Zhi-Xue Zhang · Jianjun Zhang *Editors*

Understanding Chinese Firms from Multiple Perspectives

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Contents

Chapter 1
Introduction: Developing the Chinese Organization and Management

Zhi-Xue Zhang and Jianjun Zhang

Today, as we stand in the twenty-first century and look back, tremendous changes have happened in China during the past 30 years. At the very beginning of China's Reform and Opening-up, even the world's most optimistic prophet would not have anticipated that this big country, while still under the restriction of a planned economy, could grow this fast and go this far. In only 30 years, China has become a major economic power, with the world's second largest GDP and exports, and biggest foreign exchange reserves, all from a poor country. Average annual GDP growth throughout these 30 years is above 9 %.

Behind all these macro numbers, there have also been huge changes happening in daily social and economic lives. When China first opened its doors, Japanese electronic appliances were most families' first choice. Today, Chinese-made electronic appliances are not only well received by Chinese people, but are gaining ground in the international markets. Before, if someone travelled abroad and brought back foreign gifts for friends, both parties would feel quite honored. However, nowadays, it has become very difficult to find a non-"made in China" product in the markets in foreign countries. Meanwhile, as Chinese manufacturing has transitioned from labor intensive to capital intensive, and to technology intensive, climbing the industrial chain from the bottom to the top like a blossom of sesame flowers, other nations have started to become nervous: vague experience suggested that, if the Chinese people were good at something, other countries would slowly lose their competitiveness. So, what's China's secret?

Of course, as with China's reality, perceptions of China are never simple. People living inside and outside always have different opinions due to their different experience and perspectives. If we say outsiders tend to see China in a more idealized and stereotyped way because of physical distance, then insiders would definitely see more contradictions and conflicts: the crossing of tradition and modernization; the clash of China's wisdom and western experience; balancing

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between development and equity; the tension of vitality and order. During the economic transition, there were brilliant achievements, but this is also where the problems and contradictions occurred.

When we look back at these 30 years of development, we feel like we have been through fog and a jungle. We can only remember how it looked like when we entered, and where we are after we went through, but without a clear sight of the coming path, even feeling a bit lost. Economists and commentators have been discussing the macro experience and reform path of China's development quite a lot. However, they seem to have less consensus on the micro units and the core force – the enterprises which produced China's miracle. The connection between macro and micro, and the operations inside these organizations seem to have become a black box. As management scholars, we hope to analyze the track of the transition of Chinese enterprises' management and organization, so as to explore the logic of Chinese enterprises' development.

1.1 The Experience of China's Reform

The development of China's enterprises cannot be looked at separately from the wider backdrop of more than 30 years of reform and opening up, and corresponding social change. Even though we cannot assert that China's reform experience is a successful model, more than 30 years' continuous development is more than enough to justify that China's reform fits China's own conditions. In 1978, when China first set developing its economy as its fundamental policy, existing theories were unable to provide effective guidance. And no other countries in the world had ever had similar successful experience. Mr. Deng Xiaoping, the chief designer of China's reform, and other top level leaders agreed on the strategy of "set economic development as the core task"; adopted the practical theories of "practice is the only standard to test theories" and "development is the real principle"; and encouraged regions, enterprises and individuals to bravely explore, constantly learn and continuously improve. During the past 30 years, the Chinese government has been "devoting oneself wholeheartedly to engage in construction, undivided attention to seek development", and adhered to the maxim of "don't sway back and forth, don't relax, don't get sidetracked", which has produced China's longest stable development in modern times, and along the way formed the characteristics of Chinese reform experience.

What is the best way to transform a planned economy into a market economy? "Shock Therapy", which was based on the Washington Consensus, put forward a radical prescription. It proposed a sudden one-time release of price controls; immediate one-step trade liberalization; privatization of all state-owned assets; and government restrictions on budgets to maintain the stability of the macro economy. They thought new economic orders would dramatically rise from the ruins of the old overnight. Former Soviet Union republics and some countries in Eastern Europe embraced this "shock therapy" approach, and the results are known to all. It is not difficult to imagine how terrible it would be if the same severe economic downturn had happened to a country like China, with its large population, lack of resources, lagging economy and productivity, and low education level.

China took a completely different route. The outstanding feature is the incremental nature of the reform. Chief designer Deng Xiaoping realized that reform was necessary; however, the only practical choice for China's conditions was to do so gradually. In terms of the country's strategic direction, he firmly set "economic development as the core task". And later he suggested testing the result of the reform by using the "three beneficials" as objective standards. As China lacked previous experience and a suitable experience to guide the reform, Deng Xiaoping proposed to "touch the stones to cross a river" to find a road to reform specific to China's situation. As a result, the reform strategies evolved over time. In 1979, at the very beginning of the reform, Deng Xiaoping introduced the objective: "stimulate the economy domestically while opening to the outside world". As the reform program was gradually implemented, the awareness of the Chinese people increased and the reform's objective began to take hold. In 1982, the policy was "the planned economy is primary, supplemented by market regulation"; in 1984, it was "planned commercial economy" and later "government regulates the market, the market guides enterprises"; in 1992, a "socialist market economy" was ultimately set as the goal of the reform. China had been continuously exploring economic systems which suited China's own conditions at different phases of the reform, and formed the framework and contents of today's market economy with Chinese characteristics. It is still enriching itself and developing in response to practice.

Many practices in China's incremental reform model have become the essences of the "China experience". Here, we will only discuss a few aspects.

First, the strategy of taking reform step by step – from easy to difficult. China's reform took root first in the rural areas where the planned economy was the weakest, then spread to urban areas; it developed the non state-owned economy first, then reformed the state-owned economy; it set up competition first, then gradually carried out property rights reform etc. By this method of taking the action outside the existing system or on the periphery of the old system, and applying incremental development, China avoided the possible conflicts that might happen in the core of the old system, or challenges from the status quo. It ensured social stability while the reform process progressed. Indeed, rather than causing conflicts in the planned economy, reform outside the system and the incremental development also pushed reform inside the old system as well.

Second, the breakthrough in reform regionally carried forward to the whole. Some special economic zones like Shenzhen and piloting areas were chosen to explore first, and the reforms then gradually carried forward to the whole country once the conditions were ready.

Third, a dual system was implemented first, and gradually transitioned to a single system. This was especially well reflected in price reform and the labor employment system reform. In 1984, the State Council ruled that state-owned enterprises could sell their production surplus – the amount exceeding the original plan – and could decide the price by themselves within a 20 % spectrum of the state fixed price. This dual system meant one product could have a state-planned price and a market price. As the manufacturing scale of enterprises was increasing, so too did surplus production's proportion of the total, while planned production's share fell. Eventually, it was possible to replace the dual pricing system with a single price. Another example can be found in the introduction of reform in the labor employment system, where the strategy adopted can be described as "old employees follow old method, new employees follow new method". The State Council issued the Temporary Regulations on Enforcing Labor Contract System to State-owned Enterprises Employees in 1986, which stated that labor contracting only applied to newly employed staff of the enterprises, not to existing employees. However, as the number of new employees rose and the number of old employees fell, the employment systems eventually were unified.

Fourth, the combination of top-down and bottom-up. China's incremental reform was initiated by the top leaders' strategic decisions. China's economy would not have achieved its spectacular success without Deng Xiaoping's proposal of reform and opening up. Even though there was impulsion for reform and a couple of attempts locally, for example the land distribution to each family by Xiaogang village of Fengyang, Anhui province, and the practice of marketization by rural enterprises and underground industries in the area of Zhejiang (Wenzhou etc.), without the change of policies and strategies at the central level, the later overall significant transition would never have happened. The leadership from the central government stimulated the creativity and activity of individuals, enterprises and local governments; conversely, the innovation and experiments of the regions and entrepreneurs pushed forward the reform. Through trials and errors, local governments, enterprises and individuals jointly found the strategies and measures of developing the economy and improving efficiency and, at the same time, frequently broke the boundaries of old systems and consequently promoted a new round of reform measures. From this angle, the reform of China's systems had demonstrated an obvious problem-driven pattern, or to put it another way, the feature of "induced" institutional change. This two-way interaction has existed through the whole process of China's economic reform. For example, economic reform originated from the government "giving up power and benefits" to enterprises, and led to enterprises becoming the main entity of the market, thus promoting the development of the economy. Conversely, the effective practice of enterprises encouraged the government to formulate more supportive policies in favor of the development of enterprises, e.g. property law and law of contract etc. The institutional structure and the incentive mechanisms stimulated enterprises, regional governments and central government to coordinate economic activities in special and unique ways. During the process, enterprises and governments interacted with each other. Both sides were both instigators and receivers of institutional change, and both sides evolved together and promoted China's economic development (Krug and Hendrischke 2008). The combination of top-down and bottom-up, central and local governments interacting and acting together had become the strong impetus of the continuous deepening of China's reform.

To sum up, the successful moves in China's reform were looking for a breakthrough while preserving stability, maintaining good order while generating vitality, during which the old systems of the planned economy were broken step by step, and the new market economy systems are gradually established. It avoided the instability that would have been caused by a "push down everything and start over" approach. These were also the lessons learned after the long-lasting reforms, revolutions and political tumults of modern China.

The reform of the macro economy not only brought changes to the social environment, it also deeply influenced Chinese people's minds, perceptions and behaviors. While China was reforming the principles of organizing and rules of its planned economy and establishing a new set of rules for a market economy, it fostered human resources to fit the requirements of a market economy system. For 30 years, China have created an enormous group of entrepreneurs. They were adventurous, fast to learn, and eager to pursue innovation. They pushed forward the improvement and development of China's enterprises. Some outstanding ones among them started to focus on building up enterprises and looking for long-lasting vitality besides pursuing profits. They had been improving their organizational capacities and been preparing themselves to go to the international market. These enterprises and organizations were, meanwhile, slowly attracting people's attention. At the same time, the opening of the labor market fostered many professional managers and skilled workers. These people became the means by which enterprises could implement their strategies and promote their performance. Chinese entrepreneurs, managers and employees who had been struggling and competing in the market were the most valuable resources of Chinese enterprises' development. They directed and personally participated in Chinese enterprises' evolution of organizations and management.

1.2 The Evolution of Firms' Organization and Management

The development path of China's enterprises is completely different from that in the West. During the time of the planned economy, enterprises were only a single step in the whole supply and marketing chain. They were in charge of producing, but without rights to decide what to produce and how much. Everything was planned and arranged by the central government. This situation lasted until the mid-1980s. As mentioned above, in 1984, the State Council granted state-owned enterprises the right to sell their production surplus. The enterprises started to have some decision-making power. And later, real enterprises, which were based on the market system, were slowly appearing. Of course, even before this, rural industry and self-employed individual business households existed. Some of these private businesses and individual households later became the vital forces for China's economic advance.

1984 was a year when many Chinese enterprises emerged. Lenovo, Vanke, Haier, Jianlibao, GIANT, Sanjiu, TCL, Rongsheng, Kelon, Shanghai Volkswagen etc. all quietly emerged in this year. Thus, some people call 1984 the beginning of a new era for Chinese enterprises (Wu 2007, p. 123). At that time, in face of shortages in the economy and a seller's market, enterprises could make money by selling almost anything. But problems arose when the enterprises' behavior contradicted the rules and regulations of the government in terms of how to organize manufacturing and selling, as well as on how to distribute profits, which caused much confusion. At that time, developing economy had already become the nation's priority; however, there were many institutional voids existing when connecting the macro national strategy to micro business management and administration. Questions arose such as: how should an enterprise be run? how should profits be distributed? and how should the ownership of enterprises be arranged? Because the government was taking charge of China's reform, government officials at each level had a lot of discretionary power to intervene in business operation and the enterprises' behavior. On the one hand, government officials lacked experience in dealing with all those questions, on the other hand, due to the political and ideological atmosphere at that time, government officials were reluctant to abandon their ways of working under the planned economy because they were afraid that their political positions might be affected. Therefore, whether enterprises at this stage could smoothly develop depended largely on whether the leaders of the enterprises could escape the "trap" in the existing system. As we will discuss in Chaps. 2, 3, and 4, business leaders had to really understand the political environment, to obtain the support of government officials, to wander around the old and new policies, and finally to find a way out of the bush. In fact, these practices also challenged the mainstream western economic theory, which was that the preconditions necessary for the development of the economy are a clear property right system and legal system. Therefore, the successful development of China's enterprises in circumstances where it lacked a clear property right system and legal system is a theoretical and practical issue that needs to be analyzed.

Comparatively, the market system in western countries already has a long history. Rules and regulations were clear and relatively comprehensive. Law enforcement agencies could make judgments impartially and objectively according to the established law. Government's functions were limited to providing public services and maintaining the stability of the macro economy. The social and commercial environments were much mature. In such a market and legally supported environment, entrepreneurs were able to focus on developing their competition strategy as well as increasing competitiveness. No wonder, even in the current textbooks of organizational theory in the west, the focus is still on internal management of business organizations. When it comes to the external environment, only its influences on choosing strategies are mentioned. In most cases, environments became a background against which business leaders conducted operations and management. This is one of the critical differences between Chinese and western enterprises in terms of operational practices. This is why we talk about the concept of open organizations in Chap. 2.

When it comes to internal management, Chinese enterprises were also facing different choices from western enterprises, and thus they were also focusing on different management issues. In the early period of reform, incentives seemed to become the center of all the management issues. This illumination which was obtained from the experience of "becoming effective once contracted" during rural reform was also widely spread into the industrial area. Deng Xiaoping once said: the successful reform in rural areas really built our confidence; then we used the experience of rural reform on the urban areas, and carried out city-centered overall economic system reform. Not only state-owned enterprises and collective enterprises were trying to use the contracting system to solve business operators' incentive problem, but those market-oriented enterprises, such as Haier and Lenovo, were also trying to provide their employees with reasonable benefits, which largely increased the working incentives of employees. As a result, the enterprises' profits also remarkably increased. From then on, increasing salary by percentage or giving an end-of-year bonus and other incentives were gradually adopted by enterprises. At that time, enterprises could keep making profits as long as they managed to increase managers' and employees' incentives and ensure the smooth operation.

Entering the 1990s, the closing down of GIANT Group and other enterprises represented the coming of a new era. Along with the increasing competition and the shift of markets from seller's markets to forming of more and more buyer's markets, enterprises would not work out if they were only catching the coming opportunities. Internal management and increasing comprehensive general competency were becoming extremely important. From then on, China's enterprises started to focus on management standards and organizational building. Management and operation systems such as TQM, ISO9000, TOC, Lean Production, 5S, 6 Sigma and other management modes quickly became fashionable. However, for the organizational structures, procedures and systems, as well as the quality and educational background of employees, Chinese enterprises were quite different from the west, and thus these foreign management practices didn't really work as well as people expected in many of the Chinese enterprises due to the "unsuitable environment".

Entering the twenty-first century, Sanjiu Group and D'Long Group failed one after another. However, Vanke Real Estate and some other enterprises were still developing at a steady pace. All these successes and failures led managers to recognize that an enterprise must have its core competency, and strategic focus was an important way to build an enterprise's core competitiveness. After multiple failures, Lenovo returned its business to manufacturing personal computers, which allowed Chinese enterprise managers to realize even more the importance of being focused and specialized. From the discussion, we can see that leaders of China's enterprises were growing along with the changing of environments, keeping pace with the times, and continuing to improve through their excellent learning capacity. They were learning while doing, concluding while practicing, bravely stepping forward while exploring.

The open environment, together with its position as a late developing country, had determined that, while China was starting from its own reality, actively exploring and concluding in order to achieve growth, it should definitely learn from advanced western management concepts and methods consciously or unconsciously. Researchers had interviewed 35 Chinese enterprise leaders, trying to understand their management notions and how they exercised these notions in running their businesses. The most frequently mentioned management notions from the interviewees were named as seven principles: sincerity is essential, pursuit of excellence, social responsibility, harmony is precious, acting in the middle way, specialization, and scientific management. When exploring the sources for these management notions, we found that "harmony is precious", "acting in the middle way" and "social responsibility" were mainly from Chinese traditional ideology; but "pursuit of excellence", "specialization" and "scientific management" were mainly from the study of western theory and practice; and "sincerity is essential" was a production of both Chinese and western ideologies. The interviewees also indicated that Chinese traditional ideology influenced their mentality and thoughts at the strategy level, while western management theories influenced their practice on technical and operational aspects. According to these interviewed leaders, western management theories are helpful for business operation aspects,, Chinese traditional ideologies help more on the management of employees and subordinates (Zhang et al. 2008). In many chapters of this book, we will present how the mixing of Chinese and western styles influence the management of China's enterprises.

As a matter of fact, how to reasonably combine Chinese and western management theories and concepts is an even more practical issue. Of course, this is an issue that the innovation of management theory is also facing. Because the social environment for and development phases of Chinese enterprises, as well as the educational backgrounds of managers and employees, are all different from the west, it is certainly the case that adaptations based on our own situations are needed when learning and introducing existing western management methods. However, doing this in practice is not easy and many enterprises have paid a big price for their failure to achieve it. There used to be Chinese enterprises adopting western operational procedure, or hiring western consulting companies to provide solutions to their management difficulties, but the results were not as good as expected.

A president of an air-conditioner manufacturer talked about his change in management notions. He had liked to read western books since his childhood, and was deeply influenced by western rationalism. He set up a very strict management system and working principles in the company, and thus ensured the quality of its products. Their products were famous domestically and abroad. This enterprise was also named one of the most internationally competitive companies in China. However, while strictly requesting employees to follow the company's rules, he ignored their personal needs. The company continually lost managers, who left because they could no longer stand the extremely strict rules. The company kept recruiting new people, but, soon later, they would also leave. This president started to realize that strictly applying western management practice without modification would not work. He said: I am very familiar with western culture and value, but not so much with Chinese history and tradition. Now I'm trying to catch up on this (Zhang et al. 2008, p. 266). This may partly explain why Chinese traditional wisdom has become very popular among managers.

Finally, the influence of the agency of related actors (managers and employees) and the impact of the interaction between relative actors upon organizations and society must be looked at. The biggest feature of China's society and enterprises during transition was changing, and it was changing fast. These changes were not only from the environment, but also from the active learning and innovation by entrepreneurs and employees. The enterprises and environments depended on each other, and also influenced each other. Changes in environments would cause the enterprises to adjust their strategies; enterprises' actions and adjustment would also influence the outside environment. Inside enterprises, leaders influenced subordinates and staff by organizational building, but staff members' characteristics and attitude in turn cause changes in leaders. Therefore, during the transitional period, China's social environment and enterprises were dynamically evolving and developing at the same time, which echoes the co-evolution perspective (Lewin et al. 1999). Leaders of Chinese enterprises properly interacted with the various parties in the outside environment. In particular, they patiently adapted to the governments' requests, responded to local governments with excellent performances, influenced local government's policy making, and even gradually gained more autonomy through participation in the formulation of regulations. This made many leaders especially influential.

1.3 Sinicize Management Science and Chinese Organization and Management

The practice of Chinese enterprises tells us they moved from learning from the west to innovation very fast. No matter whether it is from the aspect of industry development, where Chinese enterprises went from being agencies for foreign products to OEM or outsourcing to insisting on self-developed brands, or the aspect of management, which went from solely take-in to China-West integration, they all reflected the fact that Chinese enterprises were heading for innovation. Meanwhile, the development strategy of the country was also transitioned from an "exchange market for technology" to becoming a country of innovation itself. However, unfortunately, when innovation became popular among enterprises, the academics of management community remained stuck with the fever of learning from the west, take-in or westernization (or internationalization). This not only could not satisfy the needs of the domestic enterprises, but also made it impossible for Chinese management scholars to contribute to management studies.

Just like the entrepreneurs who learned from the west with great passion at the preliminary stage of the opening-up, the management consulting community was also gripped with western fever. So far, the consulting world has been satisfied with using 4S or 7P to attract attention. It's like SWOT is the only entry-level analysis method of strategic consulting and, if people don't understand BCG Matrix, they don't understand the essence of the business portfolio. Management institutions also place "overseas" above "local" in this "internationalized" environment. When hiring people, they use overseas study experience as a standard to evaluate the capacity of faculties; set publishing articles on English journals as the highest objective; deem dialogue and cooperation with western scholars as priority. The result is they lose themselves in this game of westernization and lose innovation capability when copying.

However, we don't advocate being blindly confident or even encouraging narrow nationalism. It is not enough to simply express our dissatisfaction like what the emotional sayings like "China can say no" or "China is not happy" during China's rising. We hope we can be confident, have good attitudes to science, work step by step, use our local conditions as the foundation, integrate with the international, and innovate while taking-in external expertise, so we can map out a unique path of our own; and make a Chinese miracle, while at the same time contributing to the world. The point is to make the effort to establish a Chinese Management Theory on the basis of Sinicizing western management theories.

Thus, we must take in, absorb, grounding and innovate. Among them, take-in and absorbing are the necessary tools of Sinicizing western management theories, and grounding and innovation are the important paths of establishing Chinese management theory. Take-in means learning western theories, and absorb means applying them according to China's own condition after analysis. Theories can only be used by us after analyzing, otherwise swallowing the raw material will be useless except for showing off.

Compared with taking-in and absorbing, grounding and innovation need longer time. It requires deep analysis of the practice of enterprises instead of just touching the surface. Therefore we must say goodbye to hastiness and be patient. It requires academics to be modest and learn from entrepreneurs; to look at management practice from the angle of enterprises instead of just looking down from aloof, framing the reality by theory and making snap judgments. It requires different practices to be compared and analyzed based on basic principles in a scientific way and build theories that can be tested. Just like the method of ground theory originates from anthropology, management scholars have the necessity to set aside pride and study theories and methods of other subjects, and then create after integration. Of course, these are only the necessary conditions and part of the ways to establish Chinese management theory and achieve innovation.

This book is one attempt of our constant efforts on this. As local observers of Chinese business practice, we have sought to observe and analyze China's enterprises, analyze the environment in which they operate, compare typical successful and failed cases, and summarize the factors which are influencing China's enterprises at the current phase and the features of Chinese management.

This book hopes to look from the angle of organization and management, try to reflect the practice of China's enterprises and their developing trajectory from all sides. In each chapter, we will discuss the features of China's enterprises' environment, the characteristics of the entrepreneurs and their changes, evolution of enterprises' organizational forms and systems, logics and features of corporate culture, characteristics of managers and staff, the Chinese style of communication and conflict resolution, as well as Chinese team etc.

It's not difficult to find out that the titles of each chapter in this book are similar with some contents in western textbooks of "organizational behavior" or "management and organization". Organizational behavior is an applied science originated from the United States. Most of its theories are from psychology and sociology. And all these theories come from the analysis of organizations and people in the western world. The basic framework and contents of existing textbooks on "organizational behavior" are mainly divided into three parts: individual, group and organization. The individual part talks about personality, values, work attitude, decision-making, motivation, incentives and others; the group part talks about group process, teams, communication, conflicts, negotiation, leadership, power and influence; and the organization part basically includes organizational structure, corporate culture, and management practice of human resources etc. All these basically cover the "human" part of management. It provides a complete framework for managers to generally understand organizational and personnel management in enterprises.

However, the similarity stops right here. When Chinese professors and students are learning "organizational behavior" or "management and organization" or other courses, although they accept that the outline of the courses are helpful for understanding business management, they always feel the contents of the western textbooks cannot help them to fully understand Chinese enterprises' practice. It feels like there is always something in between which stops them fully understanding. More importantly, the contents of western management study cannot accurately cover the practice of China's enterprises and management. It cannot satisfy the needs of China's managers as we have talked about above.

In view of this, chapters in this book make efforts to put together all the achievements of scholarly studies on China's business enterprise management in academic circles, and all the management practice and achievements of Chinese enterprises, and try to draw an outline of a management theory and practice with Chinese characteristics. Each chapter will try to fully reflect the research findings accumulated by Chinese academics in this area. This is combined with many case studies to reflect the features of the external environment, business leaders, organizational structure, systems, culture, managers and staff, and many other elements of Chinese enterprises, in order to provide a systematic and scientific angle to fully understand Chinese enterprises. The authors of each chapter are experts in what they wrote. They have conducted deep research in these areas. They also have knowledge about foreign experts' current research status in these related areas. Several authors have published their papers in international journals; however, we will try to use simple language to describe Chinese management phenomenon and philosophy. We believe that academic studies in the management area should be returned to management itself and use simple language to explain in-depth meanings to serve management practice.

Meanwhile, the order of chapter arrangement is also quite different from mainstream textbooks. This arrangement shows our understanding of the logic of Chinese enterprises' development. As we mentioned before, in the past 30 or more years, Chinese enterprises have developed from having nothing to be something significant, from extensive to intensive. What they have been gone through is quite different from enterprises in a mature market. The environment does not only affect the enterprises' opportunity and legal status, it also affects all the other aspects of business management. Since the 1990s, even though enterprises started to realize the importance of organizational building and capacity building and thus started to turn "focus on opportunity" to "focus on management", the central tasks were still structural adjustment and revisions of systems and procedures, and ignored the needs of employees. In order to increase incentives, enterprises in western countries even redesign work and tasks to make work more interesting and ease employee boredom. They applied flexible working hours to give employees more freedom and other measures to maximize employees' satisfaction. About 10 years ago, managers of Chinese enterprises could not understand these behaviors. From their point of view: "you work for the company, the company pays you, and you still have that much to say?" But when a new generation of employees came in, managers started to realize that their thinking and behaviors were a lot different from the old generations. The new generation values personal rights; they are sensitive to fairness at work; they cannot accept supervisors being too bossy. Managers found that many young employees left their companies or them for unknown reasons. Then they realized that it was important to care about employees' needs. In recent years, it has been popular for Chinese companies to conduct satisfaction surveys for employees each year. Companies adopt competency and even personality tests when recruiting also reflect this trend.

