
Reverence for the past, including ancestor worship.
High regard for learning.
Tendency for introspection and humility.
Importance of preserving personal honor and saving face; aversion for embarrassment and shame.
Comfortable with benevolent, patriarchal leaders.
Subordinate social and occupational status for women.
Patience, diligence, perseverance, frugality, thrift.
Emphasis on harmony in social relations.
On Hofstede's cultural dimensions, the following tendencies (for some intercountry variations, see Table 6.3): <ul style="list-style-type: none"> • High power distance • Low individualism • High masculinity • High uncertainty avoidance • Long-term time orientation

Despite a common Confucian heritage, Sinitic nations are neither homogeneous nor cultural clones. For example, northern Chinese (e.g., from Beijing, mainly Mandarin speaking) tend to be more reserved, less expressive, and less entrepreneurial than Cantonese-speaking southeasterners in Guangdong province and Hong Kong (Schlevogt, 2001). The Taiwanese

Table 6.3 Sinitic Countries and the United States Scored on Hofstede's Cultural Dimensions

Hofstede's Dimensions ^a	China	Hong Kong	Taiwan	Singapore	South Korea	Japan	United States
Power distance ^b	80	68	58	74	60	54	40
Individualism ^c	20	25	17	20	18	46	91
Masculinity ^d	50	57	45	48	39	95	62
Uncertainty avoidance ^e	60	29	69	8	85	92	46
Long-term time orientation ^f	118	96	—	—	—	80	29

SOURCE: Hofstede (1980).

a. Hofstede conceptualized the dimensions (except for long-term time orientation) and scoring system based on employee attitude surveys done within (and by) the IBM Corporation (116,000 employees in 53 countries collected from 1967 to 1973). The IBM surveys did not include the People's Republic of China (PRC); PRC scores here are Hofstede estimates.

b. Power distance (high versus low), the degree of social inequality considered to be normal.

c. Individualism (high versus low), the degree to which people act as individuals rather than as members of groups.

d. Masculinity (versus femininity), the degree to which tough values (e.g., assertiveness, performance, success, and competition) prevail over tender ones (e.g., quality of life and warm, caring personal relationships).

e. Uncertainty avoidance (high versus low), the degree to which structured situations are preferable to unstructured ones; degree of tolerance for risk and uncertainty.

f. Long-term time orientation (versus short-term), the degree to which emphasis on the future takes priority over the near-term time horizon; numbers in this row are Hofstede and Bond (1988) estimates and not derived from the original IBM data.

Chinese are described as more individualistic, self-centered, competitive, materialistic, and pragmatic than peers in Singapore and Mainland China (Hsu, 1987). Hong Kong and Singapore show much lower on Hofstede's uncertainty avoidance than mainlanders, as reflected in stronger entrepreneurial tendencies.

Confucian peoples generally accept high power distance, but mainland and Singapore Chinese are higher on this dimension than are South Koreans and Japanese. South Koreans are less collective than Chinese and Japanese, and their work ethic and education ethic have been called the strongest in East Asia. In this regard, South Koreans take fewer holidays and work more hours than the Japanese. They are also more likely to pursue a university education.

South Korea and Hong Kong have been the most open to certain Western influences. For example, about one fourth of South Korea's population is Christian, and there is much interfirm labor mobility and notable labor union militancy.

POLITICAL AND LEGAL SETTING

After World War II, the Sinitic region divided politically into socialist states (China, North Korea) and nonsocialist ones (Taiwan, Singapore, South Korea, Hong Kong, Japan). Even for the latter group, political democracy was slow to emerge, partly for cultural reasons. For example, the Confucian affinity for affiliation, conformity, order, and harmony seems inconsistent with the personal civil liberties and political pluralism of democracy. Kristof (1991, p. 8) observes that the "Chinese expressions for 'freedom,' or 'privacy' still have a negative connotation in Chinese, showing traditional lack of concern for individual rights." China's Communist Party has anti-Confucian traits (e.g., putting ideology above family); however, other communist values have been Confucian-friendly (e.g., material equality and hierarchical political structure).

Even where national elections are well established in East Asia, one political party has often dominated for long time periods. In Japan it has been the Liberal Democratic Party, and in Singapore it has been the People's Action Party.³ In Taiwan, the Nationalist Chinese party (Kuomintang) was in charge from 1949 until 2000, at first under Chiang Kai-shek, who fled the mainland when the communists took control (1949). When Chiang died (c. 1975), his son replaced him. Only after the son's death (1988) did opposition political parties compete openly. Taiwan's first fully free national presidential election was in 1996, and the first transfer of leadership to an elected opposition party was in 2000. In post-World War II South Korea, the military was either in charge or main powerbroker for 40 years. The 1988 South Korean presidential election was its first openly democratic one. Not until 1993 was there presidential changeover, by election, to a nonincumbent political party. In state socialist North Korea, Kim Il Sung ruled for nearly five decades until his death in 1994, when he was succeeded by son Kim Jung Il.

For centuries, the Chinese central state remained weak because of China's widely dispersed (and predominantly rural) population and an underdeveloped transportation and communication infrastructure (*Area Handbook*, 1972). In that regard, Chinese philosopher Lin Yu-tang (1935/1966) cites an ancient proverb, "Heaven is high and the emperor is far away," and observes, "The Chinese people can always govern themselves, have always governed themselves. If the thing called 'government' can leave them alone, they are always willing to let government alone" (p. 205). The central state didn't acquire significant control until 1949.

Table 6.4 lists several core features of government and politics in East Asia.

Table 6.4 Government and Politics in Chinese and Korean East Asia

- Preference for strong benevolent authoritarian leaders; weak legislatures.
- Dominant party political systems; weak opposition parties.
- Slow, historically, to pursue and protect individual civil liberties and democratic values.
- For centuries, the family (rather than the state) was foundation for Chinese sociopolitical order.
- Chinese business has long been guided by custom rather than by formal commercial law; foundations of such law are only now emerging in the PRC.
- Limited social welfare role for the state (more the role of family).
- Minimal spontaneous or independent labor unionism (except in post–World War II South Korea).

ECONOMY

The Confucian zone economies include the predominantly capitalist Four Tigers (South Korea, Hong Kong, Singapore, Taiwan) and a newly marketizing China. Hong Kong and Singapore are the most affluent, and both regularly rank at or near the top of global indices of economic freedom.⁴ Regional economic growth has been high in recent decades. The Shanghai region, Pearl River delta, and other areas of coastal China have seen rapid export-led growth analogous to what occurred previously in Hong Kong and Singapore.

Singapore, Taiwan, and South Korea have seen significant state guidance and support for certain companies and industries (a state-guided form of capitalism similar to Japan's). That has included indicative planning, aimed to influence (but not dictate) investment patterns. China can be called frontier capitalist, social market, or a mixed economy in transition toward more economic freedom.

In general, government spending in the Four Tigers has been lower in proportion to national income than in North America and Europe, but it is rising. These and some other general economic tendencies are described in Table 6.5.

Table 6.6 tracks the economic transition in the People's Republic of China (PRC) after the communist revolution of 1949.

