



Book China's Management Revolution

Spirit, Land, Energy

Charles-Edouard Bouée
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Recommendation

To many Westerners, China represents the impenetrable East. From its diverse languages and its ancient philosophies to its modern-day economic boom, China simultaneously tantalizes and perplexes Westerners, particularly in the way it conducts business. The Chinese management model, with its emphasis on harmony and reciprocity, and its lack of long-range strategic planning, often makes little sense to Westerners. That's all the more reason to send kudos to Shanghai-based business consultant Charles-Edouard Bouée for this outstanding job of explaining the Chinese system to Westerners. His informed analysis, though dry in parts and somewhat repetitive, provides an important context for understanding how the globe's most populous nation will thrive in the future. China seems poised to set the world's economic pace, and *BooksInShort* believes Bouée's book is a great place to start learning about how China does business.

Take-Aways

- Chinese leaders and businesspeople have become skeptical of the West's management style, particularly since the 2008 financial crisis.
- Many Chinese entrepreneurs combine Western practices with ancient Chinese customs, philosophies and cultural concepts.
- Chinese management balances on three aspects: "spirit, land and energy."
- Spirit refers to the spirituality that infuses much of business thinking in China.
- Land connotes the Chinese state, and its connection to all of economic life.
- Energy reflects the dynamism Chinese entrepreneurs bring to their markets.
- The emerging Chinese management model has nine characteristics: It is "dynamic, adapted, flexible, synthetic, mutual, consensual, spiritual, disciplined and natural."
- Chinese managers are strong tacticians by design; strategy and long-term planning are less important in China than in the West.
- Chinese managers prize agility and swift action; they must adjust to the government's five-year plans.
- To succeed as a foreigner in China's economy, follow the Daoist dictum: Just "go with the flow."

Summary

Chinese Management for China

In 2008, the global financial crisis rocked China, shaking its faith in the United States and the American capitalist system. As markets and organizations crashed and burned, Chinese leaders, thinkers and businesspeople began to reconsider their long-held belief in the American Dream, reimagined for China. Today, China is increasingly looking to its own strengths as it maps out how to proceed economically. The nation is now "retrofitting" Western management methods to fit its customs, traditions, and spiritual and philosophical concepts, with profound implications for the way companies around the world do business.

"China is like a company, 51% owned by the government." (*a Chinese businessman*)

Former leader Deng Xiaoping (1904-1997), who wanted to avoid a downfall similar to that of China's former economic model, the Soviet Union, began modernizing China's markets. Beginning in 1978, when it was clear the USSR was foundering, the pragmatic Deng refocused the nation's sights on the US as its model for future financial progress. But 18 farmers in Xiaogang village, Anhui province, changed everything. In November 1978, they agreed among themselves to break up the village's

communal land into individual plots, a forbidden practice at the time.

“To be rich is glorious.” (*Deng Xiaoping, former leader, Chinese Communist Party*)

With this radical change in incentives, the farmers produced about 90,000 kilograms of grain the next year, equal to the village’s entire output for the previous 20 years. With the sanction of the Chinese Communist Party (CCP), farming villages all over the country quickly followed the Xiaogang model. Now, Chinese farmers – all budding capitalists – can raise and sell their own crops.

“Although a fervent communist and centralist politically, Deng was a fervent liberal, almost an anarchist, economically.”

Small businesses known as Township and Village Enterprises (TVEs) began to spring up all over the country; from 1978 to 1996, the number of rural citizens employed by TVEs more than quadrupled. In early 1992, when Deng began his famous “southern tour,” China had 100 Special Enterprise Zones (SEZs) – duty-free, low-tax regions designed to attract foreign investors – scattered throughout the country; by the end of that year, the total was 8,700. Privatization in China took off in the 1990s under Prime Minister Zhu Rongji.

“Socialism and capitalism are awkward bedfellows.”