Therefore, the factors Chinese enterprises have been focusing on are from big to small, from macro to micro, from extensive to intensive, from structure to procedures. As Fig. 1.1 shows, from the macro social level to organization level, team level and individual level, all these factors can influence the operation and outcomes of enterprises (Zhang 2010). Society, culture, the legal system and the political system can directly or indirectly affect the behaviors of business leaders, strategy, incentive mechanisms, organizational structure and corporate culture. Factors at the organization level can affect the characters of working groups or departments inside of it, like goals, tasks, interaction of staff and climate etc. And the characters of a group not only can affect the individual's work results by affecting their values, capacity and emotion, but also can directly affect their working attitude and behaviors.

Looking at it vertically, the factors which Chinese enterprises have been focusing on in management are becoming deeper and deeper. It started from only focusing on the social level at the very outside circle at the beginning of the reform and opening-up. Later, it started to focus on the organization level, and then finally transitioned to the team and individual levels. Of course, focusing on factors at deeper levels doesn't mean stopping paying attention to the factors at the outside circle. It only means that today's enterprises need to consider even more

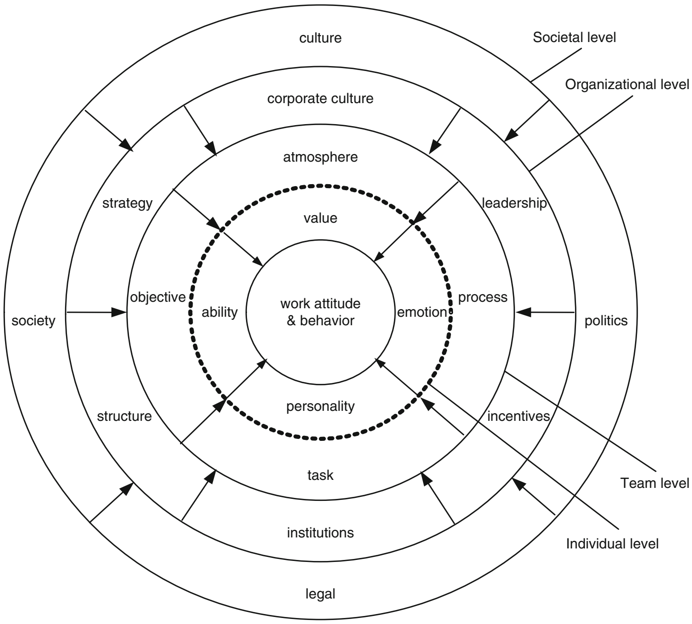

Fig. 1.1 The multi-level factors which influence firms' and individuals' performance

complicated factors. For example, when a manager is trying to understand his or her staff, he or she has to realize that, besides the personalities, abilities and values which could affect their performances, employees, as team members, also need to finish their tasks and achieve goals. Therefore, the characters within the team can also affect their behaviors. In addition, each staff, as a member of the enterprise, also needs to follow the rules and tradition of the organization. Finally, employees themselves also cannot avoid the influence of the whole social environment.

According to the logic of this book, the importance of the factors which have been influencing Chinese enterprises for the past 30 years and the evolution of management are mostly as below: ① It is important to get to know, adapt to and actively construct the environment, especially understanding the institutional environment and learning to communicate effectively with governments. ② During the process of dealing with the external environment, successful entrepreneurs emerged. Their awareness and behaviors determined the success or failure of their enterprises. Only those who are able to keep their minds and actions up to pace with the times could lead their enterprises to a long-lasting prosperity, and those who stubbornly stuck to their previous work methods would finally be washed out. ③ Organizational structure and institutional systems are the "skeleton" of an enterprise. Leaders whose goals are forging the enterprises must pay close attention to the establishment of organizations and systems. ④ Even the best system has flaws. Good entrepreneurs always use corporate culture, which builds and supports organizational development, to complement organizational structure and the "hardware" system. ⑤ Middle level managers are the intermediate force of implementing the objectives of enterprises. They are managers, also referred to as team leaders in western parlance. They play a connecting role between the upper level and lower level. Their roles are quite important to the operation of departments, teams and enterprises. ⑥ Employees are the foundation of an enterprise. Their values, abilities and level of professionalization to a large extent decide the implementation of enterprises' objectives and tasks. ⑦ Labor relations are the tie between employee and organization. Good insights into labor relations help an enterprise to work out a personnel management system which makes employees feel that it's worthwhile to work for the organization. ⑧ Employees need to share information and feelings with each other. Conflicts are inevitable at work. So finding ways to solve the conflicts is important to individuals and organizations. ⑨ In enterprises, most of the time, people need to team up with other co-workers to work together. Are Chinese employees good at teamwork? How do they perform in a team? ⑩ Negotiation is an effective way to solve conflicts between stakeholders. Negotiation can reflect how people coordinate with each other. It also reflects how enterprises reach a win-win result through the exchange of benefits. Negotiation between China and the West has been increasing in recent years. Summarizing lessons learnt from it would be beneficial to all.

1.4 Summary of Each Chapter

There are 12 chapters in this book. The second chapter is "*Enterprises and the Social Environment*". Enterprises are entities within the social environment. So they are certainly bound by society's rules. To some extent, enterprises are managed by the whole of society. To better manage an enterprise, better understanding of the surrounding is necessary. How does an enterprise get to know the environment? How does it adapt to the environment? What role can an enterprise play in constructing the environment? In this chapter, we use vivid examples and systemic arguments to introduce different dimensions of the social environments of enterprises, as well as different ways for enterprises to adapt and construct their social environments. China's enterprises currently exist in a changing era, which places on them higher requirements when dealing with their relationships with the social environment. The social environment is a factor of uncertainty, due to competition and uneven availability of resources and information; it is also a factor of certainty for enterprises' activities, due to its provision of material and system resources. As the environment is changing, enterprises are also changing. These changes are not only about transformation from conservative to open, they are also about the change of strategies for adapting to and constructing the environment. This chapter introduces many strategies of enterprises in the social environment. Are these strategies good or bad? How can they be used flexibly in practice? We hope to provide Chinese enterprises with a tool box in dealing with their environment through the discussions in this chapter.

In the third chapter, we discuss the most complicated, significant and also the most unpredictable part of the environment variable that Chinese enterprises are facing: the governmental environment. For an enterprise, the challenges are: How to quickly develop the micro business without being blind to the macro environment? How to maintain the high political sensitivity without losing business rationality? How to use the benefits of policies and still hold independent decision-making power? How to operate smoothly between governments and enterprises without falling into a political trap? This chapter firstly analyzes the “double faces” of governments and government officials, that is, their tendency to be rent-seeking as well as promoting local economic development and personal achievement politically. Meanwhile, we differentiate two types of government officials: “promotable officials” and “terminating officials”, and depict their corresponding interests and behavior patterns. Next we summarize the political strategies adopted by private enterprises to deal with government officials’ “double faces” in detail, including participation in politics, information communication, political attachment, red cap, and material incentive etc. Then we discuss the evolution of business-government relations over time.

What changes have Chinese entrepreneurs been through in the past 30 years? Chap. 4 of this book will give a full-detailed description. There have been significant changes to China’s macro social environment during this time. “Times produce their heroes” – different social environments chose or fostered different entrepreneurs. From the start of reform and opening-up to the late 1990s, which was the early stage of the transition, opportunities and risks co-existed. Only those who could sensitively understand the policies and had strong will power, patience and a fighting spirit could lead their enterprises through the transition. Since the late 1990s, the macro environment started to gradually accept and support a market economy. Enterprises didn’t have to deal with the mess caused by policies, and could focus on their operations and management. Those leaders who had successfully developed the core competitiveness of their enterprises became winners. Entering the twenty-first century, few enterprises which had fostered their core competitiveness in China’s market started to look outside the country. Only a few of them continued their success. How do good entrepreneurs deal with different problems at different times? In this chapter, there are many answers provided, which disclose the secrets of different entrepreneurs.

Chapter 5 examines Chinese enterprises’ (especially private enterprises) explorations on organizational structure, procedures, and institutional building. At the beginning of the establishment of private enterprises, they could only learn how to organize their production and operation from communities around. They either learnt from state-owned enterprises or government agencies, or the army, or foreign companies, or even bandits. They were facing the contradiction of matching the trend when learning from the western world and facing the danger of losing control when trying to separate powers. In relation to procedures, we observe the two-way movements of management procedures and business procedures: in terms of management procedures, many enterprises’ priority has been preventing a loss of power to control effectively; in terms of business procedures, they emphasized simplifying procedures to increase efficiency. In building their institutions, due to different starting points, state-owned enterprises and private enterprises performed reversed movements: state-owned enterprises re-institutionalized to adapt to the market economy, but private enterprises were just starting institutionalization. At the end of this chapter, we put forward different types of top management team combinations and their evolution; combination modes which correspond to family and friends and combination based on need. There is a family mode, a gangsterdom mode, and the mode of the professional management team. In terms of the arrangements of shareholdings, from vague property rights arrangement to clearly arrange shareholdings summarizes the progress of private enterprises.

If we say organization and system building is the skeleton of organizations, then corporate culture is the blood of organizations. Chapter 6 has a deep exploration and discussion on Chinese corporate culture. Enterprises use rules and regulations to standardize and coordinate employees' behaviors, but regulations cannot cover all the behaviors. That's why corporate culture is needed to fill in. Meanwhile, enterprises also need to use the spirit and concept of the value of the organization to encourage employees, and to provide them with guidance during the massive changes that are taking place. Therefore, the building of a corporate culture started, and became a tool for many enterprises to improve their management and to create a competitive advantage. For the past 20 years, many Chinese enterprises have been quite enthusiastic about building corporate culture. Then, where did the content of the culture they were building come from? How did they build corporate culture exactly? And during the process, what were the experience and lessons learnt? Chap. 6 discusses these questions through looking at many culture-building practices of enterprises, and hopes to provide some inspirations to managers who work on culture building.

Chapter 7 of this book talks specifically about the leadership of middle level managers. Middle level managers always use the term "sandwich cookie" to mock themselves, and we get a taste of their feelings from it. However, when facing the same "awkward" situation, some managers can always get what they want easily, one way or another, while others always get into trouble and have no way out. Why are there such big differences between them? This chapter talks about the wisdom needed for surviving in the middle level in the Chinese organizational environment. The structure of this chapter is: firstly, we analyze the working features of middle level managers in theory; secondly, we look at it from the angles of both China and the West, expatiate on the interaction between middle level managers and the organizational environment; and then lead to the central question of this chapter – the survival environment and the way of surviving against the background of China. Next, from the aspects of traditional culture, political culture and social reform, we expatiate on the complex, blur and variety of the Chinese organizational environment; and show the many feelings of middle level managers working under the current environment through interviews. Finally, we analyze the interview records of 52 middle level managers from the angle of environment interpretation, and find out that "being mindful" is the core element to distinguishing whether middle level managers can be competent in their posts. By introducing five behaviors that are representative of "being mindful", we show how successful middle level managers fit in with the environment and achieve their own value.

In recent years, managers are starting to realize that the management of employees is becoming a painful task. What kind of characteristics do current Chinese employees have? Chap. 8 provides answers to this question. The prosperity of China's economy is, after all, created by the efforts and intelligence of all the workers. Most of them are organized in enterprises. They work hard in the organizational environment under the lead of managers. However, historical legacies and context have equipped them with very unique value, and have made their knowledge and behaviors very different from those of western employees, as described in some typical textbooks. This brings big challenges to management. This chapter introduces the characteristics of Chinese society, typical people and employees in organizations. Because China has had such a long historical heritage while going through severe tremendous changes in modern times, employees display some contradicted characteristics. Some of these are already the subject of academic research. On this basis, this chapter uses some management practices as evidence, and expatiates on the effective ways of enterprise management. The essence of what emerges from this examination is that management should be based on employees' individual characteristics and realities, and in accordance with scientific principles.

The relationship between enterprises and employees are of essential importance to today's Chinese enterprises. Chapter 9 talks specifically about this issue. The "Tonghua Steel" incident, "Zhang Haichao opened his chest to exam his lung" and other well-known national labor relation cases demand academics and enterprise practitioners think deeply about labor relations in China. This chapter goes through labor relations in each of three types of enterprises: state-owned, foreign invested, and private-owned, and further analyzes the difficulties they face: survival or kindheartedness? Is being generous to employees a waste of money? Is profit the purpose or a mean of an enterprise? Are the economic targets of enterprises, legal and social responsibility conflicted? Employees also feel frustrated when facing choices of action. For example, workers in state-owned enterprises have been forced to switch from the role of "owners" under the old system to working for others. Should they passively protest or actively fight for their legal rights? Their market value has increased little, even after training etc. The difficult situations and frustrations of enterprises and employees directly affect the nature of labor relations. At the end of this chapter, we use a few successful examples of business practices to discuss several paths that can be adopted to improve labor relations in China, such as upgrading industry and technology, being generous to employees and protecting employees' dignity.

Chapter 10 talks about interpersonal communications and conflict settlement in enterprises. Effective running of organizations cannot stand without interaction between its members. However, different interests, opinions and preferences bring barriers to communication, and may cause visible or invisible conflicts. Are conflicts severe monsters or an inevitable phenomenon? How does tiny difference between acting on a case-by-case basis and failing to take action because of other people causes completely different results? What kind of measures do people adopt to avoid conflicts? Why do Chinese people believe in "silence is gold" and avoid confrontation? Have do these kinds of conflict-solving strategies maintain peace as expected or bring hidden dangers? Being in the transitional period and facing the conflict between traditional culture and modern corporate culture, how has communication style and conflict resolution changed in Chinese organizations? What features have emerged? How can "constructive communication" be built up? This chapter, based on these questions, looks in retrospect at the theory of communication and conflicts, the nature and pros and cons of conflict, and different ways of solving conflicts; analyzes the secret behind the "can't say" and "afraid to say"; and combines the practical experience of Chinese and western enterprises to introduce ways to build up constructive communication and conflict resolution from the aspects of leadership style, systems and communication techniques.

Chapter 11 focuses on the teamwork in Chinese enterprises. Teamwork – the working style – is no longer a new concept or a new word to Chinese managers and employees. Teamwork "looks beautiful", but it can be very difficult to really achieve good teamwork in enterprises. How did the reform and evolution of the Chinese management system promote the development of teamwork in China? Are Chinese people suitable for teamwork? What are the confusion and insufficiency of team management of Chinese enterprises? How can we solve these problems to increase the efficiency of teamwork? This chapter, based on theories, combined with the analysis of the interview results with teams in enterprises and college students' project teams, introduces the development process of teamwork in China and the current problems and misunderstandings, and also summarizes the key techniques of improving the performance of teamwork. As an imported working style, its applicability in Chinese culture and Chinese enterprises is an important issue to which managers need to pay attention. This chapter mainly analyzes the possible influences which Chinese culture may bring to teamwork. Chinese enterprises are progressively exploring and accumulating local team-managing experience. We hope through the discussions in this chapter we can help enterprise managers better understand teams, teamwork and team management.

The last chapter of this book talks about the Chinese way of negotiation and Sino-West negotiation. All business communications and cooperation between China and foreign countries start with business negotiation. Business negotiation determines whether the parties can get win-win solution in their collaborations. Along with the dramatic increase in China's economic power for the past 30 years, Chinese negotiators have also had to become familiar with and accommodate the cultural differences during business negotiation, as well as the change of from being the weaker negotiating party to a position of equal status with international partners. In this chapter, we start with Chinese people's basic idea of negotiation. Do Chinese people "seek to prevail over others" or do they take the position that "good for all is real good"? Should we treat everyone the same or treat insiders differently to outsiders? Based on observations of the negotiations of Chinese enterprises over the past 30 years, we conclude several features of Chinese negotiators. These features originate from Chinese culture; they are also affected by the weak position of Chinese enterprises during many years. This chapter also uses the "Danone-Wahaha war", the ironstone negotiation of the Sino-steel Association, negotiations between Huawei and Cisco and other typical cases to analyze the change in negotiation capacity of Chinese and foreign negotiators, and countering measures. This chapter expects to paint a comprehensive picture of China's negotiations in recent years for the reader.

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Chapter 2
Enterprises and the Social Environment

Yi Han

We developed through struggling between a planned economy and a market economy. Back then, there was a planned economy in China, a market economy outside; we were surviving in the cracks of these two. We were the practitioners of the policy reform since the very beginning. I had always been struggling to figure out what fit in the trend of society and the rules of the economy, and how to keep up to speed with them. The biggest achievement of the Reform and Opening-up was the real implementation of a market economy. It was a significant process from the planned economy to "the planned economy supplemented with a market economy", and finally, slowly developed into a socialist market economy. China is a big country. It certainly takes the socialist road. Capitalism will also turn into socialism. Any doctrine can be used to benefit the society when it develops to its right phase. So I believe this socialist market economy will not change in at least 100 years. Joining the WTO was also a very important reform. A real super power must not be a closed country; it has to merge with the wider global environment to become stronger. The bigger the pool, the bigger the fish. Fish in a river are grass carp; they will become sharks once they enter the ocean. (Shang Silin 2008)

Speaking of the important achievements of China's Reform and Opening-up over the past 30 years, the chairman of the board of WANXIANG Group – Mr. Lu Guanqiu came to the above conclusion. When he said this, it had been 39 years since he first started his business. In 1969, a young Lu Guanqiu took the chance: one little space left by the planned economy to rural collective industry that allowed each people's commune to run a farming machinery plant. He and a couple of other peasants started a business producing parts for farm machines and later extended it to auto parts. When the rural areas of China started to implement the system of contracted responsibility, Lu Guanqiu contracted the plant and progressively developed it into a Group Corporation. It provided important machine parts to several big auto-manufacturing companies overseas and started to constantly extend its

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business to electric vehicles, new energy, industrialized agriculture and other areas. After starting with a loan of only 4,000 Yuan and growing to today's 40 billion Yuan annual sales revenue, it is certain the personal qualities of Lu Guanqiu, as the leader of the enterprise, have made a great contribution. On the other hand, the changing social environment and the opportunities that arose are also important factors. From his words we quoted above, we can tell Lu Guanqiu was very sensitive about the social environment of the enterprise and the changes of it.

Successful entrepreneurs don't always see the social environment as the source of uncertainty for the activities of enterprises, such as whether they can get necessary resources from the environment, or if there are supports from institutions, as well as the outcomes of market competition. On the contrary, from their point of view, unlike a wild jungle, modern society can provide or create certainty. Other people are too afraid to do things because they worry about the uncertainty too much, but some successful entrepreneurs are good at finding factors for certainty from the environment. China's social environment under Reform and Opening-up has always been changing and improving. There are macro level changes, such as from planned economy to market economy and from a closed society to an open society; there are also micro level changes, such as enterprises moving from the closed to open systems. As the social environment changed, most of the successful enterprises went with the trend and found their way through the changes; some excellent enterprises even actively altered the environment through their practices. As Lu Guanqiu said, "*The bigger the pool, the bigger the fish*". Actually, the bigger the environment an enterprise is looking at, the bigger the growth potential it has. Lu Guanqiu also has described how, during his enterprise's growth, especially during the process of internationalization, he skillfully used China's and other countries' resources, systems and personnel. The so-called "resource externalization, business localization, personnel internationalization"(Zhang Wei 2008) refers to extracting all of the different resources enterprises need from the overall domestic and international environments, making the complex environments become our resources, and making the uncertain environment a space in which enterprises can grow bigger and bigger.

In this chapter, we will start with discussions of enterprises as open organizations, to understand the meaning of enterprise environment, specifically China's enterprise environment. Then we will analyze different methods enterprises use to fit into the environment, as well as their different ways of building the environment while fitting in.

2.1 Get to Know the Environment

The environment an enterprise faces, in terms of basic elements, is the combination of all the organizations and people it relates to; and on the broad level, it is the whole of society. Since China's Reform and Opening-up started in 1978, the environment Chinese enterprises have been facing has gone through several phases of change, and it is still changing. The economic reform of China greatly empowered enterprises and made them the main body of the economic development. Initially, there was the reform of marketization in rural China, such as allowing market fairs for farm products, parceling out land to individual peasant families and giving them the right to decide how it was run, and later the promotion of the development of rural industry. In 1979, the State Council released the "Regulations on increasing the autonomy of state-owned industrial enterprises". It allowed enterprises to sell production that was surplus to their plans based on "Negotiated Prices", which legitimized the "second channel" for goods circulation. In January 1985, the central government issued the "Notification of freeing the prices of overproduced self-sale products in industrial production materials". This notification allowed enterprises to sell and buy "out of plan" products by market price, and started to reinforce the "double channel" for supply and pricing of production goods. The "CCCPC's decisions on economic system reform", issued in 1984, initiated the transfer of the reform from rural to urban areas. It also clearly declared its aim was to develop a socialist market economy, establish a reasonable pricing mechanism, separate governance and enterprises, separate ownership and operation, and actively develop a multi-economic style and various business modes etc. In 1987, the "13th NPC" declared "the planned market economy of socialism" should adopt the mechanism of "government adjusts market, market guides enterprises". In 1992, the "14th NPC" clarified that the target of "socialist market economy" was that "the market was the foundation of resource mobilization". In 1993, the "Company Law of the People's Republic of China" was passed by the standing committee of the NPC, and enforced on July 1, 1994. The "15th NPC" further clarified that, except for very few enterprises which monopolized the country, other state-owned enterprises had to implement the joint-stock system, and set up effective company management structures. Entering the twenty-first century, the country started to support a policy of "open and invigorate small state-owned enterprises", which infused new energy into the development of the private economy.

Economists referred to these changes in China's economic environment as a Transition Economy, namely the transition from planned economy to market economy, or the transition from imperfect market economy to comparatively perfect market economy. Nobody knows when the transition of China's economy will end. However, the progressive-style reform which China adopted during the transitional period is not only unique and certainly different from the sudden-style reform eastern Europe and the Former Soviet Union adopted, but also to some extent presents universality – on a certain level, all modern economies are transition economies, all modern societies are transition societies. What China and Chinese enterprises have been through for the past 30 years, on this level, is not only the historical experience of Chinese enterprises, but also can be used for reference by future managers and decision makers, meanwhile providing enlightenment for all the enterprise organizations in modern society.

Starting with the economic characteristics of society, dividing society into planned economy, market economy and transition economy can handle the social environment of the enterprises on a macro level. But to understand the environment of enterprises in more detail, we need to come from the angle of business organization. This will help us to understand the definition of social environment, to understand things like why enterprises need to pay attention to the social environment, as well as how to survive and develop in the social environment and other questions which look simple but are in fact complicated.

Getting to know the environment of enterprises cannot be separated from the understanding of the enterprise itself. Below, we first will introduce the definition of an open business organization, then we will introduce the ecological environment, resource environment, and institutional environment which enterprises rely on; and we will use these to explain some of China's phenomena in the environment of enterprises.

2.1.1 The Open Business Organization

There are various types of formal and informal organizations in modern society. Government, family and enterprise are only a few examples of formal organizations; informal organizations include personal networks, group and collective actions etc. Definitions, arrangements and rules for organizations' activities are institutions or rules of the game in Organizational Theory. There is also a distinction between formal and informal institutions. The legal system is a formal institution; folk customs are informal institutions. Deep understanding of modern society needs understandings of various types of organizations and institutions. Below, we will talk about business organization first.

At the early time of industrialization, people saw industrial organizations as relatively independent and isolated social units without considering the factor of the outside environment in enterprise management. The early industrialization of China was influenced a lot by the former Soviet Union. The batch of companies which was aided and constructed by the Soviet Union was considered advanced in the 1950s, not only advanced in technology but also in management. A strict hierarchic system of the modern large factory was also adopted. People were so immersed in the power-feelings brought on by large-scale industry and heavy industry, it seemed that everything outside should be the one to be changed. Under the influence of this kind of industrial mode, factory organizations were not sensitive to the demands and requirements of the outside environment. As the scale of these organizations grew bigger and bigger, many factories turned into bureaucratic agencies; technology and management skills stopped at the level when the factories were first established, later even deteriorated. In one of our interviews, an engineer who used to work for a state-owned, large-scale factory searched his memory and told us that, even in the 1990s, that factory was still using the product design blueprint developed in the 1950s. Once in a while, when people rolled out the huge-screen blue paper in the team, the reverent feelings for tradition were still there. But his core products soon failed to compete with those of other domestic or foreign companies in the same industry. It positioned itself in a very difficult transitional period.

The idea of treating enterprises as isolated or static would have a fatal effect on their survival and development. More and more people started to realize that organizations are interdependent; sometimes the condition of the outside environment was even more important than management inside the organizations. For example, Michael Porter's Five Forces Model indicates the importance of the industrial environment and of finding a competitive position in markets. Of course, the survival and development of enterprises cannot be separated from the improvement of its internal capacity; however, competition in the same industry, dependence on external resources and compliance with institutions can hardly be considered as an enterprise's extra-curricular activities or less important issues. To most enterprises, taking into consideration the social environment is already part of their daily tasks. Management study academic Peter F. Drucker used to remind people of the importance of seeing an enterprise as a social institution (Drucker 2003). Business organizations are not only interdependent with other human organizations in this big social environment; they are themselves a small society. The interdependence with other organizations, as well as their unique social characteristics makes enterprises open organizations.

An enterprise is a little society consisting of various kinds of people; people often bring the outside social structure inside. Normal operation of an organization not only needs to accomplish its own goals, but also the requirements of different people. An enterprise not only consists of different people and activities, people and their behaviors in the enterprise are also inevitably affected by the social environment. On one hand, society makes many requests of business organizations; for example, product safety, technology standards, labor contracts and environment protection etc.; on the other hand, at the micro level, individuals have their own social backgrounds. These social backgrounds can hardly disappear after entering business organizations. In addition, in daily life, people communicate with other people both in and outside companies. Therefore, social effects are to be seen everywhere in enterprises. Different enterprises may be at different phases of openness, but they definitely cannot be completely closed. For example, Shenzhen HUAWEI Technology Co., Ltd, which still has not gone public, due to the limitation of its products and management style, has very low exposure in the media compared with other companies in the same business. The leaders of this company even keep their distance from the public media on purpose. This makes the organization a bit mysterious to the outside world. We have even seen it mistakenly categorized by leading foreign media as being part of China's military establishment. This has made it seem even more mysterious and made it sound like a closed organizational system. Yet, not only does its development need material resources from the social environment in which it operates, its most important resource – employees – are also supplied by the outside world. And its employees also have an impact on the outside environment through cooperation between companies, people in the same business, marketing, after-sales service, even resignation, retirement or switching to other companies. Some popular books on HUAWEI Technology Co., Ltd and its president, Ren Zhengfei, were written by former employees of HUAWEI, especially R&D and marketing staff, and are targeted at management scholars and other interested people. At a basic level, human resources, property, and goods from external suppliers all need to be obtained from society and their outcomes will have to be accepted by society in order to realize their values.