By international standards, East Asia has few large private firms except for several within South Korean *chaebol* and Japanese *keiretsu* business groups. A *chaebol* (literally “financial house”) is a group of independent firms with members engaged in diverse businesses. They remain largely controlled by their founder families. Table 6.7 identifies Confucian zone firms (other than Japanese) ranked in the 2008 Fortune Global 500 (based on sales revenue). It is noteworthy that only 13 (and just 5 of them private) were in the top 200, and there were only 51 among the 500. All 25 listed for the PRC have 50% or more state ownership. All but 1 of 14 from South

Table 6.5 Economic Patterns and Trends in Taiwan, Singapore, Hong Kong, and South Korea

- Rapid export-led economic growth in recent decades
- State-guided capitalism (except in Hong Kong), that is, mainly market-guided economies but with government indicative planning and selective support or protection for certain sectors
- Bank-dominated financial systems; government-dominated banks
- Underdeveloped but functioning (and modernizing) capital markets
- Proven entrepreneurial prowess of emigrant ethnic Chinese (the Overseas Chinese)
- High personal savings rates
- Low tax collection and low government spending in proportion to output compared with the United States and Europe; fewer state social welfare commitments
- Significant trade and investment protectionism (except in Hong Kong and Singapore) but diminishing
- In the private sector, predominance of small and medium-size family businesses; few private companies grow very large (except for South Korean *chaebol* enterprises)

Table 6.6 The PRC: An Economy in Transition**1949**

The Communist Party and Red Army (led by Mao Zedong) win a long-running civil war; the PRC is founded, bringing a state socialist economy modeled after the Soviet Union.

1953–1957

First 5-year central economic plan; conversion of private farms into agricultural collectives.

1958–1962

Second 5-year plan (the Great Leap Forward) consolidated agricultural cooperatives into rural agroindustrial communes; administrative decentralization of light industry to the provinces.

1966–1976

Period of the Great Proletarian Cultural Revolution; party purists try to reinvigorate communist values and ideals; revolutionary committees form in factories and communes; contrarian intellectuals and other “capitalist roaders” are assigned to manual labor in rural farms and factories.

1976

Mao Zedong dies; economic pragmatists gain control and begin market socialism.

1978

The contract responsibility system is tried in Sichuan province (the Sichuan experiments), by allowing farmers to keep or sell privately any production above their quota obligations to the state; agricultural productivity rises dramatically.

1980

The contract responsibility system is extended to almost all Chinese agriculture and to many small and medium-size manufacturing firms.

Creation of several Special Economic Zones (mainly in coastal areas) where free market economic conditions are allowed; Shenzhen Special Economic Zone (contiguous to Hong Kong, in Guangdong province) becomes the most active.

Citizens are allowed to “jump into the sea” (i.e., to establish private businesses).

Township/village enterprises (TVEs) coalesce from rural industrial communes and become managed as municipal, provincial, or private enterprises (including some cooperatives).

Reduced political intervention by the Communist Party in enterprise management; factory directors get more autonomy.

1990 to present

The economy is in transition.

Gradual privatization of state enterprise continues.

Some central government-owned enterprises are converted to provincial and municipal enterprises.

Legal and judicial system (e.g., protections for property rights, contract enforcement, dispute resolution) emerges slowly.

Ongoing improvements in communication and transportation infrastructure.

Slow development of private banking and capital markets; stock exchanges opened in Shanghai (1990) and Shenzhen (1991).

Problems with price inflation, corruption, trade protectionism, foreign exchange controls, nonperforming loans (private and public), unemployment and underemployment, opaque accounting and reporting practices, and ambiguities and inconsistencies in the tax and legal system

Subsidies and loans for state-owned enterprises (SOEs); high volume of nonperforming bank loans.

In 2006, there were an estimated 140,000 Chinese SOEs, including several thousand military-controlled ones (“A Survey of China,” 2006). SOEs accounted for about one third of national economic output, one half of industrial assets, and 40 million jobs.

The private sector has grown dramatically (Tsui, Bian, & Cheng, 2006), with many small family businesses and individual proprietorships. The private sector, including foreign investors, accounted for at least two thirds of the economy in 2006 (and this proportion is rising).

SOURCE: Information from Child (1994), Henley and Nyaw (1986), Laaksonen (1988), Miljus and Moore (1990), and periodic survey issues in *The Economist*.

Korea are private. The Korean *chaebol* are well represented, including three Samsung entries, Hyundai with two, and one each for SK, LG, and Hanwha. Among six Taiwanese entries, only one is state owned (CPC, a petroleum company). The four Hong Kong firms are private.

Table 6.7 Chinese and Korean Firms listed on the 2008 Fortune Global 500 (and their rank in the 500 based on sales)

<i>Taiwan (6 firms)</i>	<i>PRC (25 firms; all SOEs)</i>
132 Hon Hai Precision Industry	16 Sinopec
300 Cathay Financial	24 State Grid
324 CPC (government owned)	25 China National Petroleum
344 Quanta	133 Industrial & Commercial Bank of China
363 Asustek	148 China Mobil
395 Formosa Petrochemical	159 China Life Insurance
<i>South Korea (15 firms)</i>	171 China Construction Bank
38 Samsung Electronics	187 Bank of China
67 LG	223 Agricultural Bank of China
82 Hyundai Motor	226 China Southern Power Grid
86 SK Holdings	257 Sinochem
224 POSCO	259 Baosteel
245 Korea Electric Power (government owned)	288 China Telecom
247 Samsung Life Insurance	303 China FAW Group
267 GS Holdings	341 China Railway Group
278 Shinhan Financial Group	356 China Railway Construction
279 Woori	385 China State Construction
329 Hanwha	373 Shanghai Automotive
387 KT	398 COFCO
378 Hyundai Heavy Industries	405 China Ocean Shipping
461 Kookmin Bank	409 China National Offshore Oil
475 Samsung C&T	412 China Minmetals
<i>Singapore (1 firm)</i>	426 China Communications Construction
378 Flextronics	476 Aluminum Corporation of China
<i>Hong Kong (4 firms)</i>	480 China Metallurgical Group
286 Hutchison Whampoa	
349 Noble Group	
437 Jardine Matheson	
499 Lenovo Group	

NOTE: The four firms indicated for Hong Kong were listed with China in the *Fortune* ranking (*Fortune*, 2008). Although Hong Kong is not a country, it has a separate economic system and is discussed separately in this chapter.

In recent times, the government of China has sought to foster “global champions.” Eight of the 11 emergent champions listed in Table 6.8 are predominantly government enterprises.

The remainder of this chapter focuses on managerial themes. Before we proceed, an introductory observation is in order. (See box, p. 199.)

Table 6.8 A Sample of Prominent Chinese Companies (National or Global Champions)

	Sector	Sales Revenue (2007)
PetroChina	Oil and gas	\$88.3 billion
Sinopec	Oil and gas	131.6
CNOOC	Oil and gas	19.0
Baosteel	Steel	22.7
Chalco	Aluminum	7.9
Lenovo (private)	PCs	14.6
SAIC	Cars	18.0
TCL (private)	TVs and electronics	39.4
Haier	Appliances	13.3 (2005)
Wanxiang (private)	Car parts	3.0
Huawei	Telecom equipment	11.0 (2006)

SOURCE: The names come from a list in “The Struggle of the Champions” (2005); the revenue numbers come from diverse (mainly corporate) Web sites; for a list of these and 30 other Chinese “champions,” see the 2008 Boston Consulting Group 100 Global Challenger List (http://www.bcg.com/impact_expertise/publications/files/New_Global_Challengers_Feb_2008.pdf).

A Note on Western Management Thought and Theory and East Asian Business Organizations

For Western researchers and observers, the study of management in East Asia brings interesting complications. One is in selecting a suitable organizational unit (e.g., enterprise) for analysis. Whereas Western business generally has well-defined legal and institutional boundaries, in Asia “[the] boundaries of organization systems are unclear and undefined [and with] overlap between organizational systems and other systems such as family, community and clan” (Kyi, 1988, p. 216). This is observed in intranational and cross-national relational business networks (network enterprises, or network capitalism) of Chinese family-controlled business (Schlevogt, 2002).