Today, China’s businesses work within four basic formats:

1. **“State-owned enterprises” (SOEs)** – A result of the CCP’s “keep the large, release the small” dictate, these big, strategically important companies emerged as smaller businesses spun off in privatizations.
2. **“Small and medium-sized enterprises” (SMEs)** – Many of these mostly family-run concerns started as TVEs. In 2009, SMEs contributed to almost two-thirds of China’s economic product.
3. **“Large private enterprises (Western clones)”** – The “sea-turtles” (ethnic Chinese repatriating after stints abroad) run their companies along Western lines.
4. **“Large private enterprises (New China)”** – Doubtful of US-type management, some sea-turtles, along with native Chinese, are creating their own business style based on combining ancient Chinese concepts with multicultural influences.

“Spirit, Land, Energy”

For millennia, merchants and administrators wielded the greatest power in Chinese society. Today, the CCP represents the administrators, and China’s emerging entrepreneurs are the merchants. In the West, firms operate with minimal constraints, accountable mostly to their shareholders. In China, companies must ultimately answer to the people; the administrators keep the merchants in check for the good of the community. Chinese enterprises work within the three components of Chinese civilization:

1. **Spirit** – Though an atheist society, China and its culture are “saturated with transcendence and spirituality.” While Confucianism is regaining a foothold in modern China, influences beyond Confucius have molded the Chinese psyche. For example, the *I Ching (The Book of Changes)*, which harks back to around 2800 BC, provides a system of divination that accounts for the Chinese sense of fatalism and luck. Confucianism stresses continuity coexisting with constant change, while Daoism teaches its followers to “go with the flow.” All are pivotal attributes of the Chinese management model.
2. **Land** – This refers to China’s modern nationhood, realized only in the 20th century. The government, using a steady, incremental approach, has created an environment of “fragmented authoritarianism.” Businesses trust the government; it is an omnipresent force, but they know how to adapt to it.
3. **Energy** – The merchant class – businesspeople and entrepreneurs – supplies the nation’s energy. With a rich, 4,000-year history in trade, Chinese merchants have always been risk takers, a main characteristic of the new Chinese management system. Unlike Western business leaders, Chinese entrepreneurs incorporate philosophical and spiritual aspects, like the concepts of tai chi, in their work.

How China Does It

Though still in nascent form, the Chinese management style is broadly based on nine defining features:

1. **“Dynamic”** – As the CCP dismantles the state-sponsored business sector, companies compete furiously to establish strong positions in industries that, though in the early stages of development, are poised for spectacular growth.
2. **“Adapted”** – Chinese managers prize agility and swift action, valuable qualities for businesspeople who must adjust to economic rhythms determined by the government’s five-year plans.
3. **“Flexible”** – Chinese entrepreneurs place little stock in definite plans, organizational charts and rigid systems. They are great multitaskers, strong tacticians and keen visionaries, but they rely less on long-range planning than their Western counterparts. Instead, they prefer a trial-and-error approach, paying close attention as circumstances change and adjusting their business activities at a moment’s notice.
4. **“Synthetic”** – China’s approach to business still depends to a great extent on Western and Japanese influences, but China synthesizes these imports into fresh practices.
5. **“Mutual”** – Businesspeople in China do not believe in the American zero-sum approach that says when someone wins, someone else loses. Instead, Chinese people value mutuality and reciprocal obligation, principles that derive from the country’s ancient traditions.
6. **“Consensual”** – Typical CEOs do not operate in an autocratic fashion. Rather, they work hard to achieve consensus around their executive decisions.
7. **“Spiritual”** – In China, the material and the spiritual are two sides of the same coin. Chinese managers often include spiritual messages in their interactions with employees and other stakeholders. Business leaders often communicate by using metaphors that concern values, and by telling stories and evoking ancient legends.
8. **“Disciplined”** – Management tends toward regimentation. Indeed, most large companies feature a “discipline department,” part of the office of the chairman.
9. **“Natural”** – Chinese managers don’t view themselves as privileged but as part of their environment. They aim to achieve harmony with their people and surroundings.

“The CCP seems to believe that China has gone as far as it is healthy to go down the US road; that it is time to pause and reflect on how to proceed.”