Of course, while an enterprise is being open, it has to maintain its autonomy to a certain extent in order to keep its uniqueness and achieve its objectives. There are no completely closed enterprises, nor completely open ones. If we see the influence which enterprises and social environment bring to each other as an information communication process, there will be a source of signals and a source of noises to enterprises. A successful company must take useful signals and block out useless noise. Openness is the only way for enterprises to receive various resources and absorb various values in the social environment; however, autonomy is the only way for enterprises to create new products and new values. We are emphasizing openness here because we have witnessed too many enterprises working behind closed doors, or only looking at short-term benefits and the status of their competitors because of the limitation of their workplaces. They forgot the real environment outside their organizations and even forgot most of their clients. Some entrepreneurs could spontaneously realize the openness of enterprises, but they still closed the doors and did it their own way in practice. We found, during our interviews with entrepreneurs, that this style was built up under the planned economy. It also had something to do with what they had learned in previous management courses, which mainly emphasized internal personnel and issues. Therefore, even though they realized the importance of their environments, they did not know how to manage the outside environment in practice. UFIDA Software Co., Ltd achieved success quite early in the market. People think it is because its founder, Wang Wenjing, put himself out there and focused on the outside environment of the company, to "listen to the voice of the clients".

> *We can say that all enterprises know that "clients are at the center", but very few enterprises can really "treat their clients as their beliefs".... People who know Wang Wenjing normally note a habit of his, which is to ask other people's opinions about UFIDA Software. He would carefully write down even very small and detailed comments, and then send emails or make phone calls immediately to get relevant staff to work on it. When people are giving opinions, he is always a listener. He never defends UFIDA Software, neither does he use a bunch of excuses to avoid responsibility. He thinks, if you really believe in the simple principle: "clients are god", it's better to make apologies to the clients and go out of the way to solve their problems instead of giving all kinds of excuses to explain. Clients buy results, not a bunch of excuses.* (Yin Xiaoshan 2008)

Allowing an enterprise to become an open system is not hard. One only needs to listen and actively react. This is not only the responsibility of leaders, but also the employees. Under a planned economy, enterprises also needed to seek resources from society and output resources, but monitoring the environment was not necessary. Enterprise staff only needed to be politically correct, other things could be solved immediately, or big things became smaller and then disappeared. The enterprises could afford to be closed to society. However, in a market economy, with dependence on suppliers, satisfaction of clients, monitoring of competitors as well as awareness of social responsibility, all the necessary measurements are higher and the demands for openness on enterprises are stronger.

2.1.2 Resources, Institutions, and Ecologies in the Business Environment

Considering the following situation to see how doctrinal theories of management study ignore the factor of environment:

A management consultant walked into an office during working hours. He found that people were all busy with activities related to the company's performance. They were using some technical terms which only people inside the business could understand, but about which people outside wouldn't have a clue. The consultant understood that studying these people's minds and interactions would be helpful in improving the company's performance, and the attitudes and behaviors of the employees depended on the internal conditions of this company. As his study went deeper, he found there were problems in the methods which higher level managers used to manage regular staff, and the regular staff had been complaining about it in private. So he submitted to the high level management of the company a report, based on Maslow's human needs theory, motivation theory and knowledge of human resource management, aimed at promoting a humanized management mode and increasing satisfaction among the employees. But the report never received a response. When he was leaving the company, very disappointed, he found the human resource market next door was extremely crowded with people with all kinds of skills trying to find a job in this city. The consultant picked up a newspaper and read how unemployment was increasing. But he thought it should be the government's responsibility to lower unemployment. And he just couldn't think why the president of that company was never interested in his consulting report.

Now we see this consultant made at least two mistakes: first, because it was more convenient, he only investigated people inside the organization, and deemed they were the source of the problems and that they were where the solutions lay; second, he failed to find out the real reasons. He thought the company's performance only resulted from the behavior of the employees and managers, and forgot about the factor of the environment. In the past, many managers of enterprises thought that, to fulfill their responsibilities of being managers, they only needed to manage the inside of the enterprises well and leave the outside social factors to other organizations, such as governments, or non-governmental organizations, or politicians and teachers. But now, more and more people are aware that, if they ignore the business environments outside, they will not only lose track of the factors that can affect their companies, but will also narrow their management area, and turn themselves into animals in a cage only looking at the fodder next to them and remaining ignorant of the world outside.

Some people once asked this question: Does the power to control an enterprise come from inside or outside the enterprise? After the Second World War, influenced by social psychologists, management experts started to pay attention to people's needs and motivations. They found people's needs were not as simple as getting a salary. Their needs were multiple and hierarchic. But soon management experts realized that only analyzing individuals and individual's needs was not enough. They found that individuals' behaviors were not only subject to psychological reasons but depended more on the environment around them, therefore a contingency theory came up which stressed the importance of situational factors in management and organization behaviors. It seems an individual's situation is only one step away from the social environment, but they are very different. Generally speaking, situation is the part you can feel immediately from the environment, it is the micro environment which affects business behaviors. Most of the time it is the internal environment of an enterprise; but the social environment is the outside environment. It even includes historical tradition and the wider international environment.

So, how do we look at the social environment of enterprises exactly?

Resource dependence theory sees an organization's environment as the combination of organizations and individuals who are related or potentially related to each other. The power of these organizations is uneven (Peffer and Salancik 2003). Resource dependence theory stresses the great importance of the resource environment in society and the organizational power it has on the development of an enterprise. If company A controls the resources company B needs, then company A has more power than company B. Different from the analysis of industry, the resource environment requires enterprises not only to pay attention to organizations in the same business, but also relevant organizations in other, different businesses. The environment of an enterprise contains many different types of organizations; for example, suppliers, clients, consumers, labor forces, competing companies, trade alignments, different types of associations and certification organizations, governments, communities, organizations which provide knowledge and technology resources (e.g. university) etc. These organizations will affect the enterprises; dependence on resources will create relational power between organizations.

Let us have a look at the Fortune 500 companies. The number of Chinese companies on the list has grown quickly since 2000. This is partly due to the natural growth of Chinese companies during development; but it is also due to big Chinese companies' competitive advantages in competing with foreign companies. Big companies occupy more material resources than small companies, and are more likely to take advantage in resource competition. Wal-Mart is very successful in controlling its suppliers in the business. Its suppliers are also all kinds of organizations; but they have unequal positions in their relationship. Wal-Mart has more power in terms of deciding purchase prices and arrival dates of supplies. This is all because there are many suppliers in China which can provide the same service; their competition objectively provides big enterprises like Wal-Mart with more advantages. Some people may ask, as China was a planned economy for so many years, it must have plenty of experience in large-scale purchasing and sales, so how come we still haven't established a big monopolistic retail company in purchasing and supply? But, is it really enough to just establish a big hierarchic enterprise nationwide? Where are all the small commodities going to come from? Where are all the loyal customers going to come from? The success of Wal-Mart is not only because it established a huge hierarchic organization, it is also because of its management of the environment, especially the management of its suppliers and the fulfillment of its customers' needs. For smaller enterprises, they are controlled by the outside environment more; for big or successful enterprises, they are also controlled by the outside environment, but they can, to a large extent, influence or even control part of the outside environment. The experience of participation in managing the social environment is not built up overnight.

Institutional theory of organizations also recognizes the effect of the social environment on organizations. It aims to identify the effect of the social institutional environment on an organization. Formal or informal institutions in an institutional environment, like traditions, customs, policies, regulations and strategies, could all affect organizations. In the past, people normally thought that enterprises were organizations that made profits by increasing efficiency. But institutionalism claims that the institutional environment is more about the requirements of legitimacy and justification of enterprises rather than efficiency (DiMaggio and Powell 1983). For example, Shenzhen HUAWEI Technology Co., Ltd used to be a company only focused on its technology, products and customer services. During the process of its internationalization, it was inevitably affected and restricted by the local society and culture. Early on, HUAWEI used to see itself as a Chinese national enterprise, but this concept became a restriction in the foreign institutional environment. HUAWEI quickly changed its strategy to localize its overseas business, and achieved long-term development in the end. In chapter four of this book, we show how the enterprises that were successful in their international business were those who could adapt to their foreign markets. The same thing applies to foreign companies running businesses in China. They normally try to secure legitimacy and justification first, and then start to think about enlarging their businesses. The strategy for KFC in developing in China was getting Chinese people's acknowledgement of foreign fast food first. Having achieved that, it became one of the most profitable dining enterprises in China. In order to overcome people's worries about fast food, it actively sponsored youth basketball games, suggested healthy dining, and put Chinese elements in its food. For example, they made Chinese-style vegetable soup. On one hand, it preserved its identity as foreign fast food, on the other, it conveyed to Chinese people the message that it would like to change for China.

An open organization means that, to deeply understand a society, understandings of all kinds of organizations and institutions in this society are necessary, because nowadays society has become a society of organizations and organizing, and institutions provide scripts and evidence for the activities of organizations. Some people think that institutions are the rules of games of the human groups (North 1986). However, there are many different kinds of institutions. The economic institution is only one of the institutions. Talking about types of social environments on a macro level may not give enough guidance on organizations and individuals. The institutional environment is the environment which organizations face directly, like governments, markets, communities, families, sciences etc. Every institution has rules for the actions of organizations and individuals. Therefore, under a certain institution, the behaviors of organizations and individuals have boundaries, which make the behaviors of organizations and individuals predictable (DiMaggio and Powell 1983). The social environment can be seen to consist of different kinds of attached institutions (Friedland and Alford 1991). Every institution has its own core logic and core value; for example, a marketing institution requests people to be rational, a family institution requests people to be caring, and an employment institution requests people to be dedicated. If all institutions are quite mature in a society, actors and decision-makers will be given more opportunities.

Besides the resource environment and institutional environment, the ecological environment can also be used to examine the space for the activities of open organizations (Aldrich 2008). From the perspective of organizational ecology, besides material and institutional resources, the social environment can also provide a "niche" for enterprises in the activity space. The niche of an enterprise can be restricted by many environmental factors, for example the volume of the environment, which is the quantity of organizations an environment can accommodate. Another example is the heterogeneity or homogeneity of an environment, which is to be measured by the level of similarity of the organizations and individuals inside the environment. The higher heterogeneity there is, the higher demands on management skills there is. If resources and capacity are limited, managers often choose a smaller environment of homogeneity, like the customer service department choosing clients. There are other factors of the ecological environment, such as the resource concentration and the stability of the environment. The ecological environment of China has always been changing but, generally speaking, China is a country which has a large population and large land area, the volume of the environment is very big, the heterogeneity of the social environment is high geographically, but not that high demographically (however, the heterogeneity of demography is also fast increasing), resources are comparatively centralized in big cities and on the eastern coast, which is quite stable, especially since Deng Xiaoping's speech during his famous visit to the south in 1992.

We can combine resource environment, institutional environment and ecological environment to understand social environment, but there are a few misunderstandings about which we need to be cautious. First, it seems like big companies have competitive advantages in the resource environment, but how do we look at those dynamic small and middle size companies? The improvement of the environment is also good for small and middle size companies, because, in an improved social environment, many organizational activities can be done by subcontractors. Second, analysis of the institutional environment can easily become a government-centered or market-centered analysis, and ignore other rich instructional resources and the connections among them. Some institutions may seem irrelevant to the market, like families, education, military etc., but they can also have a big influence. Third, the niche and space in the ecological environment can be decided by an enterprise's product spectrum. If an enterprise has many kinds of products and spans many industries, it will have a bigger niche in the ecological environment. Conversely, only having single or limited kinds of products will confine an enterprise to a smaller niche. But big or small has nothing to do with rankings. We can see many Chinese enterprises that look like multifunctional players. They can be seen everywhere in manufacturing, banking, and real estate, but, in the international ecological environment, compared with international big companies, they still rank very low. The idea of making a business big and wide-ranging is absolutely correct, but there are other ways to develop, like making the products refined and the company competitive. Fourth and finally, the cultural environment and technology environment are also important. We can analyze them by combining the above concepts, but we are not discussing all the concepts here.

Integrated with the above understandings of the social environment; we will now talk about several issues related to China's enterprises.

2.1.3 The Business Social Environment in China

It's been many years since China's Reform and Opening-up and China is now home for a batch of enterprises of excellent performance. During interviews with many leaders of these enterprises, we found that they always talked about how they dealt with the changing environment when they looked back at the past. From planned economy to market economy, from open regionally to open for all, from small deals to joining WTO, personal fortune and enterprises' business are all tightly connected with the changing society. From establishing a company to further development, entrepreneurs have a lot to consider, such as what do they need to establish and run the companies, who do they need to communicate with and how. Even a person who might have never received any education needs to learn about policies, law and regulations, culture, organizational methods, competition structure and other systems bit by bit. Comparatively, the internal management of enterprises is much easier.

The business social environment of China has characteristics that are universal. Like developed countries, China's economy and society will always be changing. This means China's social environment can also be analyzed from the angles of resource environment, institutional environment and ecological environment. Furthermore, China's business social environment also has its uniqueness. In contrast to the Former Soviet Union and Eastern Europe, China adopted progressive and yet gradual reform. Compare with Western countries, China has different resources, systems and social ecological environment, like the ownership of Chinese enterprises, organizational traditions, and the international environment they face, which are all a lot different from Western countries.

Even though it is very difficult to list all the uniqueness of China's business social environment, we still can identify some important characteristics, such as the powerful state, the changing ownerships of enterprises, and the complex society etc.

The powerful state of China is not only reflected in the policy resources provided to the Reform and Opening-up, in other words, the government is the propellant of all major social reforms; it is also reflected in its deep participation in economic activities, like the control of the resources and opportunities enterprises need, the formulating of industrial policies, market admittance, deduction of tax and other areas. The government is the judge, it is also a player. For example, the state-owned properties of central-affiliated enterprises are all under the control of SASAC (State-owned Assets Supervision and Administration Commission). SASAC plays a direct role in the management of the enterprises. It doesn't play the role of board of directors, neither is it a manager. It is an independent supervisory board. It has inescapable influence on the establishment of institutions, recruitment and resignation of managers, and decides on industrial structures of enterprises.

Enterprises not only need to deal with the current government, they also need to deal with the social environment previously created by the government. For example: the system of the work unit, which also affected the establishment and development of enterprises since Reform and Opening-up. The work unit was the basic social element of China before Reform and Opening-up; it was divided into institutions and enterprise units.

> *In terms of function, work units had unified functions, namely all work units had political, social and their own special functions; the relations between main bodies of factors of production were not contractual, leaders were appointed by the governments, workers were assigned by the labor departments of the country according to their plan; resources were fixed, work units didn't have independent property rights, assets could not be mobilized, mobilization of employees was also rare. Due to the above factors, units gradually evolved into family-style group. In this kind of group, people treasured interpersonal relationships; the feature of distribution was equalitarianism. People's behavioral modes were strictly subjected to the authority.* (Lu Feng 1989)

As a matter of fact, the work unit in the past in China, on some level, was a mixed body of the organizations and communities the West talked about. It owned the objectives of the bureaucracy and the equity and mutual benefit of communities. Large state-owned enterprise units not only needed to consider productivity, they also needed to consider the establishment of their affiliated agencies, which included housing, hospitals, schools for the kids of employees, dining halls etc. Many affiliated functions were replaced by marketing during reforms. But the understandings from the past unit organizations can be transferred into hopes for the new enterprises for some people. New enterprises can discard these affiliated functions, but keeping one or a couple would have a positive effect on their reputations and achievements.

The changing of enterprises' ownership was also led by the Chinese government. Before Reform and Opening-up, most of the enterprises in China were state-owned. Until 2008, the proportion of enterprises with different ownership in the economy had changed a lot. These enterprises with different ownership were competing for resources in China's resource environment. With state-owned, private, foreign capitalized, and all kinds of corporate enterprises, China had entered an era of competition. Changes, for better or worse, would spontaneously appear in the competition. But the government's policies would definitely affect this structure. From 1997 to 2002, the government enforced a policy of "seize the big and free the small" for enterprises. Many enterprises were reformed, merged or acquired. This was the so-called "state backward, private forward" phenomenon. Since the rise of the strong focus on international economic risk in 2008, we heard this may have become "state forward, private backward". "State forward, private backward" became an issue because some academics and other people were concerned China's economy might regress. Before Reform and Opening-up, state-owned enterprises maintained monopolies over every resource, so the efficiency of the usage of those resources was very low, which caused a recession in the macro economy. In a 2009 lecture, the head of the National Bureau of Statistics, Mr. Ma Jiantang, claimed China's economy had no "state forward, private backward" trend, based on statistical data collected by relevant people. Of the several cases that had happened since 2008, such as Shandong Steel reorganizing the assets of Rizhao Steel, COFCO investing in MENGNIU Group, and the industrial consolidation of Shanxi mines, Ma Jiantang believed they were only exceptions (there was also other evidence which showed a trend of "state enters, private exists"). At the annual meeting of "CAIJING" in 2009, economist Zhang Weiying said that, if China's economy expected to keep developing fast, state-owned property should be no more than 10 % by 2040. However, leaving the comparison rates aside, from 2004 to 2008, state-owned property had increased by 87 % (National Bureau of Statistics 2009), and most Chinese enterprises listed in the Fortune 500 were state-owned enterprises. In terms of actual capacity, 30 years since the Reform and Opening-up, China's enterprises are "state forward, private forward", that is, state-owned enterprises and privately run enterprises all have achieved great progress and, comparatively, privately run enterprises have developed more. Of course, the capacities of foreign-capitalized enterprises also have been increasing. State-owned and private-owned enterprises are competing and sharing the resources in China, which meanwhile has brought problems to institution building.

Reforms of state-owned enterprises still need to be pushed forward. Let us look at state-owned enterprises first. State-owned enterprises still occupy half of the economy of our country. Even though their production is not even half of the GDP, they are controlling the key industries of national welfare and people's livelihoods, such as telecommunications, electric power, railways, airlines, military industry, banking etc. In the areas of steel, coal, aluminum, vehicles and manufacturing, state-owned enterprises are still monopolies. But state-owned enterprises cannot be considered as independent enterprises. The property rights of state-owned enterprises still belong to the country, represented by SASAC (State-owned Assets Supervision and Administration Commission). The property rights of state-owned enterprises are not clear, their responsibilities, rights and interests are not consistent.

Recently, CHANGHONG, China National Cotton Reserves Corporation and other state-owned enterprises had a total deficit of several billion Yuan, but no one was there to take responsibility. This showed the positions for the ownership of state property rights are still empty. The root reason for problems occurring during re-assignment (or MBO) or loss of state properties, or devaluation due to being non-re-assignable, is the unclear property rights. The ownership of state-owned enterprises is still the country; the government has the property rights, which means no independent decision-making powers for state-owned enterprises. Major affairs of state-owned enterprises – recruitment or resignation of leaders, merger and consolidation, decisions for major investments – are all to be decided by governments. Leaders in the enterprises also have a political administrative hierarchy. Can we really say this kind of enterprises is under a market economy?

> *Some state-owned enterprises undertook shareholding reforms, even went public, but those are in name only, as some of the economists say. These joint-stock, state-owned enterprises are still being controlled by only one share or one majorly big share without rational operational structure. Board meetings have no real functions, cannot make decisions, almost all the decisions are subject to upper level governments or authorities (SASAC at all levels). This kind of enterprise is not a market economy enterprise, can hardly even be referred to as an enterprise.* (Liang Xiaomin 2005)

Society is complex because of the imbalanced development of history and culture. Even though enterprises in China have made big progress over the years and some companies even compete for resources on the international market through acquisition or merger; they still face an institutional environment which is quite different from developed countries. From the viewpoint of academics, as a society is developing, the speed of each substructure is different. Technology and resources can develop first, institution building and culture can develop after the hardware. This is known as the cultural lag effect of social development. On one hand, Chinese enterprises' resource environment is quite good in many aspects; on the other hand, they still need to deal with the unmatched, lagging-behind institutional environment. People think the reason for problems in China's institutional environment is that the government rules too much, so other institutions cannot perform their full functions. The result is too much administrative cost by the government, and the spaces for enterprises' development are restricted, especially in some areas which need innovation. Historians say that the Sea Prohibition in the Ming Dynasty stopped China's capitalism from developing; it was the main reason for modern China falling behind. Too much control from the government will also cause a "Sea Prohibition effect", because sea prohibition normally prohibits the blue ocean. The ecological environment some Chinese enterprises are facing not only includes competition in the same industry, but also includes local competition. In the late 1980s, when China's household appliance industry started to develop, there were 50 or more manufacturers of color TVs. Even the United States and Japan only had four or five. At that time, almost every province had its own household appliance brand. Regional protectionism caused many overlapping constructions in China. Meanwhile, many enterprises were not making any effort because they were protected. Many household appliance enterprises didn't have R&D departments; they didn't even know what R&D was. In this situation, once the door of the country opened, joining the WTO, the fate of these enterprises is easy to imagine. Besides counties and provinces, China also has a dual economic structure of urban and rural areas, as well as an imbalanced developing status between different regions. These are all the realistic environments which enterprises need to face. On one hand, differentiation brings many troubles to enterprises, it causes enterprises to see things only from one side, or do things only using one single method; on the other hand, differentiation brings variety, which may bring opportunities and challenges to enterprises. The dual structure of urban and rural areas and the regional differentiation caused the complexity of China's society. For enterprises, facing the multiple requirements from the market and the variations of labor is the necessary way to develop and to become stronger.

During the evolvement of China's society, some enterprises encountered obstacles, some enterprises found opportunities. This happened to all enterprises regardless of their ownership. State-owned enterprises met difficulties, such as the lay-offs and restructure storm of the 1990s; foreign capitalized enterprises met confusion, with some people saying China was "a society with no principles, at least many principles were not followed exactly"; private enterprises met even more difficulties, such as the low recognition of society and insufficient resources. State-owned enterprises also had many successful moments, especially the advantages of resources of large-scale enterprises; as did foreign enterprises, such as auto industry found opportunities in China; and private enterprises were developing fast in the cracks of institutions. To a serious entrepreneur, China's social environment has both risks and opportunities. Chapter four of this book will talk about this in detail.

2.2 Fitting into the Environment

We in the above talked about how enterprises and individuals get to know the social environment. While getting to know the environment, enterprises were also trying to fit into the environment. Of course, there were some enterprises which didn't know the environment well, nor were able to fit into it. 2008 was a year which China's enterprises would remember vividly, because negative incidents involving Chinese products constantly happened: the recall of children's toys, the removal from the market of pet food, the discovery of melamine in SANLU milk powder and other incidents. Several typical incidents attracted ongoing media coverage, which made enterprises realize they were not only facing suppliers, clients and consumers, as well as stakeholders, but the supervision of the whole of society.

These failures by enterprises were normally caused by incorrect understanding of the environment, not to mention their need to fit in with the environment. The resource, institution, ecological environments and open organizations we talked about in the above were only to state the importance of the environments. However, how did Chinese enterprises fit into the environment? What were their basic strategies in achieving this?

2.2.1 Merge Within the Environment

According to Wang Qun, the vice president of public relations & government affairs at Yum! Brands Inc. China Division: "When KFC first entered Beijing in 1987, it only had 8 kinds of products, and most of them were traditional American food; but 22 years later, now it has 52 kinds of products, and many of those were specially developed for Chinese consumers, like Old Beijing chicken roll, You-tiao (deep fried dough sticks) for breakfast, porridge and some others. These are all specially for Chinese people's tastes".

There is an old saying, "When in Rome, do as the Romans do". As a foreign brand, KFC obviously knew the meaning thoroughly, and followed it completely. According to *journalists, KFC entered China in 1987 and set up its office in Beijing at Qianmen. From then on, it started its journey of "stand in China, merge into its life". Now it's been 22 years. Looking at KFC's journey in China over this time, its growth and changes are well observed; it has changed for China and made efforts to make "new fast food". Time flies and, 22 years later, consumers of 500 more cities all over China can enjoy KFC from stores close to their homes.* (Wang Hui 2009)

KFC "change for China". Some people used to imagine, what if a Chinese company in the United States says that "we are changing for America"? What kind of response would it get in China? We emphasize the meaning of environments to enterprises, only because enterprises cannot exist independently. Enterprises are organizations that are run for profits, but they cannot only use economic rationality to communicate with the outside world. The society in which an enterprise operates not only has circulated economic capital, but also social capital, which refers to all kinds of relations: relations between enterprises, between people, or between organizations and people. There is also other non-profit capital circulating in society, like information and knowledge capital. Classical economics has the hypothesis that people are "rational beings", and an enterprise is a group of rational men. They act in accordance with the logic of economic rationality. But sociologist Granovetter believes economic actions cannot be only rational actions, because people and enterprises are all "embedded in" society. Local social structure and social relations will have a deep and long influence on them. To transnational corporations, they are "embedded in" several domestic and foreign social networks at the same time and these networks are all different, so corporations need to treat them differently (Granovetter 1985).

Some enterprises, when they were developing, not only embedded and merged their companies in the local social culture, but also merged themselves in the country's corporate tradition. Before Reform and Opening-up, state-owned enterprises took the lead under the planned economy; they also grew their own tradition. Entering the 1980s, private business started to rise. Lenovo, HUAWEI and other companies all used to reference the unit organizational mode of state-owned enterprises, as well as the setup of offices and titles of the positions. When private enterprises first established and foreign companies had just entered China, they encountered some doubts, not only about their legitimacy or identities; there were some realistic issues to consider. For example, benefits in the form of material objects and tickets (including food tickets, oil tickets, clothing tickets, even soap tickets etc.) didn't exist in private and foreign companies, not to mention housing, primary education for employees' children and public health etc. So at the early stage of foreign companies setting up in China, some of them provided accommodation and other entitlements to foster employees' recognition of their "work units".