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Also, some people view the mind-sets and reasoning processes of East Asians and Westerners to be fundamentally different, with these differences compounded by written communication. For example, the pictorial script of Sinitic languages cannot replicate conceptual abstractions expressed in Western phonetic languages. Also, Western academic theory is grounded mainly on deductive reasoning, that is, the logic of Aristotle and Descartes, which gave rise to the scientific method and emergence of modern science. That logic underpins most Western academic research, including in management. By contrast, East Asian mind-sets and reasoning have been described as mainly inductive, and its scholars are less driven to conceive, confirm, or refute “scientific postulates” or principles. It is argued that East Asians have a more holistic and integrated understanding of the world around them and grasp better the complementarity, continuity, harmony, and synergy of human actions, actors, events, and circumstances (Maruyama, 1984; Nisbett, Choi, Peng, & Norenzayan, 2001).

For some Easterners, Westerners seem to be compartmentalized thinkers, prone to categorize, measure, and analyze, but lacking a coherent sense of the whole. In a similar vein, Kyi concludes that ethnographic case studies can offer superior insight into Eastern organizations than can the narrow empirical studies of Westerners (Kyi, 1988, p. 222).

For people analyzing life (including business and management) in another culture, there is inevitable tendency to frame things from personal mind-set and experience. One example involved Westerner scholars (Adler, Campbell, & Laurent, 1989, p. 62) investigating a “Chinese perspective relative to a number of key managerial concepts that have helped to explain European and North American approaches to management and organization.” With a modified Western research instrument (the Laurent Management Questionnaire), they collected opinions from a sample of 100 Chinese participants in a management training seminar. The responses were inconsistent and difficult to interpret and seemed to reflect respondents’ “politically correct” viewpoints rather than frank personal views. The results caused the researchers to question their own methods:

We were learning more about the transferability of Western-based concepts and methodologies to the PRC than about the PRC itself . . . [and that] . . . oriental and occidental management conceptions may be so different on key dimensions as to render the results fairly meaningless. (pp. 67, 70)

S. Gordon Redding (1990) goes to the heart of the matter:

To get outside one’s own world-view sufficiently unencumbered to be able to empathize with, let alone understand, someone else’s is a feat of mental agility beyond most of us. . . . All that one can realistically ask for is a suspension of disbelief and a willingness to accept the possibility that certain fundamental processes of the mind vary by culture. (p. 72)

With that caveat, the remainder of this chapter describes some prevailing managerial tendencies in East Asia from the viewpoint of a Western conceptual construct: the management process (planning, organizing, controlling, directing, and staffing). The coverage starts with managerial staffing.

The Confucian Zone Manager

By comparison with the West, information about CEOs in East Asia is lean. Few firms go public, and there is high secrecy in ones that do. Nonetheless, some information from academia, consultancies, and media sources is available.

SELECTION AND MOBILITY

The prototype Confucian zone private business (or business group) is family controlled and typically led by the patriarch. Favoritism and nepotism are common in hiring and promotion, and close relatives hold key positions without stigma of unfair preferential treatment. Although this pattern fits many family firms worldwide, it is stronger in the more collective (and higher-context) cultures than in individualistic ones. For Taiwan, Singapore, and South Korea, observers have described a nesting box pattern of staffing, with family members at the center and nonfamily on the periphery:

In the small internal box are those core family members who own or will inherit the business; in the next box are more distant relatives and friends who owe their positions to their connection with the owners and who are in a position to influence and be influenced by them; in the next outer boxes are ranks of unrelated people who work in the firm for money. Depending on the size of the firm, the outer boxes may contain the ranks of professional managers, technicians, supervisors, and other craftspeople. The outermost box would include unskilled wage laborers. (Hamilton & Biggart, 1988, pp. S84–S85)

Hiring criteria heavily emphasize trust, as I-Ching Tu (1991) noted in reference to Taiwan:

To most owners, when considering candidates for a management position, the most basic and important question is whether or not the candidate can be trusted. They will choose the most trustworthy persons to manage, and for added insurance, they will ask these people to invest in the firm and so have a stake in the ownership of the company themselves. From this, it is easy to understand why family members are often the favored candidates for higher-level jobs in an enterprise and why most general managers in Taiwan's enterprises are also shareholders. (pp. 122–123)

A similar tendency occurs in the South Korean *chaebol*. For example, six major industrial groups in the Hyundai *chaebol* have been led by sons

of founder Chung Ju Yung. However, because of their large size, *chaebol* enterprises must also hire outsiders (non-family members). Some are recruited upon university graduation, including some who become assistants to senior family members to whom they develop strong loyalty (Choe, 2000; Steers, Shin, & Ungson, 1989). In an effort to ensure sufficient personal loyalty and trust, hiring managers often take the candidate's home region and university affiliation into account, as the following sources attest:

In some . . . [Korean] companies, the top management group is dominated by executives who are all from the same geographical area, like Seoul, Yeongnam (a southeastern province), Honam (a southwestern province), or whatever the owner's home region may be. In some . . . companies, the executive group is dominated by graduates of certain universities (Seoul National, Yonsei, or Korea) or high schools (Kyunggi, Seoul or Kyungbook). (Chung & Lee, 1989, p. 156)

When Korean managers are introduced, one of their first questions they ask each other [is] where they went to school. Discovering that both attended the same high school or university (even at different times) often brings an instant feeling of closeness. These ties help define who the employee is in the organization and provide a degree of status in a status-oriented society. They continue to affect the employee throughout his career. (Steers et al., 1989, p. 45)

An exception to this pattern is the occasional senior South Korean government official who takes a senior position in a major company after a long civil service career (analogous to a similar practice in Japan).

Given rapid recent industrial development, China is facing a shortage of managerial talent for its many enterprises, including foreign-owned ones ("Briefing: Asia's Skills Shortages," 2007). In Chinese SOEs, the Communist Party reviews key managerial appointments, often including political criteria in tandem with professional qualifications (Zhao & Zhou, 2004).

Throughout East Asia, there has been a tendency for strong personal loyalty of employees to employers (and vice versa) and hence less managerial turnover than in the West. For example, the Booz Allen Hamilton annual global survey of CEO turnover worldwide shows the lowest rates for the Asia Pacific region (compared with North America, Europe, and Japan).⁵ Also, in 2007, that region accounted for just 16% of the global executive search market (executive recruitment firms), compared with 35% and 41%, respectively, for Europe and the United States (Association of Executive Search Consultants, <http://www.aesc.org/article/pressrelease2007111301/>).

PAY

There is not much information on senior executive pay in East Asia, but a limited amount comes from human resource consultancies. For example, Towers Perrin produces CEO pay figures worldwide for a cross-section of firms with at least \$500 million in sales. For 2005, average total CEO pay in Singapore was about the same as for Western Europe (about US\$1 million). CEO pay in Hong Kong and South Korea was a bit lower (US\$600–700,000), and in Taiwan and China (Shanghai) it was yet lower (around US\$200–300,000) (Table 6.9).

Regarding senior-level pay in state-owned firms in China, a study (Chen, Guan, & Ke, 2008) noted that they generally draw from the same managerial candidate pool as non-SOEs. Researchers reported that the median annual cash income of the CEO or chairman in 83 red chip firms was approximately US\$180,000 in 2005, plus an average US\$140,000 in stock options. However, they noted that the executives rarely exercise vested stock options during their tenure with their firms. The 83 firms represented 52% of the total market capitalization of Mainland China's domestic stock market and 37% of the market capitalization of Hong Kong's Hang Seng stock index. The authors defined red chip firms as

Table 6.9 CEO Pay (Average, 2005)

Country	CEO Pay (\$ million)
Singapore	\$1.0
Hong Kong	0.7
South Korea	0.6
Taiwan	0.3
China (Shanghai)	0.2
Japan	0.5
United States	2.2
Canada	1.1
France, Britain, Germany, Italy	1.1–1.2

SOURCE: These Towers Perrin figures are for total pay (salary, variable pay if any, benefits, and perquisites) from a broad cross-section of companies with at least \$500 million in sales. Numbers are approximate, based on a bar chart in "Total Worldwide Remuneration" (2006, p. 102).

mainland Chinese state-controlled companies incorporated outside China (e.g., in Hong Kong, Bermuda, and the Cayman Islands) that trade on the Hong Kong Stock Exchange. More than 90% of their shares are owned by the Chinese government.