China’s executives follow much broader definitions of success than their Western counterparts, who focus almost exclusively on shareholder value. Chinese managers strive for constant tactical advantage, but they concentrate on more than profits: Optimizing loyalty, confidence and positive relationships with all their constituencies is just as important. In China, relationships guide everyday life, especially in business. The Mandate of Heaven, which emerged during the Western Zhou dynasty (1045-771 BC), says leaders can govern because heaven decrees it – but only as long as they behave and rule appropriately. The Chinese people consent to the rule of their leaders – but only if their leaders treat them well. For millennia, the Chinese have looked to a “key leader,” normally an emperor, for direction. In recent years, the CCP has played that role; now corporate CEOs arouse the same devotion and respect.

“Change is the religion in Western management. Continuity is likely to be seen as equally important in the emerging Chinese management model.”

Westerners tend to view the Chinese government as authoritarian, but its governance is rarely oppressive; rather, the state rules with the benign authority of a parent over a child. Similarly, most Westerners do not understand the reverential allegiance Chinese workers feel toward their superiors. In the ancient Confucian system, bosses exist as part of the normal order of things.

“A culture so ancient, and until quite recently so separate from, and untouched by, other cultures, is bound to be reflected in the Chinese management style.”

While Chinese entrepreneurs are not actively trying to create any particular management mode, many like the idea that Chinese management is innovative. They appreciate that their distinctive style has its roots in thousands of years of venerable history. Because so many Chinese firms are small and medium-sized enterprises, their methodologies could become the replicable standard for the world’s businesses in years to come. Indeed, the SME may represent the logical next step in global business evolution.

Doing Business in China

When China joined the World Trade Organization (WTO) in 2001, it provided lavish tax incentives and “reinvestment relief,” or rebates, to attract much-needed foreign investment. International companies willing to set up shop in the country found welcoming officials and eager workers. But by 2008, when China enacted the Enterprise Income Tax Law, that welcome became less warm. Because China no longer depended on foreigners to rev its economic engine, its leaders removed many of the incentives for overseas firms, which now must compete on roughly the same footing as domestic companies. With this change, international companies will find it more difficult to do as well as they did in the past. At the same time, though, China is such a huge market that multinationals ignore it at their peril. Foreign firms with Chinese operations have three options: Go home, remain in China and continue to use traditional Western management methods, or stay in the country but adapt to the Chinese way of doing business.

“Chinese managers usually have a sense of direction, but it is more like the surfer’s than the military strategist’s; more like a wish to reach the beach while still standing, than to arrive at a well-defined point.”

If your company chooses this last option, be prepared to engage fully with the Chinese and their culture. Pay close attention to what the CCP does. Look for opportunities in growth industries, such as leisure and tourism. Plug into Chinese networks. Develop contacts within local firms and with government administrators. Most important, take the Daoist approach: Just go with the flow.

What Does the Future Hold?

The recent global economic collapse has thrown much of what Western business executives value into question: Just how worthwhile are planning and strategic thinking when unanticipated events can practically bring down the whole system? Might the Chinese emphasis on tactics and relationships be more effective? After all, the US way of doing business has had a mere two centuries of practice, while the Chinese system, as it evolves, represents thousands of years of experience. Just as Chinese entrepreneurs have benefited from the influence of Western management, so, too, can Western executives profitably learn from the way the Chinese manage their business affairs. As Chinese firms expand internationally, their management ideas will be among their most vital exports.

“The Chinese still have much to learn about business and management from the West, of course, but it is no longer a one-way street.”

For example, when China suffered its own slowdown due to the economic crisis in 2008, public and private companies did not engage in massive layoffs, as occurred in the West. Instead, Chinese firms instituted salary and work reductions for all employees, preferring to keep workers on for the eventual upswing. Many throughout the world may well prefer China’s equitable and humane approach, instead of the harsh Western system that indiscriminately throws people out of work.

“When China wakes up, it will shake the world.” (*Napoleon Bonaparte*)

When it comes to management, the Chinese have much to teach the US. Business managers in the West often find it difficult to look beyond the bottom line. They should learn to look up – past their profit-and-loss statements and beyond their shores. By doing so, they will see much value in the way that the Chinese do business.

About the Author

Charles-Edouard Bouée is the president of Roland Berger Strategy Consultants Asia. He advises some of the most well-known organizations in China. In 2010, the Shanghai Municipal Government presented Bouée with its Magnolia Award for his civic contributions and leadership.