Sociologists Weber and Durkheim both see traditional society as connected by blood, and modern society as connected by contracts. China didn't really have the break from traditional to modern which classical sociologists talk about. Blood relationships are still connected in China, and the administrative relationship which was built by the Communist Party also connects all the departments and civic groups. The contractual relations recognized in economics and modern organizational theory are still being under construction; however, it is gradually being accepted during its development. The whole social structure of China has influenced business organizations as background and environment in an era of Reform and Opening-up.

2.2.2 Avoiding Outside Influences

> *During all his years building up HUAWEI, the thing Ren Zhengfei cared about the most was not the business operation, but the outside environment of the company, especially the changing political environment. Every time he travelled outside China, he asked his staff inside China to keep him constantly informed about major political affairs; because, even though he might have enough capacity to totally manage the company's business, he could not stop the possible influences on the company caused by political changes. In order to, as much as possible, ward off any negative effects which might be brought by any connections, he had never taken any social positions outside the company.*
>
> *The major affair of HUAWEI purchasing Harbor Networks Limited on June 6, 2006 reflected Ren Zhengfei's concern about external factors causing internal instability even more. If Harbor Networks was allowed to continue growing, there might be the possibility of a second "HUAWEI" appearing in China, and this might hurt the morale of HUAWEI'S core force. This was the "biggest concern at heart" of Ren Zhengfei.* (Wu Jianguo and Ji Yongqing 2006)

We talked about how enterprises lived in the social networks. Transnational and trans-regional enterprises often pursue the strategy of merging into the local environment to obtain recognition and development. But, if they depend on connections too much, it can also bring trouble to a company. In the past, China was very bureaucratic; it was not easy to do business, especially for private enterprises that were without political support. Sometimes things could not be worked out without working on connections; sometimes things didn't work out even when attention was paid to developing connections. If certain people were made unhappy, there might be the possibility of negative repercussions for a small company. Appreciation of people's help is a good thing; however, sometimes a good thing can become a bad thing. During their early development in China, private and foreign businesses often encountered difficulties in getting stamps from various governmental agencies, and this problem still exists nowadays. For many patient business organizations, they needed to spend time and energy to get stamps. However, some companies simply gave up their local business because of the unfriendly investment environment. This was a big loss to the enterprise and society. Some other people chose to take the risk of asking for help from those who make stamps instead of going through all the trouble of dealing with the governments. We can say without exaggeration that we can calculate the administrative cost of a city by the number of the illegal advertisements for carving stamps on the overpasses of this city.

Unlike some companies who are working on networking everywhere, the president of HUAWEI Technology, Ren Zhengfei, is trying to release himself and his company from China's complex networks and focusing on his own business. We mentioned in the last section that being affected or even controlled by outside environments doesn't mean enterprises cannot have independence at all. The part of an enterprise which is restricted by the environment is normally some bottom line stuff. As long as they are not committing any crimes or breaching any moral principles, enterprises can to some extent avoid outside influences and focus on their own businesses.

Speaking from the perspective of the resource environment, "replaceable exchange and diversified developments are the two ways to reduce dependence...when an organization is under the centralized power of other organizations, the way to diminish this centralized control is through lawsuit under the Antitrust Law" (Peffer and Salancik 2003), which means, besides maintaining a certain independence, as HUAWEI does, enterprises can also change strategies to avoid unnecessary troubles, or use legal tools to change unequal situations.

Enterprises which developed in early times, in order to focus on their business, purposely evaded influences caused by the outside environments. Enterprises which are quite developed and already have very strong independence can do this; however, they also need to be constantly careful not to lose their core resources due to being too closed. As a matter of fact, some enterprises focus on their business, while ensuring they have assigned enough people or departments to deal with outside environments. For example, the R&D staffs of HUAWEI are open, because marketing staff can deliver customer feedback to them in a timely manner. HUAWEI can quietly go about its business also because it has obtained a lot of support from the policies for special economic zones in Shenzhen; for example, the policy to solve the residence identities of HUAWEI employees and their families at the early stage of its development. Putting it another way, HUAWEI can focus on its business and avoid extra influence on the basis of its compliance with the big environment.

2.2.3 Keeping the Environment at an Arm's Length

> *Among entrepreneurs in China, Wang Shi is probably the only one who can demonstrate to the public he never bribes. But this has not won him any plaudits. Once at an entrepreneurs' forum, Wang Shi and another guest made speeches. Wang Shi said, "When I said I don't bribe, there was no applause; but when he said he bribes, there was applause like a thunderstorm. That was a bit awkward for me."*
>
> *Wang Shi has been keeping the environment he is in at an arm's length, an awkwardly immature, lonely posting* (Wang An 2009).

Enterprises inevitably are in all kinds of networks and patterns of social exchange. But relationships and ways of exchange vary; such as strong ties and weak ties, replaceable and irreplaceable exchange relations. In terms of running a business, an irreplaceable relationship is probably the relationship with governments, but it can be chosen to be either a strong or a weak relationship. Wang Shi doesn't bribe, but he is maintaining a strong tie with certain relevant government agencies in terms of information and policy–making. This is normal and legal, and there is no need to hide it. Keeping a proper distance from an environment seems like a strategy that is difficult to handle. But to an entrepreneur who has principles, it is not difficult to achieve. Illegal activity and activity breaching moral and principles can be kept at a certain distance; however, close connections must be kept with those areas beneficial to business development and society. Only by clearly understanding the enterprise and the social environment, can an entrepreneur attain the ability to keep the environment at an arm's length. Keeping the environment at an arm's length is a long-term consideration for an enterprise that seeks to develop in society. As a matter of fact, Wang Shi is not the only one who can keep this kind of relationship with the social environment. People who are successful in other industries in China all can do this, such as Liu Chuanzhi of Lenovo. Keeping distance may sound easy but there is a lot of suffering to be endured. Liu Chuanzhi once spoke about his past, after becoming successful. He mentioned three challenges which he considered the most difficult: "The first thing was trying to reconcile with the environment. Never mind trying to change the environment, fitting in was already quite a lot of suffering." (Ling Zhijun 2005) Nevertheless, enterprises' relationships with governments are something Liu Chuanzhi sees as "the test every enterprise has to pass".

To maintain strong or weak relations with key organizations, as well as the degree of embedding in social networks is an essential skill, which entrepreneurs have to master and to keep practicing.

2.2.4 Making Outside and Inside Compatible

WANGXIANG Group's strategy of internationalization of human resources used its overseas companies as the platform, and gradually spread to inside of China. Its overseas companies started from where they were, working through local banks, law firms, accounting agencies, media etc. to recruit talent with different nationalities and diverse cultural backgrounds. For example, at the early stage of the establishment of WANGXIANG America Corporation, many people suggested they send "our own army" out. But WANXIANG figured that, even though the direct cost of sending out "our own army" would not be much, the indirect cost would be comparatively high, especially the opportunity cost. Because "our own army" from China had to learn languages, had to become legitimate, had to get used to the lives and environment there, and had to make friends etc., it probably would take them one or two years to finally work on their own, which would be quite time consuming and, more importantly, many opportunities might be missed during this period. Instead, WANXIANG chose to recruit locally. There are 480 employees in WANXIANG America Corporation; only six of them are from China, the rest were all hired in the United States.

Using overseas companies as support and applying a domestic-overseas integrated personnel plan have provided an internationalized flowing space for the employees. Companies inside China send a large amount of employees overseas to receive work training. The 18 companies of WANXIANG overseas provide opportunities for the international circulation of the employees within the group. WANXIANG's employees can apply *to work overseas, and procedures are in place to judge the merits of their applications. Meanwhile, employees overseas also come to China to receive training, to get to know China's situation and WANGXIANG's culture, as well as the manufacturing capability of the group*. (Zhang Wei 2008)

Enterprises are profit-driven organizations, but business organizations are not only influenced by economic rationality and market institution. Different institutions interweave together, depend on each other, and they also have their respective requirements of organizations and individuals. For enterprises, the requirement of these institutions is normally not efficiency, but legitimacy. This includes legal legitimacy, cultural legitimacy (e.g. whether a product is compatible with a nation's customs) and occupational and behavioral legitimacy (e.g. whether certain organizational behaviors can damage occupational reputation and business standards). Each institution may have different requirements of legitimacy.

Before Reform and Opening-up, China had a period of politics ruling and ignoring technology and efficiency, which caused China to lag behind developed countries in every area of societal development. In 1984, Mr. Yuan Geng, then party secretary of Shekou district of Shenzhen, announced "time is money, efficiency is life" for the first time. He probably didn't expect his saying to spread to the whole of China overnight and become the slogan at the front doors of many factories. This slogan really provided the emotional impetus for many Chinese enterprises to break the restrictions of the rigid technical and economic systems, no matter whether they were state-owned or private. However, over time, as enterprises have gradually developed, are not closed organizations anymore and have to face every side of society directly, we have to admit that focusing on efficiency is good but already not enough to further promote the development of enterprises.

A middle level manager of a telecommunications company told us that, in the 1990s, when his company's major business was in mainland China, efficiency was definitely the first thing to consider. Because the telecommunications market in China was "infinitely large" at that time, most of the clients had comparatively lower demands on the quality of telecommunications. However, after entering the new century, under the influence of many factors (e.g. the growing-up of the post-1980s generation, the popularization of the Internet, and the enlargement of overseas markets), not only did improving quality become a big task, understandings of domestic and foreign social institutions, local cultures and popular cultures also became a requirement of training for this high-tech company. The high-level management of the company started to realize that only having a vague idea of what an overseas market might look like was not enough, because "overseas" consisted of many different types of markets. In the past, when Chinese people talked about the Western world, it sounded like the West was a unified cultural community. However, it is not. Europe and America are different. In Europe, markets in each country also differ. Now this company's training program targets at increasing employees' knowledge of the business environments; unlike before, when it focused only on the loyalty and work values of the employees.

While focusing on the outside environment of an enterprise, an internal environment should also be recognized. Internal and external environments cannot be perfect. When the internal environment is not well, the values and rules of the external environment can be used to control the enterprises; when the external environment is not well, we should consider using the internally accumulated experience to change the situation. It is not easy to make the small environment of an enterprise and the big social environment compatible because, besides technical issues, cultural issues also need to be considered, as well as the above-mentioned enterprises' resources, institutions and ecological environment. Nevertheless, successful entrepreneurs know that investment in the compatibility of enterprises and their environments are always worthwhile.

2.3 Building up the Environment

While enterprises are fitting into the environment, they are also building the environment. The environment affects the activities of enterprises, while activities of enterprises also affect the environment, only in different ways and at different levels. Some enterprises have had long and significant effects on society, while some others have touched society only slightly and for short periods. Enterprises can affect the environment by their technologies and products, like the invention of the automobile, the spreading of computers and the Internet, the application of new energy, the use of new materials, and the popularization of healthy and cultural products. Enterprises are changing the daily lives of people. They are also changing human society. Enterprises also change society by other means, such as changes in the methods of doing things and institutions. Changing society doesn't mean changing the whole world. Institutional building doesn't exclusively mean rebuilding on a macro social level. The change in the working procedures of a company, the maintenance of the natural environment, the responsibilities to communities are all included in the content of enterprises' institutional building. Some people change the environment and the society unconsciously, but great enterprises and entrepreneurs purposely integrate resources, institutions and people, so as to create valuable products and engage in meaningful activities.

The influences of techniques and institutions do not necessarily happen at the same time, but they can stimulate each other. WANXIANG Group's leader Lu Guanqiu likes to use the word "strength"; a company has to increase its strength. Only when it has enough strength can it request supporting policies from governments and request markets from society. Pursuing policies and markets without having strength is impossible from his point of view. Strength is the foundation of products and technology. When technology was updated, products were refined, and the supporting policies and surrounding markets and other institutional and resource environments of a company would be improved. However, institutions can also affect technologies. For example, the idea of protecting the environment already has history, but the technology of environmental protection is still far behind the idea. It was because of the development of the supporting policy of environmental protection that WANXIANG Group was encouraged to engage in the R&D on electric cars.

Enterprises can change society by their products. Some excellent enterprises go further; they not only develop technologies and products, but also develop institutions and the social environment. In the previous section, we mentioned some strategies enterprises use to fit into the environment. Actually fitting into the environment itself is changing the old environment and building a new environment. There is a strategy more active than purely fitting in, which is building up the environment.

2.3.1 Outside to Inside

Enterprises are the entities of a market economy. How do we run enterprises in a society without any experience of a market economy? The Chinese government had set the route of Reform and Opening-up in Deng Xiaoping's time. The opening-up of a country also promoted the opening-up of organizations. Not having market experience to reference doesn't mean we cannot do things or cannot establish successful enterprises. Enterprises in developed countries were also not built in a completely mature market environment at the very beginning. When no experience is there for reference, the importance of the environment becomes prominent. We can look at the external environment. If the small environment is not enough, we can look at the bigger environment, like the international environment. Looking at the international environment means learning from the advanced enterprises in foreign countries.

> *"The song of HUAWEI" which was composed in 1995, says: "learn the advanced technology from the US; absorb the good management from Japan; be meticulous and punctilious like the Germans; step by step and be dedicated." HUAWEI eventually decided to learn management from the US.*
>
> *No public evidence ever showed that Ren Zhengfei was an expert in management. Previously, he was only a good worker in the technology field. But the key reason for the vigorous and ongoing optimization of HUAWEI's management is Ren Zhengfei's close attention to management, though many people would like to tag him as having a Chairman Mao style. In Ren Zhengfei's mind, any changes and reforms are necessary as long as they are beneficial to the achievement of the dream of "becoming a globally leading enterprise". There is no need to ask the motivation and origin of this dream. What is important is HUAWEI is driven by this dream and it is striving.* (Liu Guiyun 2007)

However, many big companies in China are not able to learn from big international companies. On one hand, many Chinese companies started their businesses without systematic education and training; they did not have the motivation and foundation to learn from international companies; on the other hand, many private Chinese companies are long-term at a very low position of the international industrial value chain, they do not even have a chance to learn from the outside. Learning from the outside also requires looking for the institutional environment inside that country. Actually, humans' economic activities are not limited to enterprises and markets; rules and guidance of economic activities can also be found in many ancient organizations. For example, Max Weber's expatiation of "The Protestant Ethic and the Spirit of Capitalism", describes how the puritans of England and New England made a great contribution to the rise of capitalism (Weber 1905). However, not only the homeland of the puritans can have prosperous capitalism. In the 1980s, the rise of Asia's "four little dragons" inspired people to look for cultural support for a market economy in eastern Asia's traditional culture. China's old family ethic is considered one of the cultural resources of the eastern Asian economy.

> *Let's use the private businesses of Wenzhou, China as an example. For 20 years, the organizational structure of the micro cells of Wenzhou's industrial and commercial industry has been through several changes: family industry – private business – joint family partnership business – joint-stock enterprises – enterprise group – companies with limited liability etc., but, speaking fundamentally, the core of the family business gene is still there. Even though some of them put up signs of the modern enterprise system, they are actually enlarged family businesses.* (Wu Xiaobo and Hu Hongwei 2002)

Actually, not only families can provide cultural resources. If we look further and broader, the military can also provide rich cultural resources. Strategically, "The Art of War" and "The Romance of the Three Kingdoms" are not only an enlightenment on war, but also can be a reference for the business war. This point of view can easily be proved just by looking at how famous these two books are in Asian or even international business circles. In terms of organization, the military is particularly helpful to big enterprises, because the military is always the biggest organization of a country. In terms of how to run a big organization, it surely can provide some experience and theories. As a matter of fact, many Chinese private enterprises were inspired by the military in the process of their development, such as HUAWEI, Vanke, BYD and Lenovo.

When looking for institutional resources outside enterprises, then foreign modern enterprises, families, the military, work units, and universities can all be prime models from which business organizations can learn. And that is what many Chinese enterprises in fact have done.

2.3.2 From Top to Bottom

When we talk about from top to bottom, "top" refers to the government. The previously discussed outside to inside approach was talking about enterprises using existing experience or models from the outside. From top to bottom refers to making full use of the advantage of the government's policy. There are two factors which allow China's enterprises to use a hand from the government: one is the Chinese government's strong efforts in self-improvement; the second is that the Chinese government is the designer and practitioner of the Reform and Opening-up. The policy environment (which is one aspect of the institutional environment) for the development of enterprises has to depend on the government, or the co-efforts of the government, business organizations and individuals.

Since ancient times in China, the government has occupied an irreplaceable position in arranging the social order. In the Zhou Dynasty, there was the saying of "all lands under the sky belong to the emperor; all people on this land belong to the emperor". The Communist Party established a new society type, which is different from the traditional dynasties. But in most people's minds, the government is still the agency which is at the center of society. Some academics who study socialism also see communist party governments, as represented by the former Soviet Union, as a super hierarchic organization. In such an organization, the hierarchy of power is very strict. Efficiency can temporarily be ensured, but will finally lead to rigidity and non-individuation. However, how can we explain the fast development of China for these 30 years? What is certain is that it is different from free market capitalism, where there is no constant intervention from government, as in the United States and Britain. The development of eastern Asia is an economic activity led and participated in by the governments. China is no exception. If it was a rigid government, how did it lead the high-speed economic development activities for 30 years? Economist Zhou Li'an believes that, no matter whether they are foreigners or Chinese, people in the past know too little about the reasons of China's development:

> *If we say the Westerners' confusion is because they don't know China well, then Chinese people's confusion is because they know China too well. We are too familiar with all the disadvantages of China's political and economic systems, we are too familiar with the lagging behind in technology and the shortage of resources for each person. If using a metaphor with a bit exaggeration, China's economy is like an old car running at high speed on the freeway. Westerners, as outsiders, don't understand how come an old car can run this fast. They think there must be some secret engine in it; while Chinese people sitting in the car with the awareness of the poor conditions of the car also think: how come this old car can run this fast?* (Zhou Li'an 2008)

Zhou Li'an's explanation is that the Chinese government adopted a political tournament incentive model involving officials at all levels. Political tournament means "the upper level governments design a promotion contest for its lower level government agencies. The winners will get the opportunity of being promoted, and the contest rules are decided by the upper level governments. It could be the growth of GDP or other indicators". Responsibility for the Chinese government's political tournament is repeated level by level, among the five levels (central, provincial, city (municipal), county, and village); with central government the initiator from the top. This incentive model has made the Chinese government different from the traditional hierarchic system, creating vitality inside of the organization. In this political tournament, besides being run at all administrative levels, if using GDP as an indicator, it could be "contracted out" by enterprises at any administrative level. Political tournament can also be converted to championships between enterprises or inside enterprises.

Since the Third Plenary Session of the 11th Central Committee in 1978, the Chinese central government has witnessed three generations of leadership, from

Deng Xiaoping to Jiang Zemin to Hu Jintao. Each core leadership reinforced the Reform and Opening-up strategy, and made innovations in both theory and practice guidance. From Deng Xiaoping's "development is the fundamental principle", Jiang Zemin's theory of the "three represents" to Hu Jintao's "harmonious society", not only the economy but the whole of China has been developing under the direction of these theories.

One important responsibility of the government is to formulate policies and regulations, for example: the "Labor Contract Law", effective since Jan 1, 2008. Early in 2007 before this law was issued, enterprises were already aware of what was coming. They were worried about the article in the new "Labor Contract Law", which decreed: employees who "have already worked with the current employer for 10 years" or "have finished the second fixed-term contract" can sign with the employer "an open-ended contract" and become permanent employees of this employer. Governments hold large amounts of resources on which enterprises rely, and the actions of government, whether big or small, can have major impacts on enterprises, even to the point of restructuring an industry. However, during the formulation of policies, there is also a part reserved for the enterprises. The government's innovations for enterprises' systems from the top down could not be enforced without the active participation of the enterprises. The government is developing from the top to the bottom; successful Chinese enterprises have taken the advantages of the government and made co-efforts to reform. For example: the development in south Jiangsu province, especially its early development.

Scholar Zhang Jianjun compared the Southern Jiangsu and Wenzhou models of China's regional development in detail. He concluded the early Southern Jiangsu model was a collective economy under the leadership of the regional government. In this model, the government actively participated in the development of the enterprises, guiding local development from the top. The government actually partially played the role of entrepreneur, and the actions of the local enterprises also obtained the recognition of the government, and shared the space together with the government. After entering the 1990s, with the market economy maturing, the government gradually backed off from directly managing enterprises' affairs, and moved from the government-leading model to a government-promoting model. The enterprises gained more space in which to act, and became the main body in system building in many areas. The Southern Jiangsu model was evolving under the government's flexible leading and promotion; and it became a clear contrast to the Wenzhou model. In the Wenzhou model, the government only played the role of setting standards and pushing forward; it was the enterprises that started the business and developed from the bottom to the top. The private economy of small commodities has always been in the leading position (Jianjun Zhang 2008). It is hard to say which one is better because these two models were corresponding to different resources and institutional environments in the two areas.

2.3.3 From Bottom to Top

Enterprises are not only consumers of institutional resources in the social environment, they are also makers. While the government is at the "top", enterprises are at the grassroots level. Grassroots can be banded together into a rope and develop together, and they can cooperate outside their competition in the same business. They can also collectively lobby governments.

> *A very painful problem in China in the past was "dead once controlled, disorderly once dropped". It was either that government completely prohibited certain economic behaviors by administrative order and administrative tools, or once the prohibition was loosened, many enterprises would immediately swarm without any coordination and create a market with excessive competition. ... lately, we can see from China's practices, no matter whether it was when the industrial associations of Wenzhou responded to the international investigation of anti-dumping, or when China's steel industry responded to the negotiation on iron ore prices, they have attempted to use non-market governance mechanisms to coordinate the interests of stakeholders.* (Chen and Zhang 2002)

Wenzhou is the manufacturing base for small commodities, such as lighters, glasses, shoes, low-voltage appliances etc., and these have all encountered international trade barriers. There are more than 100 industrial associations in Wenzhou; many of them have played irreplaceable roles in the constant investigations of anti-dumping by foreign countries. In 2002, the European Union passed the CR law for lighters, namely the Child Resistance Law. This law mandated that lighters under the price of 2 US dollars must be fitted with a child protection device as part of their operating mechanism. If this law were to be enforced, lighters made in Wenzhou would have faced being locked out of the European market (Chen Fang and Zhang Heping 2002). In order to deal with the risk, the Wenzhou Smoking Set Association traveled to Europe with government agencies and, over 10 days conducted more than ten multilateral negotiations, finally convincing the European Union to postpone the CR law, which was scheduled to come into force on June 19, 2004.

Enterprises from the same industry can form associations; however, enterprises of different industries or even belonging to different ownerships can also make alignments, and build a market environment. For example, in July 1998, Ordos, CHANGHONG, Tsingtao Beer, Wangfujing Apartment Store and others – 13 enterprises in all – submitted a jointly signed letter to the State Economic and Trade Commission requesting the prevention of cut-throat competition in industries and marketing tools to standardize the enterprises. After a few weeks, the State Economic and Trade Commission responded by encouraging all industrial associations to fix a unified price to commodities and services in the same industry. This provided a successful precedent for commercial associations to lobby governments (Kennedy 2005).

2.3.4 Inside to Outside

Besides enterprises and enterprise alignments, or social networks, entrepreneurs can also use their personal influence to build the environment. When talking about the development of private business, Lu Guanqiu of WANXIANG Group said:

> *The most important thing is the development of us; to see if our own capacity can override the others. There is no need to complain. We are like a family; certainly, parents would care more about the smart kids, the promising ones. Laws are made by people, so are policies. Being compatible with social development will definitely get the recognition of society. Economic development needs to be in accordance with the objective law-like principles. In order to get the country's support, nurture and protection, we need to meet the country's requirements; by then, the country will gradually revise its policies. (For example) recognize the functions and the position of private enterprise in the "Sixteenth National Congress"*. (Liu Xiaowu 2004)

Compared with state-owned enterprises, private enterprises did not have the support of the country; their conditions were awful in the early stages. But those who were full of the spirit of entrepreneurship didn't complain or confront the policies. Instead, they chose to pursue proper business and took market opportunities in the areas where the policy allowed, and finally became stronger. They obtained the acceptance or even support from the policy due to their contribution to the country and society.

The creation and development of an organization not only depends on technology or material resources. In modern times, institution and innovation of institution are more important. Successful modern leaders are those who can go beyond the organizations. These people can also go beyond the temporary gains and loss of interests, and create new areas and value. All these facts help us understand why successful Chinese entrepreneurs all have rich social backgrounds. With experience in all kinds of social backgrounds, Chinese entrepreneurs made the social systems part of themselves, and have become their characteristics and guidance of actions. Entrepreneurs are the products of institutions; they are also the carriers of them. On a higher level, they are also the constructors of institutions. A single entrepreneur has a limited function in society, but the emergence of a group of entrepreneurs will become the power of society.

At the beginning of Reform and Opening-up, many entrepreneurs' backgrounds were as peasants or in individual household business, such as the founder of "Fool sunflower seeds", Nian Guangjiu. Since the mid-1980s, some people have quit their jobs in government agencies and started their own businesses, such as Liu Chunazhi of Lenovo, who came from the Institute of Computing Technology, Chinese Academy of Sciences. After 2000, people with post-graduate degrees came back from overseas and started to take senior positions, such as Li Yanhong of Baidu.com. The experiences of all these entrepreneurs represent absolutely not only their own lives. The rise and fall of people from certain backgrounds reflect changes in the social environment. From Nian Guangjiu and Liu Chuanzhi to Li Yanhong, we can see that China is paying great attention to professional knowledge, its diversification of industries and its transfer to high technology, as well as opportunities provided to young people. The Chinese entrepreneurs all had their own specialties during the changing period of the society. In the early time of the reform, people who didn't have experience of organizing an enterprise spontaneously learned their first model of enterprise organization from families and family groups. Other people learned the essence and management model of large organizations from the structure of another area, as in the way the president of HUAWEI, Ren Zhengfei, learned from the Chinese military. Enterprises in the US, Europe or Japan were very mature in professionalization after years of development, so they often dominated when in competition with Chinese enterprises in the early stages of reform. However, these foreign companies often now suffer headaches when dealing with China's "non-official army". Wenzhou people have long gone out of the country, developing their businesses in Europe, the Middle East and the Far East, even battling in the area of luxury goods. The fast development of HUAWEI and other companies also surprised foreign analysts, prompting them to wonder from where Ren Zhengfei and all these people got their business talent. The changing society of China trained these successful entrepreneurs; and these entrepreneurs are also changing the social environment of China, and gradually influencing the international business environment.