BUSINESS AND MANAGEMENT EDUCATION

Except for a late start in China, higher education for business has been available in East Asia. South Korea got an early start in the 1950s when converting its former commercial colleges into schools of business that now strongly resemble U.S. university business schools.⁶ Most universities in Hong Kong, Taiwan, and Singapore have schools or departments of management or business administration,⁷ several with ties to Western institutions. For example, the Hong Kong University of Science and Technology has an MBA program run jointly with Northwestern University, in Illinois.

In Taiwan, academic programs in business disciplines are offered at National Sun Yat-Sen University (College of Management), National Taiwan University (its College of Management), and others.

Singapore providers were prominent in the 2007 *Financial Times* ratings of global MBA and executive education program. They included Nanyang (Technological University) Business School and the National University of Singapore, plus the Singapore-based programs of INSEAD (of France), ESSEC (France), the Helsinki School of Economics, and the University of Chicago. Singapore Management University was founded in 2000, a private school with several joint programs with Western schools.

Many East Asian university-age students study abroad, particularly in the United States, Japan, and Australia. In 2007–2008, for example, four of the largest six sources of enrollment in U.S. higher education were East Asian, including the PRC (81,127 students), South Korea (69,124), Japan (33,974), and Taiwan (29,001); another 8,286 came from Hong Kong (Open Doors, 2008). About one in five enrollees were in business study programs. It was once reported that about half the board chairmen in South Korea's 30 leading *chaebol* had studied for a time in the United States, and another one fourth studied in Japan (Mallaby, 1995).

China famously pioneered formal schooling for its civil servants in the 7th century AD,⁸ an era when merchants had low status in the Confucian social hierarchy (below soldiers, civil servants, and peasants).⁹ Today, business leaders have more prestige, and there is strong demand (and rising pay) for managerial talent. Over the years, foreign institutions have contributed educational support. In 1978, for example, the Chinese Enterprise Management Association began courses and seminars with

support from Western corporations, universities, foundations, and other sources (e.g., European Union, World Bank, United Nations, and the foreign aid agencies of Japan, Germany, Canada, and the United States). The National Center for Industrial Science and Technology Management Development was started in 1980 at Dalian (northeast China). In 1984, several European business schools helped to establish the China–Europe Management Institute in Beijing, which has an executive MBA program administered by the European Fund for Management Development.¹⁰ It later added a Shanghai campus. In 1994, the China–Europe International Business School started MBA and executive MBA programs administered by the European Fund for Management Development and Shanghai Jiaotong University. An MBA program at Beijing’s Tsinghua University’s School of Economics and Management has ties to U.S. Ivy League universities. More recently it was reported that 95 PRC universities were producing about 12,000 MBAs (Li, 2005). In addition, some foreign investors (e.g., Coca-Cola and Motorola) have internal management schools in China (Hagerty, 1997).

In academic circles, the Asia Academy of Management was founded in 1997 by local management scholars and publishes the *Asia Pacific Journal of Management*. Another group, the International Association for Chinese Management Research, emerged in 2004 with the involvement of Hong Kong University of Science and Technology and Peking University and publishes *Management and Organization Review*. Singapore’s Nanyang Technological University publishes the *Chinese Business Enterprise Review*. Another regional interest group (since 1982) is the Asia-Pacific Researchers in Organization Studies, started originally in Australia (<http://www.apros.org>).

Management Practice

There are invariably differences in management practice and style in different organizations (big vs. small, state-owned vs. private, young vs. old, high-tech vs. low-tech, and whether allied or not with foreign firms). Other variations can result from CEO age, education, experience, and other factors. The discussion here focuses on general tendencies that apply broadly in private business. It draws from the opinions, perceptions, and research of scholars, managers, journalists, and others, both Eastern and Western but mainly Western. As China enterprise scholars Tsui, Bian, and Cheng (2006) noted, “Given the paradigm shaped by the common North American training of most scholarship on Chinese firms, we are not surprised that much of the current work . . . reflects the use of a Western lens” (p. 21).

PLANNING

Managerial planning is concerned with organization purposes and objectives and alternative ways to achieve them. As noted in previous chapters, the planning process can be formalized but can also be informal, especially in small firms. In general, the larger the company, the more formal its planning activity. Except for large SOEs in China and the South Korean *chaebol*, small and medium-size businesses are the norm in East Asia. In these, plans and planning are generally more intuitive and flexible than in the West. This is reflected in Bain & Company's 2007 global Management Tools and Trends survey, which reported that strategic planning was the most popular tool worldwide (from its list of 15 tools) but was less prevalent in the Asia-Pacific region than in North America, Europe, and Latin America (Rigby & Bilodeau, 2007a, 2007b; see also <http://www.bain.com>). Asia-Pacific also used less scenario and contingency planning, growth strategy tools, and mission and vision statements.

In describing Chinese enterprise in Hong Kong and Southeast Asia, Redding (1990) observed, "The Chinese businessman . . . denying the usefulness of formal planning, . . . prefers to absorb information and to use his intuition to process it" (p. 77). He noted, "The leader's intentions remain loosely formulated is a common observation in Chinese organizations. Equally common, and related, is the capacity for surprise leaps into unrelated ventures which speaks of a very open-ended view of an organization's mission" (p. 132).

Westwood (1997) noted the tendency among Overseas Chinese for business leaders to hoard information and be nonspecific about intentions, even to their own employees. (The Overseas Chinese, or *huaqiao*, are the 40 million or so China-born people and their descendants living abroad, mainly in Southeast Asia but also in the Americas and beyond.) Their personal plans "are . . . often loose . . . based on . . . intuitive judgment, grounded on . . . extensive experience and personal immersion in [the] business environment . . . rather than having been formulated systematically and objectively" (p. 469).

Informed opinion varies as to whether the flexible, intuitive, reactive planning style of the Overseas Chinese results from culture and other external factors or is normal in small family businesses anywhere. In general, small firms tend to be more flexible and reactive than large ones. Their objectives can also differ from those of large firms, often preferring stability, continuity, and preservation of family status and wealth rather than fast-paced growth or optimal earnings.

In China, the prevailing uncertainty about taxation, property rights, accounting and reporting practices, currency convertibility, trade policy, and government regulations forces more flexibility and more frequent revision of plans by local and foreign firms alike.

Nonetheless, formal planning is apparent in bigger enterprises in China (state-owned and large private firms). It is also apparent in medium and large high-tech contract manufacturers in Taiwan (e.g., Hon Hai, Acer,

HTC, Asustek, TSMC, Quanta) obliged to meet tight production, quality, and logistics commitments to Western and Japanese clients (e.g., Apple, Dell, Sony, Nokia) (Dean, 2007). Also, many of their founders, managers, and engineers were previously educated or employed in the West, where they were exposed to Western business practices, including more formal planning (Hempel & Chang, 2002).

Steers et al. (1989, p. 40) noted that most South Korean *chaebol* (e.g., Samsung, Hyundai) “have a planning group [and] . . . a central planning function that works closely with the group chairmen,” which contributes to their extensive overseas business presence, including in the United States and Europe.