We mentioned several paths and strategies for building up the business environment. Just like the strategies of fitting into the environment, there are no paths or strategies which are better than the others. Successful enterprises always choose and assemble their own tools from different strategies, and make the enterprises and the environments harmonious and able to improve each other.

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Chapter 3
Business and Government

Jianjun Zhang and Shu Lin

To run an enterprise in China, what is the most important thing to learn? Political economics! What is political economics? It is business integrating with politics. Being entrepreneurial is not merely about selling product in a market, but also about acquiring favorable treatments from governmental authorities. This is knowledge! What if we only learn politics? No, that is out-of-date. A socialist market economic system has now taken shape in China. Only learn economics? Likewise no, it's not the time yet. The Chinese government still plays a dominant role in domestic market. (Interview notes, Nov. 21, 2007)

This is how Mr. Wang, CEO of a private company, explained his understandings of China's institutional environment to us during an interview in the year of 2007. At that moment, as we looked back on the past 30 years of China's Economic Reform, Mr. Wang and his colleagues told us about their 17-year business journey. From rushing to a blooming special economic zone in 1990 to wearing a "red hat" (being attached to a state-owned enterprise before 1992); from getting their first pot of gold in the Hainan gold rush in 1993 to getting involved in the real estate business by taking full advantage of government policy in 1995; from taking their business forward to the Yangtze River delta, where the economy was exploding in 1998, to the acquisition of state-owned listed enterprises and thus opening financing channels in 2000; from significantly expanding their business by moving with the SOE (state-owned enterprises) privatization wave in 2002 to becoming a diversified corporation in 2004; the story of Mr. Wang is typical in the history of China's economic reform. From this, we can see that, behind each turning point of this private firm's development, there were deep imprints of government action and changes of policy. During the long history of the transformation from planned

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economy to market economy, the evolvement of China's institutional environment was like every fast changing city in China: old buildings hadn't been pulled down, while new buildings had already been built; the foundation of traditional culture was still alive, while new orders were secretly growing; the old and the new were overlapping, the traditions and the new knowledge were experiencing intensive conflict. The inertia of the planned economy, the potential of market rules, the dawning of legal civilization, the remaining influence of the "official rank-oriented standard" (guan ben wei), the balancing of all kinds of old and new powers, along with the overwhelming rise of private business, constitute our focus in this chapter – the Chinese-style government-business relationship.

During the past 30 years, China's private sector has been evolving from being called "speculation" (*touji daoba*) at the very beginning, to the "beneficial supplement to public ownership, and then to "infrangible private property rights". China's incremental economic reform was actually the evolution of the relationship between public authorities and private business. During this process, which was full of twists and turns, the factors related to government intervention became the most complicated, influential and unpredictable of all the factors that enterprises had to face. How did entrepreneurs keep full awareness of the macro-economy while developing their own business? How did they follow the logic of the market while still being politically sensitive? How did they keep their autonomy in decision making while making full use of the policy? How did they operate between the government and the business without being trapped? ... Keeping a "proper distance" between the government and the business is a big challenge for Chinese business leaders who have been growing up between the cracks of the systems.

The former president of CHANGHONG, Mr. Ni Runfeng, described the relationship of business-government as "cannot separate from, but unreliable", based on his experience. These few words explain all the difficulties and helplessness of business. The president of Vantone Group, Mr. Feng Lun, used the phrase: "cannot avoid, but like walking on the ice" to describe the same relationship. Driven by profit-orientation, the private business attaches itself to the state and acts upon the official's needs to seek benefits, but often becomes trapped in political struggles and loses everything. It often tries to seduce officials and trades money for benefits, but often digs its own grave while corrupting the officials. Finance writer Wu Xiaobo indicated after years of observation that the "government-business puzzle" was one of the main reasons for business failure in China: the conflict of interests between governments and enterprises during the clarification of SOE ownership, the remediation to private business under macroeconomic control, as well as inter-jurisdiction political competition among Chinese local governments, all become institutional threats which entrepreneurs have constantly faced during the economic transformation.

All these direct us to our core question: how can we understand the relationship between the government and the enterprise during institutional evolution? What kinds of activities are Chinese private entrepreneurs taking to interact with the government? What kinds of changes are happening to the Chinese government-business relationship during the co-evolution of business organizations and the institutional environment? In this chapter, we employ the state-firm exchange perspective used in corporate political strategy research in the West, and view government officials and entrepreneurs both as rational actors within China's local political market: enterprises expect the government to provide beneficial policies and treatments, while government officials need to use the enterprises' performance to build their own political records and also seek personal benefits. Therefore, both sides expect something from each other, so they all take what they need from each other, which constitutes a resource dependence relationship. Based on this assumption, we start from the perspective of incentive orientation, to explain the intention and behavior of the two major groups of actors in China's economy – private entrepreneurs and government officials, in an effort to open the black box of the Chinese business-government relationship.

3.1 Characteristics of Government Officials

> *On one hand, it was the "top leader is responsible for all". Political security of CCP was the most important thing. You had to be extremely cautious to prevent mistakes from happening. No mistakes! On the other hand, it was the frequent rotation of official positions. People had to retire when they reached a certain age. The competition is choking! so if you only did routine work without achieving rapid GDP growth by helping private businesses, how could you expect to make any political achievements in only a few years? Am I supposed to go to the Political Consultative Committee and wait for retirement when I'm 45? We've been hard working for our whole lives just for one word: "promotion"! . . .* (Interview notes, Sept. 26, 2009)

In the afternoon of Sept. 26, 2009, Ms. Zhang, who was the vice county magistrate of Y County, told us about the confusion and troubles of being a government official, during our interview in a hotel in Shanghai. During the economic transformation of China, government officials are the key actors. Due to the insufficient protection of the property rights and ineffective legal systems, private businesses depend more on government policies and official discretion to survive and succeed. During the process of developing the market economy, the Chinese government has never been separated from the market. As a matter of fact, the local business system is greatly influenced by the interaction of local government officials and private entrepreneurs. And the local officials themselves are not solely information delivery between the central government and the micro business organizations, they are self-interested actors with multiple objectives. This has caused the complexity of Chinese government-business interaction during the institutional transition.

What kinds of motivations and behavioral characteristics do Chinese government officials have? Political scientists indicate that, after the 30 years' reform, government officials in today's China are no longer the "revolutionary cadre" in the strictest sense. However, neither are they becoming the "modern bureaucrat" in Max Weber's hierarchy (Lu 1999). In current China's environment with prevailing materialism, government officials are just like entrepreneurs; they are self-interested actors who seek various personal interests. Governmental officials' behavior cannot be judged absolutely by the values of right or wrong; they either give support or seek rents during the development of private business. Therefore, in this chapter, we start from the analysis of the incentives of government officials in an effort to explain the behavioral patterns of governments during market transformation.

In the current political and economic circumstances, the promotion of Chinese government officials is mainly subject to the cadre evaluation system. The four principles of this system were raised by Deng Xiaoping during late 1970s to early 1980s. The four criteria against which officials are evaluated are: loyalty to the Party, knowledge, youthfulness, and professionalism. Among these four, loyalty to the Party is very important, but it is very vague and subjective. So, in practice, the most objective one –youthfulness – became the compulsory rule for promotion. In order to enforce the age standard, the central government abolished the lifelong tenure system and set a mandatory age for retirement, and even set age limits for candidates for government positions at each level. For example, in the leadership team at county level, candidates for all key positions (including secretary and deputy secretary of the county party committee, county magistrate and vice county magistrate) cannot be older than 45 years when they first report to duty; at least one member in the standing committee has to be younger than 35 years old (Zhong 2003).

The compulsory age standard has had a great influence on the career path of Chinese government officials. To a large extent, the age standard directly produces two types of officials: "promotable official", which means officials who have the possibility to be promoted or to be switched to more ideal positions; and "terminal officials", which refers to those who cannot be promoted any further due to the limitation of the age standard, but have not yet reached the retirement age. The two completely different career prospects mean these two kinds of officials have completely different motivations (Zhong 2003).

To most of the "promotable officials", promotion is their priority. In order to smoothly climb up the ladder of bureaucracy, they try all means to meet the criteria of the assessments carried out by upper-level governments. Currently, the central government is trying to motivate local government officials by dual control of personnel and finance. From the perspective of personnel control, the central government carries out "championship contest" to promote local officials, which compares the performance of local government officials (especially the "top leader" of each region) by measuring local economic development with leaders at the same level in neighboring cities or counties. Winners of the contest get promoted (Li and Zhou 2005). This mechanism has stimulated the strong pursuit of political performance by "promotable officials".

From the perspective of finance control, the tax sharing reform enforced in 1994 divided the tax revenues and the "administrative duties" between the central and local governments. Under this system, the central government took most of the tax revenue. According to data for the 10 years from 1995 to 2004, central fiscal revenue accounted for 52 % on average of total tax revenue, but central expenditure accounted for only 29.8 % on average of total fiscal expenditure; in contrast, regional fiscal revenue only accounted for 48 % of total tax revenue, and its expenditure accounted for 70.2 %. Since 2004, the proportion of regional fiscal revenue in total fiscal revenue has continued to decrease, while the proportion of its expenditure has continued to increase. This unbalanced structure has created big financial pressure on local governments. "Lack of money" has become a pressing issue for local government officials. Therefore, increasing revenue sources became another important target for "promotable officials".

In order to increase revenue sources as well as their own political performance, "promotable officials" have very strong incentives to develop local economy under their jurisdiction. In order to win in the championship of contest, government officials in neighboring administrative regions were in hot competition in GDP growth, employment rates, tax revenue, export and other major economic indicators. To promote local economic growth, they actively support the development of private business by investing in infrastructure, formulating regional development plans, supporting major industries, assisting in capital raising/planning of local enterprises, facilitating cooperation between business organizations, etc. Meanwhile, governments of many regions made policies on taxation, land prices and services to attract investment. Especially in the past 10 years, BT and BOT projects, which include many different kinds of preferential policies, have constantly appeared, and the mode of "using culture to set up the stage and the economy to put on a show" has been widely used throughout the country. From this point, Chinese local governments have shown a very obvious characteristic of being a strong developmental state. The strong support by Taizhou city government in Zhejiang province for Zhejiang Geely Holding Group recorded by Ngo was one of the typical cases:

> *When Taizhou city government decided to include automobile manufacturing in its development plan... in order to get Geely the production permit, the Taizhou government specially sent officials to Beijing to lobby the central government. Meanwhile, the city government invited research institutions and the think tank of the central government to visit the headquarters of Geely, and presented to them the development prospects of Geely Group, so they would speak favorably of Geely to the ministries. In 2001, after Geely Automobile obtained a production permit, the city government, in the name of promoting the development of new industry and high tech industries, provided Geely with a large amount of direct subsidies, preferential policies, land ... the development of Geely Automobile had already become part of the city planning of Taizhou. The strong pursuit of investment, tax revenue, employment, economic and social performance and other indicators of political achievements, as well as the big pressure of competing with neighboring cities, caused the alignment of interests in the relationship between private business and local governments...* (Ngo 2008)

In contrast with the craving of personal political achievements and local fiscal income of "promotable officials", "terminal officials," who have no hope of being promoted, normally only care about personal benefits. Due to the age limitation, "terminal officials" have to end their career earlier. They are either appointed to insignificant positions in People's Congress or Political Consultative Committee, or to non-functional posts and wait for retirement. Officials at this stage of their careers certainly have no hope of promotion. Due to their frustration with this career prospect and their anxiety about their standard of living after retirement, many "terminal officials" are no longer interested in fulfilling their official duty but instead, they are more interested in rent-seeking. Because "their power will soon expire no matter whether they use it or not", they tend to use their power to seek personal benefit. The well-known "phenomenon of age 59" (which means that many officials at age 59 become corrupted) is a vivid illustration of the behaviors of "terminal officials". Various corruption cases also show that there is a much higher chance of getting involved in corruption, rent-seeking or nepotism among "terminal officials" than "promotable officials" (Zhong 2003).

Meanwhile, the institutional environment of the transitional economy has provided government officials with various opportunities of rent-seeking. Just like governments of other countries in economic transition, the current "weak institutions" cannot stop the "grabbing hands" of government officials. In many regions, especially the areas where marketization level is low, government intervention has blurred the line between the market and the government. The "Report of the developing trends and existing problems of private business in Guangdong province" shows that 44 % of the private entrepreneurs who were surveyed reported they were often busy working on cultivating/maintaining relationships with government officials, which cost them a lot of time and energy; and 60 % said they had lost opportunities to develop new projects due to the low efficiency and complicated procedures of some government agencies. An entrepreneur in the restaurant business in Xinjiang province said there were nearly 33 government agencies which he needed to treat nicely. The research team on enterprise affairs of the National Statistics Bureau reported that 66.7 % of the enterprises they investigated said there were "three unjustifiables" (unjustified levies, unjustified charges, unjustified fines) in their areas; and 54 % of the enterprises indicated they had encountered instances of "eat and take" behavior among local government officials.

The rent-seeking of governments has generated nonproductive incentives, and also bred a tendency of dependence of business upon government. Many entrepreneurs fell into the paradox of mixing business logic and political logic: on the one hand, they are angry about the monopoly of resources by state-owned enterprises and governments; on the other hand, they are eager to build political connections to seek rent, which is a way to develop their "big dreams" at minimum cost and with maximum return (Xiao 2008). Therefore, Western political scientists believe that predatory governments are becoming the biggest obstacle to the development of China's private business: entrepreneurs cannot use the legal system to protect their interests, so their only choice is to build personal connections with government officials to carve a political patronage relationship ... the vertical relations which Chinese enterprises have with the government even override their horizontal cooperation with business partners (Kennedy 2002).

Even though, to a large extent, the division of "promotable officials" and "terminal officials" is only theoretical, the objectives and behaviors of the two types of officials cannot be distinguished easily from surface. As such, the Chinese local governments are presenting a vivid double-edged character: developmental states and rent-seeking states. From the personal perspective, among the group of government officials, there are promotable officials who eagerly pursue political achievements by promoting local economic development, and there are also rent-seeking officials who are seeking personal benefits; from the organizational perspective, governments at all levels are strong developmental states at the formal institutional level, and they are also the rent-seeking type of governments at the informal institutional level. The binary institutional structure of "developmental" together with "rent-seeking" on the one hand leads to private business developing a special relationship with government officials in order to not become the rent-seeking targets; while, on the other hand, provides opportunities and space for private business to meet governments' demands and gain support and protection from the governments.

Given this institutional environment, what kinds of practices are Chinese private entrepreneurs adopting to interact with government officials? In the next section, we will introduce main types of Chinese private business's political activities.

3.2 Political Activities

Chinese enterprises no longer just sit there and wait for governments to issue policies, and then decide either to accept or not. Through interviews with hundreds of Chinese local entrepreneurs, high-level managers of foreign companies, and government officials, we found that, in today's China, the action of entrepreneurs taking initiatives to lobby governments is like the surging water of the Yangtze River in a hot summer…

This is how American political scientist Scott Kennedy (2005a) described the political behaviors of Chinese enterprises in the "Financial Times" on Sept. 27, 2005. The study of corporate political strategy tells us that the competition between business organizations is never mere the competition of products on the market. Winning in the public decision-making arena and gaining competitive advantages in the market by political connections is also a feasible choice across the world. This is especially true for Chinese entrepreneurs in transitional period. Compared with business leaders in the mature market, Chinese managers have to balance two tasks: building up good relationships with suppliers and clients is only a small part of their work, they need to spend more energy on cultivating and maintaining a good relationship with government officials, maximizing economic benefits while minimizing social political risks. In a word, Chinese private entrepreneurs have binary needs: one is market success; the other is social legitimacy (government officials are the people who can provide them with legitimacy) (Yang 2000). So, to most Chinese enterprises, cooperation with governments and thus maintaining a good business-government relationship can remarkably increase the value of their tangible assets as well as intangible assets (Krug and Hendrischke 2008).

Based on the institutional conditions of Western democracies, scholars observe that European and American companies mainly use three political strategies – information, financial incentives, and constituency building- to fulfill government officials' needs of being elected and re-elected, and thereby influence officials' preferences in decision-making in exchange for preferential policies. In the Chinese institutional environment, in which developmental and rent-seeking orientations co-exist, how do Chinese private entrepreneurs implement their political activities?

Combining various views from both academic and practitioners, and based on case studies of China's famous private enterprises, as well as analysis of interviews with a series of small- and medium-sized enterprises, we observe that Chinese private enterprises are using five strategies to influence government officials: political participation, information communication, political connection, "red hat" and material incentive (see Table 3.1). Next, we will introduce these five strategies in detail by theoretical categorization illustrated by typical cases.

3.2.1 The Strategy of Political Participation

"Political participation" refers to entrepreneurs or other high-level managers participating in political organizations through institutionalized channels, such as the People's Congress (PC) (the legislative body in China, equivalent to congress in the West), Chinese People's Political Consultative Conference (CPPCC), Federation of Industry and Commerce organized by government, Party representatives, etc. Participation in politics helps entrepreneurs gain political and social status and increases their power (or voice) in making public policies. It also gives them more opportunities to get to know officials or other important people, which may create beneficial conditions for the development of their enterprises. "China Business Times" published the "Top Ten news of China's private business of 2003" on Dec. 29, 2003, one of which was "Private entrepreneurs opened the door to dance with politics". At least 65 of the members of the 10th session of National Chinese People's Political Consultative Conference were from non-public sectors, which accounted for more than 2.9 % of the total members. Both the number and proportion were up on the previous session. The "Research report on China's Private Business in 2002" shows that, up until the end of 2002, 17.4 % of the private business owners in China were elected as members of the People's Congress, 35.1 % were elected as members of the Political Consultative Conference, and 29.9 % joined the Communist Party. In Wenzhou city, where private business is most developed in China, 956 private entrepreneurs in 2006 were elected members of the People's Congress or members of Political Consultative Conference at county level or above. This number was 414 more than the previous session. Comparative analysis undertaken by American scholar Thomas Heberer shows that, driven by the unique conditions of the country, Chinese private entrepreneurs' passion for participating in politics was rising strongly. It was strong, not only in comparison to European and American counterparts, but even compared to their

Table 3.1 The political activities of Chinese private enterprises

Strategy type	Activities	Corresponding government character
Political participation	Participation in and deliberation of state affairs;	Developmental state
	participation in the formulation of state policy	
Information communication	Obtaining information on policy from governments;	Developmental state
	Presenting information about enterprises/industry to governments;	
	Seeking help from governments directly when encountering difficulties	
Political connection	Aligning business activities with government's objectives and fulfilling government's needs;	Developmental state
	Hiring government officials, building connections with government;	
	Inviting government officials to visit or endorse (inviting government officials to be present at important occasions, inviting government officials to visit);	
	Performing corporate social responsibility (establishing charity funds, supporting education, sports, health, poverty reduction and environment protection projects, actively participating in disaster relief, donating to social welfare etc.);	
"Red hat"	Affiliation with government agencies or state-owned enterprises;	Developmental state
	Co-investment with state-owned property;	
	Doing business by using the name of state-owned enterprise	
Material incentive	Participating in or supporting activities organized by governments financially, providing a service to governments; Funding government officials' travel, giving gifts during holidays, providing jobs for their children, or other personal services; Providing bonuses to key officials, promising senior officials power options, giving power shares/ discounted shares, commissions, bribes etc.	Rent-seeking state

counterparts in Vietnam and other transitional economies (Heberer 2003). Western academia has even coined a term for Chinese private entrepreneurs who get involved in politics: “Red Capitalists”.

The main way of political participation is direct participation in and deliberation of state affairs. Almost every one of China’s most famous private entrepreneurs carries many political titles. For example, Liu Chuanzhi, Wang Wenjing, Lu Guanqiu, Zong Qinghou and Li Dongsheng were all members of the National People’s Congress (some still are); Liu Chuanzhi and Wang Wenjing are (or were) even vice chairman of the National Federation of Industry and Commerce. The vice president of a well-known Internet company told us how his company didn’t pay much attention to participating in politics at the beginning. Then he participated in a conference as a member of the Haidian district (in Beijing) Political Consultative Conference and discovered that many high-level managers from other companies in the same industry were all members. Some companies even had three members. Then he realized his company had lagged far behind and he decided to participate actively in politics from then on.

Participation in politics provides entrepreneurs with opportunities to get involved in the deliberation of state affairs; meanwhile, it also provides entrepreneurs with opportunities to use institutional means to protect their own interests. Professor Li Hongbin and his colleagues from the Chinese University of Hong Kong have investigated the status of participation in politics by top managers at 3258 Chinese private enterprises. They suggest that private entrepreneurs use political participation as a substitute for market failure and institution failure. The lower the marketization level there is in an area, the higher the passion that exists for participation in politics. Gao Yongqiang, Tian Zhilong, and Wei Wu (2003) interviewed the members of Wuhan People’s Congress who are from businesses at both city/district levels, and found that, among the proposals raised by these members, 60 % or above were directly or indirectly related to the interests of their own companies. Gao Yongqiang and Tian Zhilong (2005) conducted further investigations into the proposals of members from enterprises and found a big proportion of them were about improvements to the environments of business, business social burdens, and government intervention in business affairs. Especially in recent years, more and more entrepreneurs are using the PC & CPPCC as official channels to submit their proposals. And such proposals reflect their policy preferences. For example, after the dispute between China’s Wahaha and France’s Danone involving their joint venture, Zong Qinghou (the owner of Wahaha) as a member of the National People’s Congress, submitted the “Suggestions concerning legislation on limitations of foreign capital monopolizing China’s industries to maintain the security of the economy” in March 2007, which sought to legislate for the clear identification of hostile acquisitions by foreign capital, and strictly limit the conditions of foreign capital purchasing Chinese companies.

The benefits of political participation are disclosed by various scholarly research and business cases. Hu Xuyang (2006) from Zhejiang province conducted research into the top 100 private businesses of Zhejiang in 2004, and found that political connections greatly helped these firms in their financing, which in turn promoting their growth. The comparison of the following two companies in ERP business is illustrative. UFIDA – as a political connected company – got listed on China's Shanghai Stock Exchange in April 2001 when IPO was government controlled by quota, and raised 900 million Yuan after IPO; but its competitor, Kingdee, listed on the Hong Kong Exchanges, and only raised 90 million Yuan. In addition, UFIDA purchased 400,000 m^2 of land in Beijing Yongfeng High Technology Industrial Base at a discounted price – a place like Zhongguancun, where the price of land is as expensive as gold. Despite its own capacity and status in the high tech industry, these two moves, which were important to the growth of UFIDA, would have been very difficult without Wang Wenjing's (the owner of UFIDA) political connections.

The other way in which private entrepreneurs enterprises participate in politics is by being involved in governments' policy making process. For example, one famous IT company established its own market research center to collect and provide relevant information and industrial reports to the local government every month to facilitate government decision-making. The Vanke Group – the largest real estate developer, which had insisted on doing business in transparency and eschewing bribing officials, recently started to change its stance from a "go close to the policy" approach to a "go inside the policy-making" approach. Besides doing professional and long-term policy analysis itself, in order to create a friendly environment for its own development, Vanke now is getting more involved in the policy making at the national level. The Ministry of Housing and Urban-rural Development sometimes will ask Vanke's opinions when making industrial policies; Vanke also presents the information of the real estate industry to the Ministry. It is said that, during the time of policy making, Vanke even sends its own staff to work in the Ministry of Housing. Of the policies covering macroeconomic control of the real estate industry issued by the central government in 2007, one third was drafted by Vanke. The purpose of being actively involved in policy making, besides performing the duty of a corporate citizen as claimed by Wang Shi (the Chairman of Vanke), is to create a more preferential institutional environment for the company and the industry.

3.2.2 Information Strategy

"Information strategy" refers to the political behavior that an enterprise reports to government the condition of itself or the condition of the industry; providing relevant information, to seek government's understanding and support. The main activities include seeking policy or relevant information from government, and reporting to government the conditions of itself and the industry. Western political scientists see the collective practice of the information strategy as the symbol of Chinese entrepreneurs officially getting involved in the public space. In recent years, with China's political environment becoming more open, the practice of information strategy is becoming more institutionalized. The successful lobbying of the "Postal Law" draft, "Property Law" and "Company Law" by private entrepreneurs, as well as the case of software companies convincing central government to reduce VAT, are considered model cases. American political scientist Scott Kennedy recorded Chinese software companies' achievement of reducing the VAT rate on their products in detail:

> *In 1994, China enforced tax sharing system reform. One of the taxes was to collect 17 % VAT from all commodities. At that time, the way to calculate VAT was to use sales income minus cost and then multiply by the 17 % tax rate. This calculation didn't consider the most important cost of software companies – the intelligence cost. Therefore, software companies were paying a tax rate which was much higher than they were supposed to pay. This unreasonable tax rate violated the common interests of the software industry. For this reason, all the middle-sized and above software companies in China filed complaints to the Ministry of Finance, Ministry of Information Industry, Ministry of Science and Technology, and State Administration of Taxation together. They sent out invitations to government agencies for meetings through industrial associations; many entrepreneurs paid visits to government officials on their own behalf, and sent different kinds of applications and reports to relevant government agencies, and lobbied in many ways. The lobbying activities of software companies lasted for several years, and the central government finally responded to this complaint. From June of 1999, the VAT for software companies in Beijing decreased to 6 %; six months later, this rate applied to the whole software industry in the country* (Kennedy 2005a).

This successful case represents the emergence of collective political action in business communities in China. However, most cases of information communication between businesses and governments are carried out privately and by individual firms. On one hand, the government doesn't encourage the formation of collective action on behalf of independent interest groups. Most of the associations of industry and commerce, business associations, industrial associations, and associations of medium- and small-sized enterprises are official or semi-official associations. They do not have enough power in public decision-making. As a result, Chinese business leaders seldom pursue their interests by collective actions (Kennedy 2005b). On the other hand, due to the imperfection of China's legal infrastructure, most public decisions are issued as "business policy" instead of legislation to keep flexibility. "Business policy" mainly reflects governments' varying attitudes in terms of supporting, restricting or guiding business organizations from micro aspects. In many circumstances, certain policies only apply to certain individual enterprises (Wang 2000). Consequently, many business executives make direct contacts with government officials and lobby on an individual base (not collectively call on legislation), which constitutes the core of information communication strategy.

Among the famous private enterprises, Lenovo has been very good at reporting its requirements to government authorities during its development, and in seeking support of the government in order to create a better external environment for the enterprise. In 1994, when nationalist sentiment was very intense, Liu Chuanzhi decided to make full use of this "nationalism" wave, while using his own specialty of pleading, to present petitions for Lenovo.

> *On Sept. 13, 1994, he and all the top executives visited Minister Hu Qili of the Ministry of Electronic Industry. The attendees of the meeting also included two vice ministers and at*

least four officials. Using this precious opportunity, Liu Chuanzhi mainly focused on "the possibilities of retaining national PC brands". He firstly outlined how several big domestic PC manufacturers at the time were forced to give up their own brands and cooperate with foreign companies, which would result in China losing its own brands. Then he talked about how he restructured the company, and reengineered the process of PC manufacturing and sales. His statement made the officials at the meeting realize there was still hope and a chance for Chinese PC brands to survive. At the end, Hu Qili declared his determination to support national PC brands: "never give up, must have our own brands." Then Liu Chuanzhi made some requests. He hoped the government could pay attention to Lenovo, he also hoped the government would formulate government purchasing policies which were preferential to the national industry, specifically to purchase domestically made commodities in circumstances where they were cost competitive (Ling 2005).

Another means of information communication is to directly seek governments' support when facing difficulties. For example, in 2004, Mengniu adopted this strategy when facing an anonymous attack saying that Mengniu had produced poisoned milk. At the end of February of that year, Wuhan received 16 anonymous letters that used claims of "poisoned milk" to threaten Mengniu. Later, Guangdong province and other places also received the same kind of anonymous letters. The authorities immediately sent out notifications to stop selling all Mengniu products. Mengniu was facing a crisis of survival. In that situation, Mengniu had no other choice but to write to the Premier Wen Jiabao. The letter was sent on March 30. On April 1, Premier Wen's response appeared on the "Yesterday's important affairs" summary of the State Council: "This issue needs to be taken care of carefully, in order to protect the interests of the enterprise and the interests of consumers, and to maintain social security and stability." Zhou Yongkang, Minister for the Ministry of Public Security at the time, subsequently ordered that public security departments needed to solve this case as soon as possible. Ten days later, all the suspects were captured, which closed the Mengniu "poisoned milk" case (Zhang 2006).

3.2.3 The Strategy of Political Connection

"Political Connection" refers to the strategy of an enterprise associating its business activities with government officials' needs and preferences, increasing the relatedness and dependence of government on enterprise in order to advance the enterprise's interests. Compared with other forms of political strategies, the strategy of political connection more directly suits the development orientations and needs of government. It also satisfies the need of political achievement of government officials. Based on our research, the most common practice of political connection is aligning business activities with the objectives of government. Governments at various levels with typical development-oriented characters all have the main objective of promoting local economic development. If business organizations can use their own capacities to help governments, to carry out business activities in the areas recommended by government officials, good relations with governments are easier to build up. Almost every successful private enterprise has had some experience of this during their growth. Himin Solar Corporation set up its political connection with the Dezhou municipal government of Shandong Province by integrating the enterprise's strategy with the city's development strategy.

> *Along with the rapid growth of Himin Solar Corporation, he (Himin president Huang Ming) started to make efforts to present to the local officials the development direction of the solar industry, and the bright future of Himin. When the Dezhou government saw the thriving development of the solar industry, and started to hope it would become the pillar industry of the region, higher level government-enterprise cooperation was planned.*
>
> *In early 2005, the party secretary and the mayor convened several meetings with Himin Company to discuss the development plan. After rounds of discussion, Himin Corporation came up with a whole series of plans for building a China solar city – the corporation and the government developing a city brand jointly. At the end of August, the CPC Dezhou municipal committee launched the strategic deployment for building the China solar city. Starting from the end of 2005, Himin suggested the Dezhou government bid for the sponsorship of the 4th International Solar Cities Initiative World Congress in 2010...this could combine corporate marketing, strategic planning and city development together ... to achieve the goal of common existence and prosperity of both the corporation and the city. Now, this has become a major task for both Shandong provincial government and Dezhou municipal government* (Wang 2006).

Geely is another case of exploiting the political connection strategy. Despite failing to obtain a permit to produce cars, Geely still enjoyed the protection of Zhejiang provincial government because Geely fulfilled the wish of Zhejiang government of having an automobile manufacturer in the province. When Geely's first car came off the production line, Li Shufu (Geely Chairman and president) prepared a large banquet to celebrate; however, he found that none of the VIPs he had invited was coming. That was when Li Shufu thought of Ye Rongbao, the vice governor of Zhejiang Province. Wan Runlong, the chief correspondent of Wenhui Newspaper in Zhejiang recorded what happened then:

> *Li Shufu thought of Ye Rongbao, who was the vice governor of Zhejiang province at the time. So he tried to send a fax to this female vice governor, whom he had never met or talked with, to invite her to the ceremony of celebrating Geely's first car. Less than one hour after the fax was sent, Ye Rongbao called Li Shufu back, saying that she would attend the ceremony. Since a vice governor was attending the ceremony, of course the leaders from the cities and counties would also want to come. The ceremony was a great success.*
>
> *When they met, the vice governor asked Li Shufu: "What made you think of sending me a fax?" Li Shufu said: "Because I heard from a friend that you once organized a group of managers of car parts factories to visit outside the province, hoping to get more business for those factories, but got nothing. On your way back, you swore that you wish that Zhejiang has its own automobile factory." What Geely did, just fulfilled vice governor Ye's wish.*
>
> *From then on, Ye Rongbao went out her way to work on getting Geely a legitimate status, and became Geely's protector and supporter* (Zheng 2007).

In the history of the development of Wahaha Group, the merger of Hangzhou Can Factory set up a good foundation for its relationship with the government. After a preliminary successful period, Wahaha urgently needed to expand its production scale, thus, it needed more land. But its requests didn't get timely responses from authorities. On Aug. 14, 1991, Party Secretary Shen Zheshou and other officials of the Hangzhou government visited Wahaha. After learning of Wahaha's difficulties, Shen Zheshou thought of letting Wahaha merge with the state-owned Hangzhou Can Factory, which was struggling financially. In this way, the can factory could provide its spare space to Wahaha, which could solve Wahaha's problems of lacking of space, and the can factory would be rescued. It would be a win-win solution. This idea received the strong support of Hangzhou government leaders. Wahaha accepted the proposal after consideration, and was quickly able to turn around the can factory's debt situation. Through this merger, Wahaha won the favour of Hangzhou government. When Wahaha was planning on expanding its business to Jiangsu market but encountered an investigation from the food and health supervision department of Nanjing, the Hangzhou government sent a negotiation team led by a vice mayor to Nanjing to negotiate. Two city governments sat together to negotiate the selling of one product, which fully reflected Wahaha's good relationship with the Hangzhou government.

During its development, Mengniu made great efforts to satisfy governments' needs and seek governments' support. When it first moved into the Shengle business zone in Horinger County, Mengniu very smartly hoisted the flag of developing local economy, which was well received by the local government. When CCTV publicized and criticized Mengniu for destroying forests to its build factories, the county magistrate, Lv Huisheng, stood up for Mengniu. Lv said Mengniu had come into the business zone and built factories at the invitation of the county: "If you really need to punish someone, punish me". Later, Mengniu used a similar approach in Inner Mongolia. It used the slogan, "cheering for Inner Mongolia", and actively tried to get the honorary name of "Milk Capital of China" for Hohehaote – the capital city of Inner Mongolia – together with other milk companies. Mengniu won the goodwill and support from the Inner Mongolian Government and the Hohehaote government through these activities. Mengniu put its own company brand under the name of the whole region and the whole industry, skillfully telling the world of its importance to the region and the industry. It also positioned itself as the biggest job-creating machine in the northwest of the country, rather than a money-making machine. All these initiatives have created enough reasons and legitimacy for Mengniu to win the support of governments (Zhang 2006).

The second approach of developing political connection is to hire government officials and set up connections. Hiring officials who are retired or hiring current officials to work as consultants in enterprises is an effective way to build political connections to serve business interests. Jianjun Zhang and Zhi-Xue Zhang recorded how a well-known enterprise in Wenzhou set up its connections with relevant authorities by hiring the retired former chief of the city finance bureau to work as its CFO. This person had been the chief of the city finance bureau for three terms and the current officials in city finance bureau and tax bureau were all his previous subordinates. Another person who used to work in the city's People's Congress now works as the chief of general office in this company. He explained the reasons business companies hired people like him were "to use the 'four remainings' of us: remaining capacity, remaining power, remaining authority, remaining networks.

Besides our experience, our connections in the governments are good assets for them." (Zhang and Zhang 2005: 98)

Among the private enterprises we are focusing on, the former CEO of Geely Group, Xu Gang, used to be the chief accountant in Zhejiang's local tax bureau; he was one of the most promising director-general level officials in Zhejiang Province. In 2004, Li Shufu made an offer to the previous vice mayor of Wenzhou city, Wu Minyi, who had entered the business field, asking him to be in charge of Geely's business in Beijing. Similarly, many people in the founding team of UFIDA had backgrounds of working in governments, and these backgrounds certainly contributed to the early development of UFIDA. Wang Wenjing and Su Qiqiang used to work in the Government Offices Administration of the State Council. They learned accounting computerization quite early, and had relevant experience; meanwhile they were familiar with the needs of governments, which helped them win many customers for UFIDA. One of the most important issues at that time, and the biggest uncontrollable factor in the whole industry, was obtaining a national license from the government. UFIDA smoothly passed the examination of the Ministry of Finance and obtained a national license. This success was mostly due to the backgrounds of the two company founders, Wu Tie and Guo Xinping, who used to work in the Ministry of Finance.

The third approach of political connection is inviting government officials to visit or provide endorsement. Concrete ways include inviting officials to be present at important occasions, inviting government officials to visit the company, etc. TCL's success in acquiring THOMSON of France by using the opportunities presented by the China-France Culture Year and President Hu Jintao's visiting France was a very good example of this approach. TCL realized that the China-France Culture Year wasn't only about culture communication, it was also about economic cooperation. So, when Li Dongsheng – the founder and CEO of TCL – heard about the culture year and President Hu's planned visit, he immediately asked his PR department to contact relevant business associations and, through introductions to certain people, organize for his proposal to buy THOMSON to be delivered to Zhongnanhai, the center of China's political leadership in Beijing. Normally, when the president of the country visits overseas, a number of business cooperation agreements go along with him. Li Dongsheng wanted his proposal to be one of them, and he was determined to add some political honor to this merger by leveraging the China-France culture exchange and the visit of President Hu. On Jan. 28, 2004, Li Dongsheng and the CEO of THOMSON of France signed the cooperation agreement establishing the TCL-THOMSON Electronic Co., Ltd in the Prime Minister's Palace of France, with President Hu and the president of France attending the ceremony. This deal has become a typical model for Chinese enterprises to "go out". Using this opportunity, TCL achieved some very influential publicity, and also brought itself to the notice of the country's leaders.

Skillfully performing corporate social responsibility is another route to setting up a political connection. Ways to carry out social responsibilities include: establishing a charity fund; supporting education, sports, healthcare, poverty reduction and environmentally friendly projects; actively participating in disaster relief;

and donating for social welfare etc. Private enterprises performing social responsibility, to some extent, mainly aim at showing goodwill to society and governments. Especially since the objective of a “harmonized society” was adopted as the official objective; participating in charity programs became an essential tool for enterprises seeking to gain the recognition of governments. Shao Jie commented on the political behavior of Zhejiang Green Town Group as follows:

> *Even though supporting the football industry is a money-consuming job, Green Town Group is still walking down this road with no doubts... the slogan of Green Town is: Change the current desert-like situation of Zhejiang football. This is a slogan with a very strong social charitable color. Behind this slogan, there is another hidden purpose: Governments should reward enterprises who make distinguished contributions to social charity. For the real estate industry, the government's reward normally is deducting or exempting the land fee of real estate enterprises ... this kind of deduction and exemption doesn't really have very clear regulations to follow, normally being issued as governmental administrative orders or rules, so there is a lot of room for flexibility...* (Shao 2002)

Mengniu Group also often plays the charity game to strengthen its relationship with governments. In 2003, during the SARS epidemic, Mengniu made the first contribution when other enterprises hadn't even responded, which won the company a good reputation. In April 2006, when Premier Wen Jiabao was visiting Chongqing, he said: “I have a wish: let every Chinese person have one cup of milk every day.” Soon after the premier's wish became known, Mengniu carried out a marketing campaign under the slogan of “one kilo of milk per day, makes the Chinese people strong”. It donated 1 year's volume of fresh milk to some rural areas in poverty in cooperation with government agencies, research institutions, industrial associations, media and many other organizations in China.

For 10 years, Wahaha has been making a range of contributions: supporting education in Hangzhou city, providing assistance to immigrants from the Three Gorges reservoir area, undertaking a merger that brought relief to three debt-ridden enterprises in Fuling city, setting up branch companies in Yichang city in Hubei Province in the Three Gorges area, Hongan city in Hubei Province – a national poverty zone area, Guangyuan in Sichuan Province, Jiangyu in Jilin Province and other places, and building HOPE elementary schools all over China. These are all examples of Wahaha making political connections through charity activities.

3.2.4 The Strategy of “Red Hat”

“Red Hat” refers to private enterprises cooperating with state-owned departments (government or state-owned enterprises) in terms of ownership, through co-investment or by paying an administration fee to attach to state entities and thus setting up a relation of common interest, in order to increase their institutional legitimacy and to gain support from governments in terms of taxation, financing, access admittance etc. During China's marketization reform, the concrete actual methods of the “Red Hat” strategy have evolved changed a lot. From the 1980s to the early 1990s, the red hat strategy mainly presented as thus: due to the lack of protection of private property rights, private entrepreneurs had to register their enterprises as state-owned or collective-owned, or give part of the property rights or profits to local government. In this way, they were able to hide their real ownership identities, so as to cope with the political or ideological risks which private property rights might have, and to gain the legitimacy. In September 1997, the CCP 15th National Congress declared the non-public economy was an important part of China's socialist market economy. This indicated that private property rights were being recognized officially by the central government. This change of policy caused a big wave of "taking off the Red Hat" by private entrepreneurs and individual business people all over China. All kinds of "Red Hat" enterprises which were affiliated to various levels of government agencies (including township and village governments) or state-owned enterprises were able to resume their real ownership identity. A few years later, with the deepening of privatization, "Red Hat" strategy characterized as vague ownership almost disappeared.

However, the "Red Hat" strategy did not die out. On the contrary, under the institutional conditions in which huge differences still exist between state sectors and private sectors in terms of political status and access to resources, the strategy of "Red Cap" evolved into new forms. In many industries that private businesses are less legitimate, especially in those state monopolized industries, private business chose to cooperate or co-invest with state-owned properties, and formed the so called "mixed ownership". This allowed private business to keep their flexibility, while enjoying the protection of government, and the advantages of having a state background.

The experience of Far East Group in putting on and taking off the "Red Hat" twice is an excellent example of the evolvement of this strategy. In 1991, the fast-growing Far East Group encountered the difficulty of having insufficient operating capital, while their products were in short supply. Constrained by the policy at that time, its identity as a private enterprise meant it could not apply for loans from state banks. With the company's long-term development in mind, the founder of the enterprise, Mr. Jiang Xi-Pei, decided to hand over his company worthing seven million Yuan to the town government. In January 1992, Far East Group changed from being privately owned to a township government-run enterprise, thereby becoming eligible for preferential policies on bank loans, entitlements for employees, taxation etc. Two years later, Far East Group had developed extremely fast, and its net capital had increased ten times what it was before it "put on the cap".

While its performance was rapidly and soundly improving, the deep contradiction of collective property rights came along. Inside the enterprise, the powers and responsibilities were mixed, incentives were misaligned, and the performance of the enterprise was declining. In order to solve the problems brought by unclear property rights, Far East Group made its second change amid a wave of large-scale privatization of collective enterprises in south Jiangsu. In 1995, Far East Group took the lead in becoming a shareholding cooperative enterprise, in which the employees invested and became shareholders.

However, twists and turns occurred after Far East Group took off the “Red Hat”. In 1996, there was fierce competition in the power cable industry and profits across the entire industry were largely declining. Meanwhile, the industry of the power grid construction, where profits were high, was monopolized by the state. This blue sea was not open to private enterprises. In order to gain market access, Jiang Xi-Pei decided to adopt the “Red Hat” strategy again. In April 1997, Far East Group invited four state-owned shareholders, and established the Jiangsu New Far East Power Cable Co., Ltd. The mixed ownership – the new “Red Hat” – meant Jiang Xi-Pei again lost his controlling ownership, but it won him an advantage in the more profitable market. From then on, Far East Group changed from being a challenger wandering around the edge of the industry to the industry’s core. Far East Group wore its second “Red Hat” for 5 years; taking it off in 2002 when the environment for private enterprises in the electronic power industry improved.

The “Red Hat” journey of Fast East Group is definitely not the single example. Among the famous enterprises we are studying, Lenovo and Vantone both can be considered practitioners of the “Red Hat” strategy. Throughout Lenovo’s maturing and development, its biggest state-owned shareholder – “the open-minded mother-in-law” Chinese Academy of Computer Science – has served as a big umbrella providing protection for the company. According to Ling Zhijun’s book, “Lenovo Storm”, when the company faced the “original sin” doubts from the public in the early days, when it went public in the Hong Kong stock market in 1994, and when its “employee shareholding” plan was implemented in 1997, at every key historical moment of the company, the Chinese Academy of Science provided strong support to it.

Mr. Feng Lun, the president of Vantone Group, uses “finding a sugar daddy” as a metaphor to describe how Vantone sought cooperation with large–scale, state-owned enterprise – Tianjin TEDA Group. In Feng Lun’s eyes, under China’s current institutional environment, private business has always been the supplement and attachment to state property. Therefore, wearing the “Red Hat” became Vantone’s means of self-protection: “cooperate or co-invest with state property, use our professional skills and strict management to preserve and increase the value of state property, meanwhile get the recognition of society and create a safe development environment.”

Besides the tactics of “being affiliated with a state-owned enterprise” in early times and “inviting state-owned capital to become a shareholder” in recent years, in practice, there is another unofficial way of practicing the “Red Hat” strategy. Under this strategy, private enterprises carry out activities by using the name of state-owned enterprises on some special occasions. Z Group provides us with a case: in 2004, Z Group intended to buy a state-owned industrial company in W Province. At that time, erosion of state property was a hot issue, so the local government kept ambiguous attitude for fear of political risk. Z Group used a method whereby it paid an administration fee to L Group, a large state-owned enterprise, and let L Group buy the targeted industrial company. In the next 8 months, L Group gradually transmitted its shares to a branch company of Z Group. By using L Group’s “Red Hat”, Z Group decreased the political risk of acquiring a state owned company under the particular institutional conditions of the time.

3.2.5 The Strategy of Material Incentive

"Material incentive" refers to the behavior of directly or indirectly providing governments (or government officials) with financial support or other supports. In Western countries, material incentives mainly present as political contributions, which are legal political activities under regulation. But in the current institutional environment in China, the strategy of material incentives is frequently in the grey area between legal and illegal. Material incentive not only include some officially allowed activities, for example, participating in or supporting activities organized by governments financially, or providing labor and services to governments, or giving souvenirs to government officials. There are also behaviors which are at the edge of regulation, for example, financing a government official's travel (particularly their travel overseas), giving gifts to officials on holidays, providing jobs for their children, providing personal services, etc. There are even some practices which are cross the legal line, for example, providing bonuses to officials, promising power options, giving commissions or even bribes (Tian and Gao 2006).

In General, the practices of this strategy used by some famous private enterprises are more formal and standardized. They pay attention to avoid risks, and operate it very skillfully. For example, when UFIDA was promoting its ERP software, it committed a big amount of human resources and financial resources to organize ERP training programs in cooperation with local governments all over China, and sponsored the "Informatization of China's enterprises 10000-miles tour" and similar seminars for other industries for the purposes of increasing the skills of customers. They invited government officials to attend all those programs and seminars. Sohu adopted the method of providing services to governments instead of direct material incentive. For example, it took over the construction of Beijing city's portal website, Beijing.cn, and provided equipment and services to the Beijing Government.

Apart from legitimate financial and labor supports, we have to say that practices of material incentive going beyond the law are prevalent in reality. Tian Zhilong and Gao Haitao (2006) described the details of how entrepreneurs give gifts to government officials like this: "B mentioned, it is a quite common thing to give gifts to government officials, the types of gifts are various. In the early times, gifts were mainly local special products; in recent years, the types are getting more and more diverse, paintings, stamps, antiques, and other arty stuff are getting popular…E mentioned, it is an essential task to go to visit some leaders or key persons and give some gifts."

Jianjun Zhang and Zhixue Zhang (2005) outlined business-government coopted practices ranging from power shares, discounted shares, to co-founded companies, among others. The general phenomenon is that entrepreneurs give shares to government officials or run businesses together with government officials to tie both sides' interests together in order to get the support and protection of government officials. Detailed practices include: entrepreneurs give government officials shares without asking for real inputs (power share); government officials contribute very little inputs but get larger proportion of enterprises' shares (discounted share); entrepreneurs and government officials found and run business together; and division of labor between family members (some family members work in government, while others run business). These behaviors set up a long-term relationship between businesses and government officials. Such relationships go beyond unidirectional dependence and become symbiotic, which transform government officials into advocates or protective umbrellas for enterprises…

Further, during our interviews, an interviewee told us what she knew about a long-term political patronage relationship between a founder of a small size real estate company and a government official:

> *President Zhou and Mayor Wang knew each other long before… President Zhou graduated from college in 1978, and was assigned to a big state-owned enterprise. His professional skill was very good, and he was good at writing. He was famous for his talents in the industry. At that time, Mayor Wang was the vice magistrate in a county. One year at the tree planting Day, the city government organized people to plant trees in an area. President Zhou also went with his leaders. That was when President Zhou and Mayor Wang met… After Mayor Wang was transferred to the city government, he appointed Zhou as the secretary of the city government, later sending him to work in customs for several years. In 1994, the real estate business was still quiet. President Zhou resigned from his post and started a real estate business… During these years, he had been following the mayor around. Mayor Wang transferred to T city, he developed his real estate business in T city; Mayor Wang transferred to R city, he followed to R city. Mayor Wang was very good to Zhou; he gave Zhou many preferential policies on loans. Zhou was also very smart. In the mid-1990s, every time he visited the mayor's home, he would bring fur clothes, watches of famous brands, which were difficult to buy in the country at the time. He even personally sent the two children of Mayor Wang's to colleges… these kinds of relationships are not built overnight. President Zhou made a big fortune during these years, but he never tells, he is very careful, never makes trouble for Mayor Wang…* (Interview notes, Dec.3' 2007)

All these cases paint a full picture of China's private businesses' political activities. After 30 years of Reform and Opening-up, Chinese private entrepreneurs are no longer the group of people who live on the edges, but become the new social forces dancing on China's economic and political platform. The double-edged characteristics of government is what caused the "double faces" of private enterprises in their political activities. On the one hand, under the strong development orientation of governments, private entrepreneurs actively pursue the preferential policies available from government: they lobby politicians, keep constant communication; they get involved in politics themselves, create their own voice; they satisfy the government's needs; they "faithfully" e, perform the responsibility and duty of being the "beneficial supplement of the public sector". On the other hand, in corresponding to rent-seeking government, private entrepreneurs are unlikely to resist the temptation of seeking political rent at low cost: they give gifts, bribes to corrupt officials, make full use of all kinds of possible means; they struggle between the political traps and the legal line, but cannot help themselves; they become the servant of rent-seeking officials, and risk their whole life's efforts to the guillotine of political struggle.

Then, what kinds of intentions and objectives do private entrepreneurs have to implement these political activities? Through enforcing political strategies, what do private entrepreneurs expect? In the next section, we will discuss the objectives of corporate political activities.

3.3 The Purpose of Corporate Political Strategy

> *Always have to drink with this director, that chief, of course I'm so fed up! Last night, I had to play poker with them until 2 am, I even canceled the meeting of my own company... but you have to admit, there are huge amounts of resources in these officials' hands! If they draw a line with their pens (means the proportion of land for sale), make some deduction here, or give some discounts there, let's say, how many years does a salaryman have to work to earn this? We develop industry for governments, or arrange jobs for employees of state-owned enterprises, all for one purpose: to get privileges on land policy......once the land is out for sale, normally it is 1.5 million per mu (a unit of area). But if your project can be listed as the city's key project or your enterprise designed as the key enterprise, the price would be 0.6 million, plus all kinds of deductions and exemptions. You tell me, how can I not be friends with governments? ......* (Interview notes, Oct. 9, 2008)

That was the response of a young manager of a real estate company to our inquiry about the purpose of corporate political activities during an interview on Oct. 9, 2008. A few sentences vividly revealed the temptation and frustration of business people in business-government relations. Political activities with Chinese characteristics are the product of the institutional environment with Chinese characteristics. As we mentioned previously, "double faced" governments caused the double faces of business political behaviors, and behind the "double faced" political behaviors of enterprises, there are also the double expectations of private entrepreneurs.