Throughout much of East Asia, the state has intruded more on corporate plans and planning than in the West. In Singapore, Taiwan, South Korea, and China, this has included subsidies, tax breaks, trade protectionism, preferential purchasing arrangements, and partial ownership stakes even in predominantly private businesses. Less-developed local capital markets make banks a major source of external funding. Most banks in the region are government owned. For South Korea, Moskowitz (1989) noted that the “power of the capital provider [mainly government banks] to determine policies and strategic direction of enterprises has been overwhelming, and the independent power of professional management in these decisions is extremely limited” (p. 72). That also applies to large PRC state-owned businesses, which are routinely favored and subsidized, including the “national champions” mentioned previously (see Table 6.8).

Private sector Chinese occasionally get inspiration for business strategy from ancient sages, as reflected in the following passage.

The Chinese Art of Management

Do the managers of China’s factories need to read the works of Peter Drucker or Tom Peters or the other gurus of Western business? Of course not. They can bone up on China’s own Classics. . . . It is Sun Tzu’s “The Art of War” that offers most on market strategy: “launch an attack when it is least expected,” “strong and weak can be reversed,” “know yourself and your enemy.”

Huo Xinyi and Yu Zaoyu are both deputy secretaries-general of the Society for the Study of China’s Ancient Management Thinking. . . . Mr. Huo tells the tale of the king’s horses and the computers of Liangxiang. There was once a commoner who raced three horses against three horses belonging to the king. The best was pitted against the best; the middling against the middling; and the slowest against the slowest. Each time, the king won because his horses were a little faster than the commoner’s. Afterwards a clever person told the commoner that he should have raced his slowest horse against the king’s fastest, his middling horse against the king’s worst, and his best against the king’s middling horse. In this way, he would have won two races out of the three. That is why the Liangxiang company sells its medium-range computer in the bottom-of-the-range international market.

SOURCE: “The Chinese Art of Management” (1991, p. 41). Used by permission.

CONTROL

The managerial function of control is about measuring and correcting performance. If results don't meet expectations, adjustments are made to actions or plans. In a free market economy, corporations and managers are broadly controlled by product and capital markets. Subpar performance can trigger a drop in share price or fall in credit rating that will spur change or bring a takeover try by outsiders. In East Asia, however, takeovers have been much less common than in the West (but are increasing). Stock markets are smaller, and fewer companies go public, making stock-financed buyouts less of an option.¹¹ In most stock exchange-listed firms, insiders (family members and sometimes the state) control a dominant block of stock (or votes). Boards of directors are dominated by insiders (owners, family members, and in SOEs, the state),¹² very reluctant to accept outsiders among their ranks, much less have them pass judgment on management. One source concludes that "many Asians find it hard to accept the idea of, say, an external auditor or an independent board director, since he might actually disagree with them" (Kluth, 2001, p. 3). Stockholder meetings are generally infrequent, short, and uneventful, and there is little tradition of shareholder activism. Family control (and sometimes government control) has priority over profits (to the dismay of independent minority shareholders).

China's stock markets (Shenzhen, Shanghai) have been more a venue for speculators than for prudent investors. This is due partly to unreliable financial information about companies and fuzzy and opaque accounting and reporting practices (see Ball, Robin, & Wu, 2001; "PRC Accounting Standards," 2006). One source notes, "It is said (with apparent sincerity) that some Chinese firms keep several sets of books—one for the government, one for company records, one for foreigners and one to report what is actually going on" ("Cultural Revolution," 2007, p. 63).¹³

When they need external capital, East Asian enterprises usually seek debt funding rather than equity. Whatever the source (private or government lenders), loans often are relationship driven rather than credit risk driven. In the 1990s, this contributed to a high volume of nonrecoverable loans, bringing a regional financial crisis (and economic slowdown) and eventual state bailout of lenders.

Private sector business in Hong Kong, Taiwan, and Singapore has a reputation for judicious cost control. For example, Redding (1990, p. 205) observed that small and medium-size Overseas Chinese businesses are "normally very sensitive to matters of cost and financial efficiency" and that money-mindedness and frugality are key competitive strengths. Attention to cash and cash management is also mentioned by longtime Hong Kong hotelier Robert Burns (Kan & KCTS/Seattle, 1992):

Because [people] aren't speaking the King's . . . English [doesn't mean] they don't know what they're doing [about money]. They know better than you by about a factor of ten. They are five steps ahead, especially when it comes to banking, finance, money. I say that particularly the Cantonese are born counting. They know more about money and how to make it than anybody I've ever dealt with.

Long-standing Chinese aphorisms call attention to financial diligence. These include Fan Li's Sixteen Principles of Good Business (Table 6.10), written in the 5th century BC, especially Principles 7, 9, 11, and 13. These principles are reproduced today in Chinese wall hangings, calendars, and diaries, and they help to explain the reputation for tight cost control and cash management practices.

East Asian private family business has shown a tendency for hierarchical, centralized, informal control of human resources. In Overseas Chinese family-controlled business, Redding (1990) noted that personal supervision there is "more nebulous, less programmatic, more personalistic, and . . . likely to rely more on the sense of responsibility of key individuals" than in Western firms (p. 217). He noted that it is not common to allocate individual performance criteria or to assess performance on an individual basis objectively against any criteria (p. 220).

It is unusual in Confucian settings (and culturally inappropriate) to do formal face-to-face individual performance evaluations or to direct much personal criticism at subordinates. For South Korea, Chung and Lee (1989, p. 157) observed that "many . . . managers are . . . reluctant to evaluate their subordinates negatively" so as to preserve harmonious personal relationships. Among ethnic Chinese family firms in Singapore, Choy (1987, p. 139) noted reluctance to reprimand or to lay off underperforming employees. Jacob (2001) made a similar point:

There are cultural barriers that make standard [Western] procedures, such as career evaluations, difficult to pull off in the Asian context; . . . those employees doing well . . . hide their performance, preferring to share the credit even with lacklustre performers. . . . There is the pervasive issue of maintaining "face"—the overriding need not to embarrass people. Inevitably this tends to inhibit free-flowing evaluations and makes it hard to tell someone they are doing a poor job. (p. 14)

ORGANIZING

The managerial function of organizing is concerned with enterprise structure, distribution and flow of authority, and integration and coordination of roles, resources, tasks, and effort. Whether by choice or by chance, business structure can be simple or complex. In general, the larger the company, the more complex the structure (more hierarchy, departmentation,

Table 6.10 Sixteen Principles of Good Business, Expressed in Contrasting Active (yang) and Passive (yin) Forms

Yang	Yin
1. Be prudent and industrious in business.	<i>Laziness dooms all ventures.</i>
2. Keep expenditures to a minimum.	<i>Extravagance erodes capital.</i>
3. Be friendly in dealing with others.	<i>Impatience entails loss of business.</i>
4. Grasp the right moment to close a deal.	<i>Procrastination is the thief of golden opportunity.</i>
5. Be lucid in setting down the terms of the transactions.	<i>Ambiguity breeds contention.</i>
6. Be discreet in offering credit.	<i>Undue generosity erodes capital.</i>
7. Audit all accounts carefully.	<i>Laxity hampers flow of funds.</i>
8. Distinguish between the good and the bad.	<i>Indifference paralyzes the enterprise.</i>
9. Manage the inventory systematically.	<i>Perfunctory management creates a total mess.</i>
10. Be just and impartial to staff.	<i>Bias brings inefficiency.</i>
11. Exercise due caution in all payments and receipts.	<i>Negligence attracts costly errors.</i>
12. Examine the merchandise before acceptance.	<i>Indiscrimination causes unprofitability.</i>
13. Observe strictly the terms of payment.	<i>Late settlement damages trustworthiness.</i>
14. Be judicious and honest in money matters.	<i>Mismanagement promotes corruption.</i>
15. Be responsible in the face of adversity.	<i>Irresponsibility aggravates the problems.</i>
16. Be cool, calm, and confident.	<i>Recklessness hinders daily dealings.</i>

SOURCE: By Fan Li, under the pen name of T'ao Chu King, 5th century BC, from "The Management of Chinese Small-Business Enterprises in Malaysia," by Sin, 1987, *Asia Pacific Journal of Management*, 4(3), 181–182. Reprinted by permission of Springer Science and Business Media.

task specialization, and cross-functional coordination). Small firms tend to be simply structured (flatter, less hierarchy, fewer levels; less differentiation and departmentation of roles and tasks) and commonly organized around business functions (e.g., production, marketing, finance). But when they grow and diversify, integration and coordination may improve by changing to a divisional structure (focused on product groups or geographic markets).