On one hand, in order to decrease institutional risks associated with private ownership, and to defend themselves from governments or other external stakeholders, Chinese private entrepreneurs are seeking legitimacy on the legal level through political connection, political participation, "Red Hat" and other political activities. Private entrepreneurs carry out duties, perform social responsibilities, use their own expertise and organizational capacity to add value for state property and so on. All these behaviors not only tighten the tie between governments and enterprises, but are also helpful in strengthening the social and political recognition of private enterprises from the perspective of the public and dominant political ideology.

In the process of transforming from a planned economy to a market economy, the dominance of the public ownership means that "Red Hat" is still the first choice for private enterprises to deal with the risk of legitimacy. According to partial statistics, before 1992, among 240,000 collectively owned enterprises in Wenzhou, Zhejiang province, 110,000 of them were "Red Hat" enterprises (i.e., private businesses registered as collectively owned). Under the current situations of weak market institutions and insufficient protection of property rights, private enterprises use the practice of giving up part of their residual claims or submitting administration fees in exchange for resources and protection. Even with deepening of China's marketization, in some industries (particularly those on state monopolized industries) where private business has low legitimacy, the “Red Cap” strategy is still a good option for private enterprises to improve their legitimacy. The case of Ningbo Jianlong Steel Company, which recovered from the jaws of death under the state’s macroeconomic control in June 2004 by cooperating with the state-owned Hangzhou Iron & Steel Group, illustrating the intentions of private enterprises behind the strategy of “Red Hat”.

Besides the “Red Hat” strategy, political participation and political connection are also common ways used by private enterprises to increase their institutional legitimacy. Research into Chinese private enterprises participating in politics undertaken by Professor Li Hongbin and his colleagues shows that joining the People’s Congress, Political Consultative Conferences or other official institutions can help private business leaders increase the recognition of their enterprises by the government, thereby defending themselves from external threats and institutional risks (Li, Meng, and Zhang 2006). During our interviews, we even found that, in some industries where private enterprises can hardly gain access or are easily involved in public controversy (e.g. real estate, banking, energy, telecommunications etc.), private entrepreneurs are using investment in other areas of businesses like industry, agriculture, culture and sports or other “government-pleasing” areas to ease the lack of legitimacy of their main business, thereby increasing the overall legitimacy of their enterprises. An interviewee from a real estate business explained his intention of investing in ecological farming as follows:

> *If only talking about money, doing business in agriculture is definitely not profitable. Even Liu Yonghao (CEO of New Hope Group) said that the profit from the agriculture business in 10 years couldn’t compare with the profit from real estate in one year! Everybody knows about this......but engaging in agriculture is following the call of the government. Government officials love and hate real estate, but to agriculture, the whole country will give you applauds! Since you want to do something for governments, it’s better to do something governments would be happy to hear and see, try not to do things against the trend of policy...* (Interview notes, July 26, 2008)

Similarly, an interviewee from another real estate company frankly told us that their company’s investment in basic manufacturing had two political purposes: one was to respond to the call of the municipal government for “developing manufacturing industry to boost the city”, so it was used to trade for favorable policies in real estate; the second was to remedy the low legitimacy of its major business (real estate), “we have the industrial zone there, which helps to demonstrate that we are not just profiteering real estate developers”:

> *Developing an industrial park is really a costly business...but if we don’t do something in industry, we would not stand this firmly in F city, we would not have a good image in front of the government and the banks... Everybody thinks real estate is easy to do. Actually, doing real estate is full of suffering! After every round of macroeconomic control, governments and banks all avoided us like we were ghosts! Now we have built an industrial zone, things are much better. You may know, household appliance manufacturing is the foundation of F city... Just recently, our industrial zone was exposed in CCTV II’s “Economics half hour”. That really made the government officials of our city feel honored, they are happy now, so the banks are also much nicer to us. We just used the name of the industrial*

zone to get an 80 million Yuan midterm loan. Otherwise, at this moment (referring to global financial crisis), which private real estate company can easily get loans from the Industrial and Commercial Bank of China? Now we even have two packs of business cards, one for real estate, one for industry. We choose which occasions to give which business cards… (Interview notes, Oct. 13 2008)

Seeking legitimacy is only one of the goals of political behaviors. More cases show that, in front of various government controlled resources and accesses , such as development priority, monopoly, market access and other kinds of favorable policies, private enterprises cannot resist the temptation of seeking political rent. "Political rent" refers to private enterprises using political power to gain abnormal financial returns. Entrepreneurs get "political rent" from government officials mainly through the following three methods: ① gaining access to a monopolized market, where they can sell commodities at a higher price, so the "rent" is the increase in its profit margin; ② buying resources at a price which is lower than the market price then selling dear on market, gaining an economic surplus from the price difference; ③ getting a direct subsidy from government, e.g. tax deduction, import and export tax exemption, financial allocation etc. (Ngo 2008)

During China's market transition, because transaction cost is high due to ineffective legal and market systems, and because governments at various levels still control critical resources and accesses, political rent is everywhere. Consequently, Chinese private entrepreneurs are employing various political strategies to obtain competitive advantage from government officials, as well as monopoly rights for certain businesses or regions, trade quotas, price controls, industry access, production licenses, favorable loans and land supply, deductions and exemption from taxes or other charges, direct financial allocation, resource mobilization, local protection and other kinds of "political rent". Since the Chinese governments are characterized by both developmental and rent-seeking, the kinds of political rents we mentioned above include the rent "unconsciously" set by governments with development orientation to remedy market failure and intervene in business activities, and also include the rent created "on purpose" by local governments to enforce local protectionism, safeguard the vested interests of state property, or even for personal benefit.

Let's consider the role of governments as developmental states or even entrepreneurial states. The formal institution gives local officials the power to plan and allocate political rents to boost local economic development; therefore, to private business owners, the exchange of political rent with government officials is accepted and even encouraged by the current system. Ngo (2008) recorded in detail the process of Zhejiang Geely Group obtaining political rent from Zhejiang Taizhou city government. The rent included "monopoly rent" and "economic surplus", which included tax deductions, government rewards and other direct government subsidies:

If we convert the favorable policies of Geely Group obtained from Taizhou city government to market value, the number is amazing. For example, in 2002, Luqiao district government provided 3000 mu of land to Geely for its coach production. Even though this 3000 mu was open to public bidding, the bidding guideline was clearly made for Geely, other enterprises *could not meet those standards... From this 3000 mu of land alone, Geely gained an economic surplus of 380 million Yuan. This is only a conservative calculation... Not long after, the price of land rapidly increased, and the fixed assets of Geely increased by 750 million Yuan.*

In addition, Geely also obtained different kinds of administrative privileges and a large amount of fee exemptions. According to estimates, governments at all levels in Taizhou city provided tax exemptions and deductions for Geely: almost 80 million per year. In 2005, the city government gave Geely 600,000 Yuan cash as a reward for Geely's six new types of cars coming off the production line... The local government also bought 10,000 cars from Geely through government purchasing or other ways. All these actions were carried out in the name of supporting local industry... Without the support of local government, we doubt if Geely could have the capacity to compete with other state-owned monopoly automobile enterprises in the car industry... (Ngo 2008)

Ngo argues that the huge amount of political rent which Geely Group obtained from Taizhou government is absolutely not rare... In fact, this has become a common way of regional governance. Many private enterprises use the political rent they obtained from governments for competitive advantage with other companies in the same industry... The examples we listed above are only the political rents at the official institutional level which were set in the name of industrial development. There are still many kinds of privileges that private entrepreneurs got from government officials from time to time that are not included yet.

Therefore, we argue that there are double motivations driving Chinese style corporate political activities. There is the pursuit of institutional legitimacy, and also the seeking of political rent. The enthusiasm for political activities by private entrepreneurs is grounded in both defensively avoiding harm and offensively seeking benefits. It is precisely the co-existence of motivations for "legitimacy" and "political rent", which look contradictory but are actually harmonious, causes complex, diverse, twisted and dishonored political activities of China's private business.

3.4 The Evolution of Business-Government Relations

On March 14, 1993, the first session of the Eighth National Political Consultative Conference opened. The president of Sichuan New Hope Group, Mr. Liu Yonghao, walked into the Great Hall of the People... In this political consultative conference, there were also another 22 members who were from private business circles, including Zhang Hongwei, who walked in together with Liu Yonghao. They were all holding cell phones, and they were the representatives of the flourishing private business sector, which attracted the attention of most Chinese and foreign journalists. They were only 1 % of the total 2093 members; however, they signaled an important change which means that private entrepreneurs have entered China's politics (Wu 2008).

In the 30 years of China's Reform and Opening-up, new systems and old institutions often intermingled together. From the moment private entrepreneurs returned to the political arena, China's business-government relations have evolved. Private ownership is no longer a taboo in China, the rights for individuals to pursue their own interests and the differentiated life values have become public topics. Political behaviors are more and more up to private entrepreneurs' individual choices, instead of being solely influenced by the external institutional environment. With the co-evolution of private enterprises and their institutional environment, the political behaviors of enterprises and business-government relations also evolved.

First of all, with the change of the composition of the national economy in terms of ownership types, the importance of private sector in China's economy is more obvious. Along with the rise of their economic status, private entrepreneurs are gradually becoming an independent social class. They are no longer just a vague symbol living in the cracks between a planned economy and a market economy. As aforementioned, we can see how political participation and information communication as new types of political strategies are becoming popular. Chinese business elites are therefore engaging conversations with political elites with more and more independent interests and views. Western political scientists have described private entrepreneurs as "the new strategic force of China": the rapid rise of this social group not only represents the emergence of a new interest group; more importantly, their voices and behaviors have instilled new values and cultural icons to traditional Chinese society (Heberer 2003).

Indeed, the rise of private business indicates that Chinese business-government relations are transforming from corporatism to pluralism. But the growing path of the Chinese entrepreneurial class is strikingly different from what is described in mainstream political theory. During China's institutional transition, the growth of private entrepreneurs did not necessarily create interest and cultural conflicts between businesses and governments like what some Western scholars expect; on the contrary, business elites who grew up in China almost unexceptionally cultivate their close ties with governments and government officials with a cooperative attitude. Some Chinese entrepreneurs feel grateful for the government that implemented economic reform and carved space for them. They not only comply with government with a cooperative mode, but also actively participate in various government organized industrial and commercial associations, trade unions and other kinds of semi-official associations, actively building their relationships with government officials (Tsai 2008). Djankov, Qian, and other scholars (2008) conducted a research on a total of 414 entrepreneurs from Beijing, Shanxi, Guangdong and Hubei, and the results suggest: Chinese entrepreneurs hold a much more positive view about the institutional environment compared to other social groups. Compared with other social groups, entrepreneurs are more likely to look at taxation, macroeconomic control, regional government behaviors, corruption and a series of other hot issues from a positive perspective.

Secondly, with their increasing influence in terms of control of resources, business-government relations have evolved from unidirectional dependence of business upon government at the beginning of economic reform to symbiotic relations between the two. From a sociologist Keng Shu's interviews with enterprises in Beiyuan town, Jinan city in Shandong Province, we found that, over time, the scale and scope of networks of entrepreneurs have expanded rapidly in the business world. Suppliers, customers, competitors and other business partners are becoming increasingly important in entrepreneurs' networks, which has decreased the importance of government officials as stakeholders that entrepreneurs used to depend on. Another factor is that the official evaluation and promotion system of CCP has also been reforming: the promotion of officials is more and more subject to their capacity to manage the local economy and their political achievements. Consequently, business-government relationship is no longer a vertical connection, but a horizontal connection forged by their symbiotic resource dependence (Keng 2001).

Western political scientists describe the dependence of government officials on entrepreneurs in the following way. On one hand, to formulate development plans, government officials need to have certain knowledge of the relevant industries. And entrepreneurs are the perfect source to provide the information. On the other hand, business prosperity is crucial to economic growth, employment, tax revenues as well as other aspects. All these indicators are the key part of the government official's performance evaluation. Therefore, government officials would certainly leave some space for entrepreneurs on the negotiation table of public policy decisions (Kennedy 2007).

The prevalence of the strategy of political connection provides evidence that government and enterprises are going into this partner relationship as equals. As we discussed previously, government officials provide favorable policies to private enterprises, and private entrepreneurs contribute to government officials' promotion. The interaction behind this political strategy is very much like the "political market" in the Public Choice Theory: the entrepreneur is the demander of public policy, and the government official is the supplier of public policy; entrepreneurs use all kinds of political "contributions" to "buy" favorable public policies. In the "political market", which constitutes both demand and supply sides, economic actors no longer show up as conformers, but play the role of resource exchangers. Activities of building political connections are everywhere, from which we can see that business government exchange is gradually being accepted by both political and business actors. China's commercial system has already grown out of the traditional patron-client era; the patronage relationship between governments and enterprises is not the key feature of Chinese business-government relations anymore.

Finally, along with the improvement in market development, business political activities are no longer necessary choices for private enterprises to avoid risks, they are becoming discretionary options influenced by entrepreneurs' value orientation and concept of competition. To most private enterprises, the effects of political behaviors to business organizations are more and more like market investment activities; entrepreneurs have more discretion to decide whether and how to participate in political activities. Let's use the strategy of "Red Hat" as an example: if we say, in the early stage of reform, the "Red Hat" strategy was an option in which private enterprises had to trade their ownership for survival, then, since the CCP's 15th National Congress in 1997, which acknowledged the legitimate status of private ownership, "Red Hat" has become a rational choice of private enterprises based on calculation of benefits and costs. Similarly, information communication in early times only happened in emergencies; but, in recent years, enterprises have started to take the initiative to communicate with governments. In software and other new industries, strong industrial associations are having a big influence. This means enterprises' political behaviors have become a strategy for private enterprises to cope with the institutional environment, and are no longer a compromise to the pressure of the institutions. Government agencies are no longer the only supplier in China's institutional environment; the participation in institutional innovation by entrepreneurs has become one of the features of China's business-government relations. Private enterprises are using various political behaviors to interact with the stakeholders of the system, through which the co-evolution of business organizations and the institutional environment are being pushed forward.

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Chapter 4
The Growth Path of Entrepreneurs

Zhi-Xue Zhang

When talking about Lenovo, people normally think of Liu Chuanzhi. Lenovo's development could not have been achieved without Liu Chuanzhi's acute judgment in dealing with various situations, excellent social skills and farsighted views.

In 1984, Lenovo started its business journey in a small flat. Liu Chuanzhi likes to use incubation as a metaphor to describe the development of Lenovo. It was a tough incubation in an environment of unsuitable temperature; but the company also grew strong and resilient in trying to survive in this environment. Liu Chuanzhi successfully negotiated all the 'business risks' and 'policy risks', and overcame many thrilling challenges.

While walking on the ice, Liu Chuanzhi didn't forget to seize the opportunities and he made Lenovo a stunningly brilliant performer on China's business stage. During the middle 1990s, he spent nearly 7 years accomplishing the conversion of the property rights of Lenovo, a state-owned enterprise. He supported Lenovo's strategy of raising the "big flag of China's own brand", which successfully won over the government's support and favorable policies, and took Lenovo's computers to top of the business in China's market.

Besides adapting to and coordinating patiently with the macro environment, Liu Chuanzhi also led Lenovo to practice "internal strength", which was to promote the standardization and institutionalization of management. Lenovo completed its first batch of rules and regulations in 1990. Thousands of clauses were written based on the "big boat structure". It put the company on an institutionalized track from the aspects of politics, economics, organizational structure, legal issues and systems etc. Meanwhile, through many means, Liu Chuanzhi highlighted 'unification' in

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Lenovo's culture. Through a "human mold" plan, he had employees deeply absorb the enterprise's management mode.

During the 20 years Lenovo has developed, Liu Chuanzhi deems the hardest part is when new employees replace old employees, especially the fostering of successors. He launched a "new talents strategy". He first had Guo Wei take over some of the tough business areas, and then appointed Yang Yuanqing to take over the PC department. The great performance of Yang Yuanqing became the turning point for Lenovo PC and China's PC industry. Liu Chuanzhi then made up his mind that Yang Yuanqing would be his successor. However, he discovered that, as a young person, Yang Yuanqing always took things too seriously and lacked flexibility. So he taught Yang Yuanqing a lesson on how to 'compromise', and finally groomed him to become the perfect successor.

Lenovo frequently made big moves as it stepped into the twenty-first century. From "Legend" to "Lenovo", becoming the biggest sponsor of the Olympics, and buying IBM's PC business – like a snake swallowing an elephant – a "new Lenovo" was striding forward into "international enterprises". After Lenovo purchased IBM PC, Liu Chuanzhi resigned as the group's chairman of the board. In 2009, however, with Lenovo's business under serious pressure from the global economic crisis, Liu Chuanzhi, who was already 65 years old, returned to this post. He spent several months reorganizing the global structure, worked tirelessly to retrieve the losses, and made significant improvement.

When looking back on his career, Liu Chuanzhi said: "When I first wanted to establish Lenovo, the main reason was to represent the value of my life. But now the goal I'm working on is to make Lenovo a great company. What is a great company? The first thing is to last long. Companies that die in a year are not good companies, no matter how good they used to be. The second thing is to be large-scale. It has to be significantly influential. Thirdly, it contributes to social and the country's development progress in terms of science, enterprise management, and even culture. Another desire is to let young people do this. They are shareholders themselves. They are also managers and operators."

From 1953 to 1978, the average annual growth of China's GDP was 6.1 %. However, in the 30 years since China's reform and opening-up in 1978, the annual GDP growth was 9.8 %. When China started to transform from a planned economy to a market economy, many people started to build up enterprises. They drove the enterprises to continually develop, and accordingly pushed forward the fast development of China's economy.

The entrepreneurs we are talking about in this chapter refer to those top leaders of enterprises who set running the enterprises as their missions and goals. They acutely perceived the opportunities in the market, mobilized existing resources, built up enterprises and working teams, and obtained profits from providing products or services. Since the market of professional managers in China is still not very mature, and the trusteeship for enterprises still needs to be improved, these people may also play the role of top managers in enterprises. In this chapter, entrepreneurs and top leaders of enterprises are considered the same.

Compared with Western entrepreneurs, Chinese entrepreneurs have a few unique features. Firstly, most of China's entrepreneurs have started their businesses since the 1980s. They were the founders of the enterprises. They also played the roles of leaders and managers or other roles. For many of the West's entrepreneurs, when they took over their enterprises, even though they also played the role of leaders when encountering change, they were more like senior professional managers. Secondly, Chinese entrepreneurs experienced a dramatic change in the social environment. There were many grey areas in the country when transforming from a planned economy to a market economy and these contained rich opportunities but also had many hidden risks. Leading enterprises out of the chaos needed experience, capacity, and most importantly, political wisdom. In contrast, most of the challenges faced by Western enterprise leaders stemmed from competition in the market. Comparatively, policy and systems didn't bring them much trouble. Finally, after China's market economy was established, Chinese entrepreneurs led their enterprises to improve capacities during market competition, and some of them stepped on to the international stage. In competing with big enterprises from developed countries on the same market, Chinese entrepreneurs lacked the huge capacities and corporate brands of their international competitors. Western entrepreneurs even had the advantage of intangible assets relating to their countries' culture. In the international business arena, Chinese entrepreneurs were the late comers. Western enterprise leaders had abundant capital and established brands; they were the front runners of the international proscenium.

In this chapter, we will firstly introduce the features of the environment in which Chinese entrepreneurs grew up, then we will introduce the characteristics of the entrepreneurs who emerged from three different time periods, and finally we will make a simple conclusion on the common characteristics of Chinese entrepreneurs.

4.1 The Environment for the Growth of Chinese Entrepreneurs

I always think that Chinese enterprises and entrepreneurs have been through a lot more torturing than others during the last 20 years. These 20 years were a period of radical change; it made many enterprises precocious, and also caused many to die. The living environment for Chinese enterprises in these 20 years has been changing along with the reform of the country's political and economic systems. Enterprises, as participators, also promoted the change of the macro environment through their efforts and adjustments. They also have been changing and evolving themselves. All these experiences are unforgettable in the heart.

Ning Gaoning

Just as what we discussed in Chap. 3, China's policy of economic reform and the change in the macro environment provided soil in which entrepreneurs could grow. Without the reform of macroeconomic policies, there wouldn't be these many entrepreneurs and these dynamic enterprises. Under the same environment, how did some enterprises succeed, while others, which were in the same industry and had the same ownership structure, fail? Apparently, the role of entrepreneurs is essential. During China's economic system reform process, the problems faced by entrepreneurs were non-structured. There were no previous examples to reference; thus, entrepreneurs' judgments and their abilities to adapt were among the major determinants for their enterprises' success or failure. The enterprises' operational practices that we are going to explore in this chapter basically reflect the perceptions and conceptions of their top leaders.

An enterprise's leader needs to be acutely aware of the changes in the external environment and formulate proper strategies accordingly, while also coordinating internal elements to ensure the implementation of enterprise's strategies and performance objectives. To Chinese enterprises' leaders, dealing with changes in the external environment is more important than integrating internal resources. This is the key argument of this chapter. The policy-related risk caused by uncertain institutions has been the biggest risk faced by Chinese entrepreneurs during the transitional period. Leaders have to take effort to diminish or even eliminate the harm caused by the uncertainty through proper behaviors and correct decisions.

At the beginning of the economic reform, Chinese entrepreneurs were facing a sort of "mixed economic environment" or a "transforming economic environment". The whole society was in the transition from a planned economy to a market economy, from an autocratic society to a legal society. Many rules and regulations were not established at the beginning. Many policies and regulations, which were closely related to the business operation of enterprises, were gradually formed in the way of "touching the stones to cross a river". Too many controls from governments; too much flexibility in executing laws and regulations; many people not playing by the rules in commercial competition; and the whole society not appreciating credit, unlike in a mature commercial society; all these factors increased the instability and uncertainty of Chinese enterprises in the transitional period (Guthrie 1997). For example, in the face of difficulties caused by sudden changes in policies, Pan Shiyi used to express his frustration, saying: "I feel like we are in the middle of a football game, the judge suddenly blows his whistle and says that we are now changing into a volleyball game, the ball cannot touch the ground, otherwise it will be judged a foul."

Shi Yuzhu listed the external factors which caused the death of some private enterprises: there were disordered commercial cultures and credits, and twisted social public opinion, there were also the random punishments and fines placed on enterprises by authorities, and obstacles created by government officials by using their power etc. He believed that there was too much flexibility in the legal system, which provided large spaces for law executors to explain their behaviors. "There are things, which are good things if you say it in this way, but may become illegal things if you say it in another way. In addition, there was the unreasonable legal system, which forced you to get out of line. For example, the rules required that importing computers must have a license, but it was impossible for private enterprises to get licenses. If you wanted to be in the computer business, you had to buy a license. According to some rules, buying a license was illegal. You either do nothing or do something illegal. There are similar cases in other businesses."

Due to the ambiguity and changes of policies in the transitional period, the priority task for entrepreneurs was not thinking about strategic positioning, neither was it the development of new products nor innovation of services, but to understand and adapt to the complicated commercial environment, especially to deal with troubles caused by the insufficiency of institutions and changes of systems. At the beginning of the transition, because many policies developed in the planned economy were not suitable for the operation of enterprises, central and regional governments were all "touching the stones to cross a river", with no new clear rules created. Powers were all centralized in the hands of government officials, so they had a lot of power to justify their decisions on whether the business of an enterprise was in line with the policies or in conflict with the policies. In circumstances where there was "no law to follow", entrepreneurs needed to create a good external environment for their own development by employing skillful and practical strategies. They especially needed to strategically obtain the understanding and recognition of government officials. "The social connection is productivity" was the mantra that represented the importance of entrepreneurs being active in gaining the recognition of policy makers and especially policy executors. Academic research also shows that, before the mid-1990s, Chinese enterprises commonly used the strategy of using social networks. The more social networks managers had, the better performance enterprises had (Peng and Luo 2000). Because private enterprises were in a disadvantaged position compared to state-owned and collective enterprises, their high-level managers paid even more attention to social networks (Xin and Pearce 1996).

Many successful entrepreneurs patiently adapted to policies and the requirements of government agencies first, while using excellent performance to reward local governments and to influence their policy formulation. They even won rights to make their own decisions and played their influence through participating in policy making. In China, the institutional structure and incentive system or other macroeconomic policies stimulated the development of enterprises; enterprises in turn promoted the improvement of macroeconomic policies issued by governments, and formulated more policies to support the development of enterprises, as happened in the formulation of the Property Law and the Contract Law. Many private entrepreneurs started to influence governments' policy formulation after they achieved success. For example, private entrepreneurs proposed the inclusion of the protection of private property in the constitution in the National People's Congress and the National Political Consultative Conference. Therefore, the theme which runs through the journey of China's Reform and Opening-up is that central and regional governments used unique ways to coordinate economic activities, which made enterprises and governments interact with each other. Both sides were the drivers and the receivers of system reform, and both sides commonly promoted the development of China's economy (Krug and Hendrischke 2008).

The interaction between entrepreneurs and governments can be demonstrated from the following case. An entrepreneur was the leader of a state-owned enterprise in Nanjing that was involved in the system integration business in the mid-1990s. When it initiate the business, the local government invested 20 million Yuan. Over

2 years, he increased sales revenue to 360 million Yuan. In the face of increasingly fierce competition in the market, he realized that the government control limited the autonomy of the enterprise, which would compromise the enterprise advantages in competition with foreign companies and private companies. He lobbied the government officials with the idea that, if run along the lines of a private business, the enterprise could face the market and clients more flexibly. Due to his outstanding performance, the government accepted his idea and asked him to submit a formal proposal. He proposed to return the government's original 20 million Yuan investment by 2.2 times. The government saw that this return matched the amount the state property had increased in value, so the proposal was accepted and the government quitted its equity and the enterprise became a purely private company. This company later received commitments totaling 15 million US dollars from the Intel Company of the United States and the Soft Bank Company of Japan to establish a corporation. However, according to a policy issued by Chinese government in 1986, joint ventures between foreign companies and private companies could not be registered. This entrepreneur submitted his proposal to officials in charge of each level, stating his case, and finally, the proposal was delivered to the National Foreign Trade and Economic Cooperation Department, and was ultimately approved. This company became the first private company to be incorporated with foreign companies. From then on, the Chinese government revised its policies on co-investment of Chinese and foreign companies.