Firms can also be vertically integrated to a greater or lesser degree. If greater, they directly control a fuller range of resources, processes, and channels involved in the conception, design, production, and distribution of their product or service.

Prominent structural prototypes seen in East Asia include small private Chinese family business, vertically integrated conglomerates (Korean *chaebol*, Japanese *keiretsu*), and network structures (Taiwanese contract manufacturers).

Small Family Businesses

As noted previously, the traditional Overseas Chinese family business is small, patriarch led, and with simple structure. It can be flexibly and informally connected to suppliers and customers, bound personally by *guanxi* (reciprocal personal commitment, obligations, trust). Hamilton and Biggart (1988) described the pattern in regard to Taiwan:

The family firm (*jiazuqiye*) and business group (*jituanqiye*) [are] the dominant organizational forms in industry, especially in the export sector. . . . [They show] conspicuous lack of vertical and horizontal integration, . . . absence of oligarchic concentrations . . . [and an] unwillingness or inability of . . . entrepreneurs to develop large organizations or concentrated industries [that] appears to have defied even the encouragement of government. [Therefore] . . . the small-to-medium size, single-unit firm is so much the rule in Taiwan that when a family business becomes successful, the pattern of investment is not to attempt vertical integration . . . but rather . . . to diversify by starting a series of unrelated firms that share neither books nor management. (p. S65)

Small size results partly from the limited range of interpersonal trust (seldom beyond kin) and reluctance of owner families to yield or dilute control. Another factor is underdeveloped equity markets, which constrain capital formation and inhibit mergers and acquisitions.

Conglomerates

By contrast, many Korean *chaebol* enterprises are huge and vertically integrated. As noted earlier, a *chaebol* (literally “financial house”) is a

group of independent firms; in a few cases just one large family ensures administrative control and guidance through direct stock holdings, cross-shareholdings, and holding pyramids between member firms. Where possible, operational synergies, complementarity, and coordination are sought between firms. The most visible *chaebol* groups are the Big Four (Samsung, LG, Hyundai, SK), but there are several dozen others (see http://wiki.galbijim.com/Chaebol#The_.22Big_Four.22).

The *chaebol* have many similarities with Japanese *keiretsu* business groups (discussed in the next chapter), including their large size, member cross-holding of stock, and much sharing of information and resources. There are also significant differences (Table 6.11).

Historically, the *chaebol* were nurtured by government protection and support after World War II. Previously, South Korean industry was very similar to peers in Taiwan and Hong Kong (small and medium-size businesses and business groups). The state support continued over the years but has been scaled back recently. By turn of the 21st century, high *chaebol*

Table 6.11 Differences Between South Korean *Chaebol* and Japanese *Keiretsu*¹⁴

Most <i>chaebol</i> are younger than most <i>keiretsu</i> , having emerged mainly after 1960, and are more closely tied to founders (founding families).
The <i>chaebol</i> have been more dominant in the South Korean economy than have the <i>keiretsu</i> in Japan.
The <i>chaebol</i> have had more government protection, loans, and other assistance (now diminishing) than have the <i>keiretsu</i> ; they also have faced stronger recent government pressure to restructure and be more autonomously competitive.
The <i>chaebol</i> have fewer member firms but enter more diverse businesses than the <i>keiretsu</i> .
The <i>chaebol</i> show predominantly horizontal (unrelated product) diversification, whereas the <i>keiretsu</i> can be horizontal (e.g., <i>zaibatsu</i> -style <i>keiretsu</i>) or vertical (independent <i>keiretsu</i>).
In <i>chaebol</i> , fewer non-family member managers ascend to the top of the management hierarchy; the <i>chaebol</i> hire more from the outside (at every level), whereas <i>keiretsu</i> enterprise traditionally develops and promotes people from within.
<i>Chaebol</i> enterprises are more vertically integrated and less bound to particular networks of suppliers and subcontractors (Chen, 1995; Hattori, 1989).
The <i>chaebol</i> , unlike the major early <i>keiretsu</i> , have no commercial bank affiliates (South Korean banking laws restrict the nonbank ownership of banks).
The <i>chaebol</i> have higher debt/equity and debt/asset ratios than the <i>keiretsu</i> .

debt levels brought debt rescheduling, defaults, and government bailouts. In the process, government pressured the *chaebol* to reduce intragroup cross-shareholdings, spin off noncore businesses, reduce their debt ratios, and include more outside directors on their boards.

In private Chinese businesses, whether in Hong Kong, Taiwan, Singapore, Mainland China, or beyond, the large vertically integrated company is rare. Intuitively, that doesn't bode well for long-run competitiveness with Western, Japanese, and Korean rivals, who can gain and sustain advantages from the scale and breadth of their operations.

Network Organization

Many Chinese entrepreneurs, through extensive personal domestic, regional, and global business networks, are successfully partnering with other businesses, forming virtual extended enterprises that transcend size limitations.

One example is Hong Kong-based Yue Yen (the world's largest footwear firm), which has relational ties with thousands of suppliers and subcontractors throughout China, Southeast Asia, and beyond. It makes branded shoes for Nike, Adidas, New Balance, and others (Agtmael, 2007). Another example is Hon Hai, the largest of several Taiwan-based electronics contract manufacturers with extensive flexible production, supply chain, and distribution ties throughout East and Southeast Asia. Hon Hai makes a diverse mix products (e.g., cell phones, game players, monitors, cameras, personal organizers, and electronic parts and subassemblies) for Apple, Sony, Nintendo, Nokia, Dell, HP, and others (Dean, 2007).

Based on widespread personal contacts and constant exchange of information, these and similarly formed firms show ability to adapt to changing competitive conditions.

Some sources see this network structure as a new and unique structural form for which Chinese culture, with its personalism, cultural bonds, and reciprocal trust, is especially well suited. It is even suggested that such networks will replace traditional hierarchies and be the standard in global business. Schlevogt (2001, p. 556) concluded,

We are entering the age of what can be termed "web capitalism," a concept that embraces the physical, social, and spiritual world. Asians in particular are renowned web masters. Their skill in weaving dense networks loaded with invisible capital accounts for much of their economic success. Undoubtedly, Westerners are well advised to learn from their techniques to master the challenges of the present and future in different fields of society.

Boisot and Child (1996) were similarly persuaded:

The Chinese system of network capitalism works through the implicit and fluid dynamic of relationships. On the one hand, this is a process that

consumes much time and energy. On the other hand, it is suited to handling complexity and uncertainty. Networks offer greater capacities for generating and transmitting new information, and when they are sustained by trust-based relationships they offer a cushion against the possibility of failure that is a concomitant of uncertainty. (p. 625)

China is a system that in its transformation is giving rise to a distinctive institutional form—network capitalism. (p. 626)

By contrast, Chan (2000) sees no preordained permanence or superiority in the network systems of the Overseas Chinese and concludes that they “have developed their businesses within a very unique historical context, at a particular time and in a particular place where their skills are found to be appropriate. Many did not succeed, but the ones who did are much talked about in the world” (p. 326).

Continued interest in the subject (network theory) has generated discussion and debate about the conceptual parameters, strengths, and limitations of network structures (Kim, Oh, & Swaminathan, 2006; Uzzi, 1997; see also the July 2006 issue of the *Academy of Management Review*).

DIRECTING

If you do too many things you will make many errors; if you do few things you will make few errors; if you do nothing you will make no errors.

(Chinese proverb)

The managerial function of directing involves guiding and influencing colleagues, subordinates, and others. In cultural terms, given Confucian high power distance and high collectivism, managers expect subordinate compliance, cooperation, conformity, obedience, deference, and follower-ship. There is much attraction to a benevolent patriarchal authoritarian leader; conversely, managers show paternalism toward subordinates (Westwood, 1997). Personalism and loyalty are key to ensuring individual performance, with the subordinates conditioned by culture to please the boss. Farh and Cheng (2000) note, “Personalistic leadership, which combines strong discipline and authority with fatherly benevolence and moral integrity couched in a personalistic atmosphere, has been found to be prevalent in overseas Chinese family businesses” (p. 84). For Taiwan, Javidan and Carl (2005) similarly noted the importance of the Confucian virtues of benevolence, propriety, trustworthiness, and human heartedness, with managers “expected to provide for and to protect the wellbeing of their employees” (p. 23). Accordingly, supervisory styles are more relationship oriented than task oriented.

The collectivism and egalitarianism in Confucian culture seem intuitively favorable to employee participation in decision making. However,

other cultural traits work against it. These include high power distance, which inhibits voluntary and open communication; high uncertainty avoidance, which promotes resistance to change; and predominantly masculine value orientation, which is conducive to an authoritarian rather than a participative decision-making style. In prereform China, Communist Party lip service to worker participation brought false participation, with Walder (1984) noting that “patterns of worker participation in meetings on the shop floor appear to the worker not as an opportunity to influence decisions, but as part of the everyday reality of communication, command, and control, which they [the workers] view with a mixture of anxiety, indifference, and boredom” (p. 555).

In comparing the leadership styles of Hong Kong Chinese businesspeople with those of the Japanese, Fukuda (1988) noted a wider social hierarchy divide between managers and subordinates in Hong Kong than occurs in Japan. For Chinese business, Laaksonen (1988, p. 301) saw a wider influence gap between top and middle management levels than in similar-size Japanese and European firms and attributed it to the “traditional authoritarian and patriarchal Chinese culture” and to a Communist Party–controlled political system where important decisions come from higher-ups.

In regard to employee motivation, Herman Kahn (1979, p. 123) and former associates at the Hudson Institute called the East Asian Confucian ethic a key to explaining its rapid regional economic growth:

We believe that . . . aspects of the Confucian ethic—the creation of dedicated, motivated, responsible, and educated individuals and the enhanced sense of commitment, organizational identity, and loyalty to various institutions—will result in all the neo-Confucian societies having at least potentially higher growth rates than other cultures.

In a similar vein, MacFarquhar (1980) concluded that “Confucian ideology [was] as important to the rise of the East Asian hypergrowth economies as [was] the conjunction of Protestantism and the rise of capitalism in the West” (p. 68). Hofstede and Bond (1988) viewed certain Confucian traits, but not all of them, as instrumental to regional economic development. They described a Confucian dynamic wherein the values of thrift, perseverance, and orderly structuring of human relationships contribute to economic success, for example, of many Overseas Chinese. Less relevant, in their view, is the valuing of tradition, personalism, and “protecting face.”

Nevis (1983) discussed Chinese motivation from the viewpoint of Maslow’s famous hierarchy-of-needs theory of motivation and saw reason to modify the hierarchy for Confucian settings. Maslow’s (1954) original framework postulated five levels of human needs, two of them lower-order (physiological needs and safety and security) needs and the others, in ascending order, social needs (affiliation, belonging, and love), esteem

needs (ego gratification), and self-actualization (personal psychological fulfillment) (Table 6.12). According to Maslow, lower-order needs must be largely met before higher-order ones have much motivational significance. The implication is that managerial styles and reward systems should be tailored to the need satisfaction profiles of the people involved.

Nevis's (1983) modified Chinese need hierarchy omits Maslow's esteem category altogether. In his view, belonging is the most basic Chinese need, followed in ascending order by physiological and safety and security needs, and then self-actualization, the latter derived from group accomplishment rather than individual accomplishment.

Table 6.12 Need Hierarchies: Western (Maslow) and Chinese (Nevis)

Maslow's Need Hierarchy (Maslow, 1954)	Nevis's Chinese Need Hierarchy (Nevis, 1983)
Self-actualization (defined in terms of individual development)	Self-actualization (in the service of society)
Self-esteem	Safety
Social (belonging)	Physiological
Safety	Belonging (social)
Physiological	

Chapter Summary

- Business and management trends in East Asia have captured global attention because of fast-paced economic development in its Four Tigers (Hong Kong, Singapore, Taiwan, and South Korea), transformational change in China, and corollary business opportunities and threats.
- The region's cultural heritage is predominantly Confucian, reflected in prevailing tendencies for groupism, acquiescence to hierarchy, deference to authority, and reverence for education; business depends on social bonds based on kinship, school, geographic, or other ties, nurtured and sustained through *guanxi* (reciprocal trust, favors, and obligations).
- The Four Tiger economies have been predominantly capitalist, with Hong Kong being the most free; South Korea, Taiwan, and Singapore have had a state-guided form of capitalism. China is a transitional mixed economy (incrementally becoming more free).

- Taiwan, Singapore, and South Korea have been dominant-party democracies; the Communist Party continues to control China.
- In the Chinese world, the family has long been the bedrock of social order, guided mainly by custom and tradition (Confucian social and ethical codes); Western-style civil liberties have gained belated interest and attention.
- The prototype private sector Confucian manager is a family patriarch leading a small or medium-size business. Nepotism and favoritism are common in staffing. CEO pay is lower than in the West (save for Singapore and Hong Kong, where it is high), but shortages of managerial talent are pushing pay higher.
- Chinese private sector business planning is generally informal, intuitive, adaptive, and opportunistic; except in Hong Kong, government intrudes considerably in private sector planning.
- Stock markets play a lesser role in corporate control than they do in the West; mergers and acquisitions are less common but increasing. Fewer companies go public, and corporate boards of directors have little independence. Problems with financial disclosure and accounting and reporting standards continue.
- In regard to organizing, the Chinese private sector seldom produces large integrated businesses. Some sources see Chinese network capitalism as an organizational prototype for the future worldwide. Where bigger private local companies appear in the region, the state usually is involved with support (e.g., in South Korean *chaebol* groups and some Chinese state-owned or state-supported “national champions”).
- Leadership, communication, and motivation are much influenced by Confucian culture. High power distance and hierarchical social structure bring preference for older, benevolent, paternalistic authoritarian leaders. The need to belong is a strong motivational need. Personal bonds and trust are important for getting things done.

Terms and Concepts

chaebol

Confucius; Confucian culture

contract responsibility system

Four Tigers

guanxi

indicative planning

market socialism

network capitalism

network organization

Overseas Chinese

People's Republic of China (PRC)

Sichuan experiments

Sinitic culture

Special Economic Zones

state-guided capitalism

township/village enterprises

Study Questions

1. What is distinctive about the East Asian cultural, economic, and political environment?
2. Identify major tenets of Confucian culture and discuss ways in which they influence East Asian managers and management patterns and practices.
3. From the viewpoint of the management functions, discuss prevalent management patterns in the region.

Exercise 6.1

Guided by a theory of motivation such as Maslow's renowned hierarchy-of-needs (see Table 6.12), one could design a managerial compensation package (monetary and nonmonetary rewards) tailored to the personal wants, needs, values, and expectations of an individual. This would be influenced by individual background as well as expectations concerning personal capabilities, obstacles, effort, risk, and reward. Societal pressures and tax factors also come into play.

In individualistic cultures in free market economies (e.g., Canada, United Kingdom, United States, Australia), Maslow's "esteem" needs and "self-actualization" warrant attention, and there is comparison with what similar managers earn in comparable firms. Pay often includes performance bonuses in the form of cash, stock, or stock options. There might also be sign-on and retention bonuses and severance payouts (golden parachutes) for terminations caused by merger or acquisition. There can also be significant retirement benefits. Perquisites may also pertain (e.g., theater tickets, golf club memberships, flight time on the company jet). In some cases, though, just the prestige or the challenge of the job might be sufficient motivation.

By contrast, do you think an ideal managerial compensation package in a Confucian setting should look much different? Suppose that you (from a leading Western company) are contemplating such a plan for your new CEO (a local Chinese national) for your recently acquired assembly plant in Guangdong province, China.

What factors should influence your deliberation? Do you think that Nevis's Chinese need hierarchy (Table 6.12) is a more suitable guide (than Maslow's, or any other you know of) in structuring a reward package. Why or why not? Explain.

Exercise 6.2

South Korea's *chaebol* business groups contributed much to its remarkable economic growth and development during the late 20th century. Some *chaebol* affiliates (e.g., within Samsung, LG, Hyundai and other groups) are now very visible abroad because of exports, foreign production, and ties with foreign firms. For some, nearly half of their shareholders are now non-Korean.

At home, Korea's guided-free-enterprise economic system (state-guided capitalism) along with close *chaebol* owner-family connections to government officials have brought favorable regulatory, financial, and other support and protection. Nowadays, however, traditional *chaebol* structure and practice are increasingly viewed as detrimental to economic progress. In that regard, a recent report by the Korea Fair Trade Commission (KFTC, 2008) noted that affiliates of *chaebols* through their "complex chain of cross-equity holding assumed a monopolistic or oligopolistic status or [have run] their business activities in more favorable position than small- and medium-sized companies in their market [and with] adverse effects that undermine fair competition" (p. 38). The commission is the nation's competition and consumer protection authority in matters of business collusion, abuse of market dominance, anticompetitive mergers and other interference with competition.

Some additional structural and operational concerns include disproportionate founding-family control (superproportional voting rights in relation to their diminished shareholdings, interlocking directorships between and among affiliates, high debt/equity ratios, intragroup debt guarantees, cross-subsidies and confusing accounting and reporting practices.

The KFTC has pressured for reduced cross-shareholding and lower-percent ownership when acquiring other (nonmember) local firms. It has also encouraged *chaebol* conversion to holding-company structures. In 2003, for instance, the LG Group launched a holding company (LG Corporation) for 34 of its 49 affiliates in a restructuring. The remaining 15 were mainly financial businesses or destined for spin-off from the group. The SK Group (nation's third-largest *chaebol*) was similarly restructured in 2007.

A holding company doesn't produce any goods or services itself but controls subsidiary companies through partial or complete ownership of their stock. The subsidiaries retain their corporate identities and management teams, but now have direct profit-and-loss accountability to the parent. Concurrently, it diminishes interlocking directorships and cross-shareholdings between affiliates.

Assignment: Investigate the extent to which one or more leading *chaebol* groups (or the several dozen or so altogether) have increased or diminished

their presence in the South Korean economy during the past 10 years. Prominent groups include Samsung, LG, SK, Hanjin, Gumbo, Hanwa, Hyundai, Hyundai Motors, and Hyundai Heavy Industry. (Note: The Hyundai group was broken up into several groups in 2001.)

From a management point of view, what advantages and disadvantages derive from a holding company structure versus a traditional *chaebol* structure? Investigate and discuss.

If your non-Korean firm was contemplating a start-up, acquisition, or business alliance today in South Korea, to what extent might the *chaebol* system and its legacy influence your plan of action and prospects for success? Discuss.

Notes

1. According to Toynbee (1972) the six other major independent civilizations were the Sumero-Akkadian, Egyptian, Aegean, Indus, Middle American, and Andean.

2. The term *Sinitic* (or *Sinic*) refers broadly to things Chinese or significantly influenced by Chinese civilization; Japan, too, has ancient Chinese roots but is discussed in the next chapter. Although Japanese, Korean, and Chinese cultures are all Confucian, each is distinctive; the Chinese script language characters (*hanzi*) are also used in Japanese and Korean language; however, the Koreans also use a phonetic alphabet (called *hangul*, introduced in the 15th century).

3. For Singapore, initially under Prime Minister Lee Kuan Yew (1959–1990) and then Goh Chok Tong. Even after 1990, Yew continued to exert influence behind the scenes as senior minister.

4. Two leading freedom rankings include the Heritage Foundation's annual global Index of Economic Freedom (<http://www.heritage.org/Research/Features/Index/>) and the annual Institute for Management Development *World Competitiveness Yearbook* (<http://www02.imd.ch/wcc/>).

5. Based on survey of 2,500 companies worldwide, published yearly in *strategy + business* magazine (Lucier, Wheeler, & Habbel, 2007).

6. Korean providers include Pusan National University (College of Business), Seoul National University (School of Management), Hongik University (School of Business Administration), University of Alsan (Department of Management), Hankuk University of Foreign Studies (College of Business and Economics), and Yonsei University (College of Business and Economics, Graduate School of Business Administration).

7. They include the University of Hong Kong (Department of Management Studies), Chinese University of Hong Kong (Faculty of Business Administration), Hong Kong University of Science and Technology (School of Business and Management), City University of Hong Kong (formerly Hong Kong Polytechnic) Department of Management, City Polytechnic of Hong Kong (Faculty of Business, Department of Business and Management), Hong Kong Baptist (School of Business, Department of Management), Lingnan College (Faculty of Business), Singapore's Nanyang Technological University (School of Accounting and Business), the National University of Singapore (School of Post-Graduate Management Studies), and Singapore Polytechnic (Department of Business Administration).

8. The schooling was at the Hanlin Academy, where entrants were admitted by competitive examination and the curriculum was based on the teachings and writings of Confucius and other Chinese sages.

9. In Western society, too, merchants long had lower social status than civil servants; there was not much postsecondary schooling for business in the United States until the emergence of larger corporations in the late 19th century.

10. Some participating European business schools include Bielefeld University, Bocconi University, IESE, INSEAD, Université d'Aix-Marseille, and London Business School.

11. In 2007, the numbers of companies listed on each major East Asian stock exchange (SE) were as follows: PRC (Shenzhen SE, 730 firms; Shanghai SE, 863 firms), with the Chinese government the dominant stockholder in most cases; Taiwan SE, 716 firms (2004); Singapore SE, 774 firms (2005); Korea SE, 1,787 firms; Hong Kong SE, 1,206 firms). By contrast, about 5,962 firms (including a few hundred foreign ones, some of them Chinese) were listed on the three leading U.S. stock exchanges in 2006 (NYSE, AME, Nasdaq). Information retrieved from the World Federation of Stock Exchanges (*Focus*, 2008, p. 43).

12. Many Chinese SOEs list a fraction of their shares on stock exchanges in both China and Hong Kong and sometimes abroad; the state also has minority equity holdings in a number of predominantly private Chinese firms.

13. Since 2007, the Chinese Ministry of Finance has required companies listed on the Shenzhen and Shanghai stock exchanges to adopt accounting and reporting guidelines consistent with established International Financial Reporting Standards. Progress has been slow.

14. For more detailed discussion of the *chaebol*, see Steers et al. (1989, pp. 46–48). Japan's pre-World War II *zaibatsu* conglomerates were controlled through holding companies that were dissolved after World War II. Their member firms then coalesced into *keiretsu* groups with cross-shareholdings.

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