During the past 30 years, the external environment faced by Chinese entrepreneurs has changed a lot. Different time periods have created different types of entrepreneurs. From the perspective of the macroeconomic environment, the development of Chinese enterprises can be divided into three phases. The first phase was from the early 1980s to late 1990s, when the country's economic system was in the process of transition, and under the major policy of invigorating the economy. There were no clear and detailed policies from the government to follow, opportunities and risks co-existed for businessmen. Many people were enticed by the opportunities and took the risks; some of them were punished for overstepping the red line of policies, some of them were destroyed by going against the commercial law and over expanding. Only those people who cautiously interpreted the policies, and had strong will, superior patience and motivation, could finally lead their enterprises successfully through the transitional period.

The second phase started in late 1990s. China had accumulated more and more experience during the progressive market reform. The institutional environment was also significantly improved, and entrepreneurs not only had more autonomy to run businesses and improve management, but also could get different kinds of reasonable rewards and incentives. The improvement of the business environment meant that entrepreneurs no longer needed to deal with the chaos caused by the changing external environments, but could focus more on their business and management. However, since there were many foreign companies entering the market in different industries, enterprises were facing more severe competition, and leaders needed to use professional operation and management methods to enhance the competitiveness of their enterprises. Those enterprises that depended only on access to resources or took advantage of the loopholes in policies gradually disappeared under the market competition. And those enterprises that had developed by their own capacities became the outstanding ones in the market.

The third phase started at the beginning of the twenty-first century, when China joined the WTO, and the market economy was developing in depth and range. After experiencing the preliminary stage of the Reform and Opening-up, the overall economic power of China was tremendously enhanced. The purchasing capacity of consumers was increased and the consumption habit was also changed; the goods and products on the market were very rich; and Chinese and foreign companies were competing on an open market. In these circumstances, some enterprises that had forged their core capacities and leading edge on the Chinese market started to approach the international market. Among them, some fell down right after they stepped out of the door, but some extended their success.

"Times produce their heroes" – against this background, entrepreneurs who emerged from the different time periods can be categorized as the political wisdom type, professional specialty type and international operation type. The following three sections, based on the social environment and major tasks faced by entrepreneurs, will discuss the main characteristics of entrepreneurs from the three different time periods, disclose the three types of "heroes" forged by three different "times", and figure out the growth paths and changing directions of Chinese entrepreneurs.

4.2 The Political Wisdom Type: Walking Out of the Chaos, Improving Management

During the past 20 years, our country had been struggling with the conflicts between the old and the new while going forward. If you surrendered yourself to the old system, you would be buried underneath it; if you stood against it, you could be destroyed. The distinctive part of Lenovo is that it found the way to get along with the old system. Meanwhile, it skillfully dealt with the disgusting defects of the old system by its amazingly strong willpower and patience, it got rid of the control bit by bit and headed for the new world.

Ling Zhijun

Since the Reform and Opening-up, there have been many excellent successful entrepreneurs, such as Liu Chuanzhi, Zhang Ruimin, and Ren Zhengfei. There are also some people who were successful for a short while, but were eventually thrown into jail, such as Yu Zuomin, Mou Qizhong, Huang Hongsheng, Shen Taifu, Hu Zhibiao, Zheng Junhuai, Zhang Rongkun, Zhou Zhengyi, Gu Chujun, and Huang Guangyu. Some of these people ignored the policies and laws of the country, and deliberately broke the rules for personal gain. Others attempted to look for acceptable ways to do business in the changing environment, but made mistakes and were punished. The government tightly controlled economic activities through law making, policy issuance, macroeconomic control and many other ways. Policies changed fast; some entrepreneurs were judged as breaking the law even before they has time to adapt themselves to the law.

The different methods enterprise leaders use to cope with policy environments may lead them along different paths. Some people act very straightforwardly, and put too much emphasis on their individual benefits; while some people communicate with government officials patiently and to obtain their understanding and support. The first way is too tough. Once there is malpractice, the enterprise will be held responsible. By comparison, being skillful and tactful is better for creating a good political environment for enterprises. However, many people gradually developed a kind of “official-like-business” mindset during the building of close relationships with officials who were in charge of policy making and enforcement. They used government’s support or took advantage of the loopholes in policies to gain profit. This type of business leader will eventually be washed out by customers and the market due to a lack of core competitiveness.

Compared with other types of entrepreneurs, the characteristics of the political wisdom type of enterprise leader are the most distinctive. We can divide entrepreneurs into four categories, based on their ways of adapting to environments, and internal management (see Fig. 4.1) (Zhang 2009). The first type is outside square, inside square. This type of entrepreneurs acts steadily and confidently when coming to inside management, but they can easily fall to policy risks because they are unable to adapt to the environment quickly and tactfully. Often, this type can not achieve their business goals during the transitional period. They are called “martyrs”. The second type is outside round, inside round. This type of entrepreneurs normally has very good relationships with governments, but they depend on policies and the support of government officials too much, and their enterprises lack organizational capabilities. As a result, they are eventually washed out by the market. They are called the “mediocre” type. The third type is outside square, inside round. This type of entrepreneur is very self-willed. They cannot fit in the policy environment; they look to be omnipotent inside the enterprises, but lack effective management and operation skills, which results in their enterprises only being a flash in the pan in the market. They are called the “Big King” type. The fourth type is outside round, inside square. They on the one hand wisely understand and adapt to the policies and institutional environments; on the other hand, they run their business with high standards, and make efforts to build the core competitiveness inside their enterprises to fit the market. They don’t solely rely on their relationships with the government or officials, neither do they go their own way without any basis in theory or experience. This type of entrepreneurs constantly improves their firms’ competitiveness, and is always vigorous in domestic and international markets. The success of this type of entrepreneur also provides good experiences for government officials to formulate more reasonable policies. This type of entrepreneurs belongs to an adaptive type. They are wise people who clearly understand the reality, and they are able to achieve success one way or another in the cracks of systems. They are called the political wisdom type of entrepreneurs.

The political wisdom type of entrepreneurs led enterprises out of the “fog” and “chaos” during the transitional period. Below is their four main characteristics.

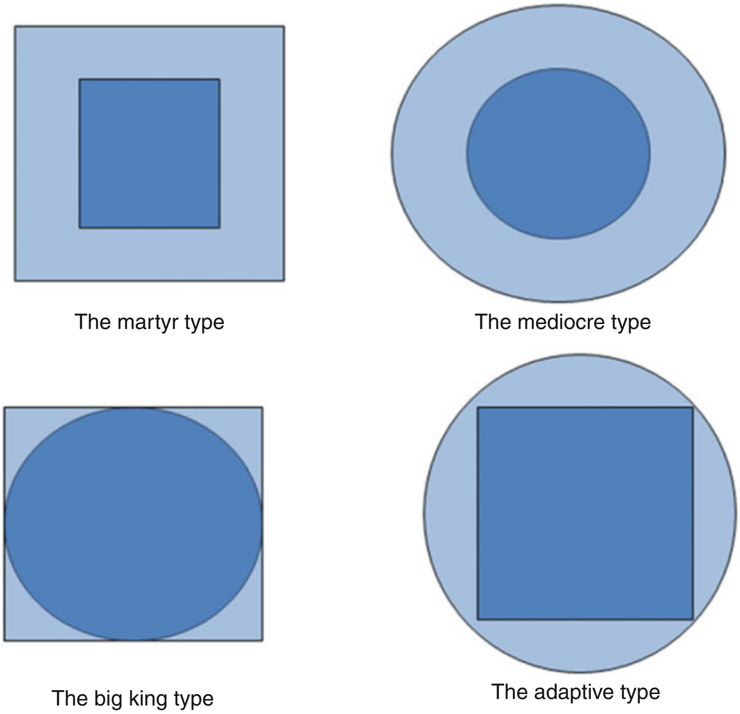

Fig. 4.1 Four types of Chinese entrepreneurs during the transitional period

4.2.1 Skillfully Dealing with the External Relationships

Even though maintaining good external relationships is necessary for all enterprises, it was especially crucial for enterprises during the transitional period. Policies and laws were uncompleted, commercial ethics and culture were not yet established, and there were few professional managers and employees with quality backgrounds. In these circumstances, running a business must have been extremely difficult. Once a problem occurred, it was impossible to follow criteria to make a judgment. It was even impossible to find a clear way to solve the problem. Entrepreneurs needed to have extreme patience and strong will to skillfully deal with all stakeholders, balance advantages and disadvantages, and find a safe solution. The president of Youngor Group, Li Rucheng, described his principles as “cave in when you meet something stronger”, sacrifice small interests to keep good relationships with the government, and engage in no hard battles with the reality. Shi Yuzhu’s principle is “ to figure out the rules, to create rules”, “to downplay yourself, to praise others” when dealing with big shots. The founder of China Pacific Construction Group, Yan Jiehe, used to say: “Clear compromise is noble, sincere compromise is what a hero does; how do you get harmony if there is no compromise?”

The president of automobile manufacturer Geely Group, Li Shufu, started producing refrigerator parts in 1986. In 1989, the country enforced a designation system for refrigerator manufacturing, and Geely was not on the list. As a result, Li Shufu had to close down the refrigerator factory. After giving up the refrigerator business, Li Shufu started in the automobile manufacturing business. However, in 2001, the State Economic and Trade Commission issued the "Notification of automobile manufacturing enterprises and products", which excluded Geely. Li Shufu used to say: "There is a progressive process for the state's policies on industry opening, some 'red lights' are just temporary. If the business is heading in the same direction as the country's development, then we should be persistent, no matter how many difficulties there are. A 'red light' cannot be changed by force, but we can go across it or wait for the right time." He constantly communicated with relevant authorities, and finally obtained permission to independently develop cars. He led his group to conquer many difficulties, and never gave up. Since entering the car industry in 1997, constant independent innovations have helped Geely develop very quickly. Now it has the capacity to produce 400,000 finished automobiles, 400,000 engines and 400,000 transmissions per year, and has total intellectual property covering eight series, including 30 finished automobile products. Geely has remained in the top 500 Chinese enterprises for 7 years and in the top 10 Chinese automobile enterprises for 5 years. It became the "base enterprise for the national finished automobile exportation", and was honored as the enterprise which "developed the fastest and grew the most during the 50 years of China's automobile industry". In 2009, when the world was still in financial crisis, Geely achieved sales of 330,000 finished automobiles for the year, which was an increase of 48 % on the previous year. It also achieved sales revenue of 16.5 billion Yuan, up 28 % on the previous year; and nearly 2.4 billion Yuan in profits and taxes, a rise of 35 % on the previous year. On March 28, 2010, the Geely Group signed a final agreement with Ford Automobile Company to purchase 100 % of the shares and related property of Volvo Car Company for 1.8 billion US dollars. Li Shufu became the Economic Achiever of the Year and the Most Influential Businessman of Zhejiang Province for 2009 due to his outstanding courage and his strategy of indigenous branding.

In 1987, when Lenovo's Han card, which allowed the input of Chinese characters into computers, was very popular in the market, officials in the pricing bureau deemed the price of the Han card was too high and contravened price regulations. They fined Lenovo 1 million Yuan. That year, the company's after-tax profit was only 700,000 Yuan. Staff of the company were all very angry about this and wanted to hold a media conference to gain support from the media. Liu Chuanzhi decisively rejected this idea. He knew only by caving in to the price bureau first, could he win himself some space to work on a solution. He invited the chief of the price bureau for dinner, and finally the fine was reduced to only 400,000 Yuan. Liu Chuanzhi warned his staff: when doing things, "you need to know who you are".

4.2.2 Properly Seeking the Support from Governments

China's market economy was going forward while experimenting. Even though the country's top leaders were wisely and farsightedly guiding the establishment of the socialist market economy, the conceptions and consciousness of many policy makers, officials in charge, law executors, and even many citizens were still stuck in the planned economy time. In this special period of time, entrepreneurs were facing a difficult situation: caving in to the old system meant doing nothing, purely waiting for the environment to change meant losing opportunities; but taking risks when the opportunities were not entirely mature might cause failure and bad consequences.

For example, an enterprise's ownership reform involves the basic interests of the management level and all employees, as well as the important issue of to whom the enterprise belongs, which is crucial to the long-term development of the enterprise. However, there are no clear relevant policies; there are opportunities which can be taken advantage of, and there are also many traps and risks. Some people were too afraid to move due to the constraints from policies, some people had goals to reform but failed in the half way, and some other people ended up in jail because their bold movements infringed certain policies.

The reform of Lenovo can be considered as a typical successful case. When Lenovo became a listed company in Hong Kong in 1994, it was still a state-owned enterprise. Liu Chuanzhi wanted to find a legitimate way to ensure both the state's interest and reasonable incomes for the enterprise founders and employees. He wanted to distribute 55 % of Lenovo's property to the state and 45 % to the employees. However, according to the law, Lenovo could not be transformed from a state-owned enterprise to a state and public shareholders common-owned enterprise because Lenovo's assets did not belong to its employees. However, policies existed that entitled Lenovo's shareholder, the Chinese Academy of Science, the right to distribute the profits of the enterprise. The Chinese Academy of Science reserved 65 % of the profits to itself, and let Lenovo distribute the remaining 35 %, though the Academy didn't really have the right to authorize Lenovo to change its right of distributing profits into distributing shares. After many years of communication, the Ministry of Finance finally agreed to allow Lenovo to buy 35 % of its state-owned shares, but requested Lenovo's employees use cash to make the purchases. Liu Chuanzhi used the capital previously accumulated through the right of distributing 35 % of the profits to purchase this 35 % state-owned stake. So, through persistence and patience, the employees of Lenovo finally became the owners of the enterprise.

Liu Chuanzhi managed to understand the policies correctly and skillfully walked along the edges of the policies to break through the constraints of the old system while capturing the opportunities of the new system. By contrast, the reforms by Li Jingwei, the founder of Guangdong Jianlibao Group, had unfortunate results. Li Jingwei started Jianlibao's business in 1984, and became famous to the world by sponsoring Chinese athletes at the 23rd Olympic Games. In the following 18 years, his successful marketing made Jianlibao the most popular beverage, with the best sales record in China. The company contributed profits and taxes to Sanshui city totaling 2.8 billion Yuan, and it used to account for 45 % of the local financial income. And Li himself was rewarded, receiving the national “May 1st” Labor Medal, being named a national model worker, and becoming a member of the 9th National People’s Congress.

At the establishment of Jianlibao, Sanshui city government held 75 % of the shares. In 1998, Li Jingwei decided to take Jianlibao into the Hong Kong market, but, unfortunately, the plan failed. Sales revenue constantly fell and the Group’s contributions to local finances hit a record low of 7 %. In order to stimulate the enterprise, the company’s management and the city government again began discussing reform in 2000. Under an initial proposal, most of the shares would be sold to Li Jingwei and the management level, providing they could raise their own funds to pay for the shares. The city government opposed this reform plan and started a share transfer plan, which was to sell 45 % of the shares for 380 million Yuan to a Singaporean company, but this plan was stopped by Li Jingwei’s opposition. Li Jingwei then proposed to buy Jianlibao’s shares for 450 million Yuan in installments over 3 years, but this plan was also rejected by the government officials. Later, Sanshui city government sold 80 % of the shares for 380 million Yuan to Zhejiang International Trust Limited. Half a year later, the anti-corruption department of Sanshui city government detained and interrogated Li Jingwei and three other general managers on suspicion of “being involved in removing a large amount of Jianlibao’s capital”. Some of those detained were later invited back to work at Jianlibao by different ways. Nevertheless, on Sept. 3, 2009, the intermediate court of Foshan city heard the embezzlement case against Li Jingwei and four other high-level managers of Jianlibao. Three managers were already not very well, and received 14–18 years’ jail each. Li Jingwei could not make it to the court because of illness. He applied for a postponement to his case, and received the acceptance of the court.

Li Jingwei’s battles with the government made his and Jianlibao’s unfortunate results inevitable. Government officials deemed they had given Li Jingwei the rights to manage the finances, personnel and decision-making of the enterprise, but it never occurred to Li Jingwei to report the business’s operations back to the government. In their eyes, Li Jingwei never really thought the government was worth respect. However, from Li Jingwei’s perspective, Sanshui government had been the biggest shareholder of the company from the establishment of the company until 2001, but the government didn’t provide any more inputs during the development and growth of the company. The company’s achievements were all from its own efforts. Li Jingwei decided to move the headquarters of Jianlibao to Guangzhou in 1999; hoping to take this opportunity to reform the management, operation, personnel and advertising strategy of the company. He spent a large amount of money building a 38-floor Jianlibao headquarter building without consulting the opinions of the government, which deepened the mistrust between him and the Sanshui government. Meanwhile, the huge investment to the building construction reduced the availability of operational funds for Jianlibao. With the competition from foreign beverage companies, Jianlibao left the center stage with both internal and external difficulties. Li Jingwei lost all the business's advantages and fell.

4.2.3 Promoting the Institutionalization and Professionalization of Enterprises

People normally think Chinese enterprises are ruled by man rather than ruled by law. Some people use "paternalistic headship" to describe Chinese enterprise leaders. The main features include a dictative style, unclear intentions, strong focus on personal reputation, maintaining control, engaging in politics, favouritism and nepotism, aggressive and aloof to subordinates etc (Westwood 1997). Similarly, some academics characterize the leadership style of Chinese organizations as paternalistic, which presents a father-like benevolence, authority and moral integrity in a personalistic atmosphere (Farh and Cheng 2000).

Most Chinese enterprise leaders depend on personal authority and virtue to lead their enterprises. This type of leadership has caused high centralization of power and low standardization inside enterprises, and encouraged the trend of sub-grouping. People who support this ruled by man style of leadership deem that its advantages are high flexibility, a simple structure, and high efficiency in decision making and executing commands etc. But they neglect the risks of this rule by man style. Firstly, leaders cannot always be correct. Leaders often become overconfident due to their success, and cannot get a second opinion because their staff have been trained to comply and compliment, or the excess centralization of power leaves them free to wield power without constraint – these all may inevitably cause wrong decisions by leaders. Secondly, because of excessively centralized power, top leaders make decisions according to their personal will and their personal likes and dislikes, and their organizations lack the necessary rules and regulations to control and coordinate their internal systems on an objective basis. These enterprises either do not have specialized departments or the specialized departments are skipped in the decision-making process. Leaders don't delegate authority to their subordinates, and subordinates cannot participate in decision making. Employees in this kind of enterprises all try to develop personal relationships with leaders, gradually resulting in an organization where nobody is paying attention to the enterprise's interests anymore. Instead, they ingratiate themselves with leaders to fulfill their personal interests. All this stops the healthy growth of enterprises, and ties their fate solely to their leaders. Once these leaders cannot run their enterprises anymore, due to age, sickness or accidents, or make wrong decisions, enterprises soon go down. This has become the destiny of many Chinese enterprises.

Another reason Chinese enterprises don't think management institutionalization and standardization is important is that, during the fast development of enterprises, entrepreneurs think grabbing opportunities and occupying markets are more important than management standardization. They try to conduct institutionalization and standardization after enterprises are well established and stably running. But once the direction is settled, turning back and rebuilding standards is very difficult. Because of the lack of institutionalizations, enterprises are not able to run steadily and develop. They accumulate severe and lingering internal illnesses due to "black box" operation and decision making, and finally that illness causes their death.

Some entrepreneurs realized at the early stage of the economic transition that enterprises needed efficient and effective management systems and should be managed by systems and rules, not individual entrepreneurs. Lenovo started to set up rules and regulations in 1990 and requested employees to strictly follow the rules. Employees who disobeyed the rules would be punished without exception. In the 10 years from 1989, more than 10 people were referred to judicial authorities due to corruption. In order to strengthen the rules, Lenovo enforced rules at even quite micro levels from the beginning. The company requested no late arrivals for meetings. If somebody showed up at meetings late without prior permission, they would have to stand for a few minutes as punishment. The company's founder, Liu Chuanzhi, himself was punished three times. Even though each time he had a reason, he still insisted on enduring the punishment. From Liu Chuanzhi's perspective, people come together from different companies with different cultures, and the important thing is to make people realize that, once there is a rule, it must be obeyed (Liu 2009).

The CEO of www.hc360.com Guo Fansheng thinks leaders should create and improve systems to ensure the enterprise develops smoothly and sustainably. In order to motivate its employees, the company enforced a joint stock system from the very beginning. The company ruled the "bonus for single shareholders should not exceed 10 % of the total bonus, the bonus for shareholders should not exceed 30 % of the total bonus", and "70 % of the total bonus should be given to employees each year as a labor share-out bonus". Labor joint stock later evolved into knowledge joint stock. Twelve years later, when the company listed on the Hong Kong market, 126 employees became millionaires through their share holdings (Guo 2009).

Due to the fact that China had been developing a market economy only for a short period, managers and employees were all relatively low in professionalization, which limited the management and business capabilities of enterprises. Some entrepreneurs realized their employees were short in professionalism, so they strongly encouraged their employees to respect systems and procedures to ensure the stable and sustainable development of enterprises.

The Vanke Group established in 1984 and entered the residential housing business in 1988. Its founder, Wang Shi, insisted on gaining reasonable rewards from the market by offering professional capability. In 1992, nobody in the real estate sector would consider taking on a project if its estimated profit was lower than 40 %; however, Wang Shi claimed he would not undertake a project if its profit was over 25 %. He led his company to follow a standard, transparent, steady, and focused development mode. At the end of 2007, the company's market share reached 2.1 %, and it became the biggest enterprise in the residential housing industry. Wang Shi has always focused on specialization and professionalization. He said: “A mature enterprise emphasizes corporate culture and mechanism instead of leaders. The function of leaders must be reduced. This is especially true for Chinese enterprises at the current stage. It is necessary for enterprises to separate from the entrepreneurs’ own life circles and develop. If an enterprise wants to develop long and far, establishment and enforcement of a mature running mechanism is necessary.” Being specialized and professionalized has resulted in Vanke’s business achieving constant development at a steady speed for many years.

4.2.4 Developing and Supporting Successors

Many entrepreneurs were middle aged when they started their businesses. After nearly 20 years of hard work, their health began going downhill, and the fast-changing environment also raised self-doubt about whether they still had the ability to match their ambitions. Some people are very autocratic, and subordinates can only listen to their demand. Under an autocratic leader, other people cannot participate in strategic decision making or run the core business, so grooming a successor is out of the question. Many people started their enterprises using their outstanding capabilities and strong willpower; however, it is these very same qualities that can cause enterprises to fall into “the founder’s trap”.

Some entrepreneurs started fostering their successors early and were thereby able to set up the sustainable development of their enterprises. In general, the selection of successors follows three paths: internal fostering, external recruitment and family succession. Because the professional managers market in China is not yet mature, and the mechanism for regulating professional managers is not well established, almost no enterprises look for successors outside their own organizations.

In terms of fostering successors, Liu Chuanzhi is considered farsighted. In May 1988, Yang Yuanqing and Guo Wei joined Lenovo through open recruitment. Guo Wei was appointed as Public Relation manager right after joining the company and, 3 years later, Yang Yuanqing was appointed as general manager of the PC auxiliary equipment department. Yang Yuanqing actively promoted the “distribution model” used by Hewlett-Packard, and doubled Lenovo’s sales revenue during the year. In 1994, Lenovo established the PC department and Liu Chuanzhi appointed Yang Yuanqing as its head and also handed over to him full power to manage relevant R&D, manufacturing, sales, logistics and finance. Yang Yuanqing embarked on very bold reforms and was rewarded with significant achievements. But his approach was too tough and straightforward. He didn’t know how to compromise, which caused dissatisfaction among many of the original founders of the company. Being in the middle, Liu Chuanzhi used his skills to teach Yang Yuanqing how to manage his relations with the company’s seniors. One evening in early 1996, Liu Chuanzhi and other top management members convened a company meeting. As soon as the meeting started, Liu Chuanzhi started to criticize Yang Yuanqing very harshly: “Don’t take what you have now for granted, your platform today was built by us, we carried huge pressure. . .you cannot just close your eyes and go straight forward, and complain to me all the time about the unfairness you encounter. If you don’t learn to compromise, how can I keep doing my work?” Yang Yuanqing felt very mistreated and cried. He didn’t sleep all that night. The next day, he found a letter on his desk written by Liu Chuanzhi. In the letter, Liu Chuanzhi described very honestly how he viewed Yang Yuanqing as a person, and described the standards expected of someone wanting to be his successor at Lenovo. He also expressed the wish that Yang Yuanqing could behave in accordance with these standards as the future Lenovo leader (Ling 2005, pp 237–243). Liu Chuanzhi directly and frankly pointed out Yang Yuanqing’s problems, and instructed him on what to do to correct them. Yang Yuanqing gradually matured, and finally took over Lenovo. He likes to say: “Lenovo would not have what it does today if it only had my bold actions and not President Liu’s compromise back then.”

Many private entrepreneurs actively foster their successors, and have achieved a natural replacement of enterprise leaders. The list, “2009 young leaders of China’s private enterprises”, issued on Nov. 10, 2009, contained 103 enterprise leaders from the young generation, Of them, 31 of them were chairmen of the board, 13 were vice chairmen of the board, 15 were CEOs, 9 were deputy CEOs, 31 were general managers, and 4 were managing directors. Their average age was only 34. Among those on the list, 43 were from Zhejiang province, which demonstrated that region’s leading position in China in terms of the heritage of its private entrepreneurs.

As a matter of fact, the family succession mode, where children take over their fathers’ business, is very common in private enterprises. Founders of enterprises accumulate assets, social resources, working teams and the platform for developing, which lay the foundations for the next generation. The successors in a family business are normally those who have provided the biggest assistance to the founder, and who have been contributing to the growth of the enterprise. As the first generations grow old, the young leaders take over their fathers’ businesses, and continue to push forward the reform and transformation of enterprises, such as by clarifying the ownership, or establishing modern enterprise systems. Under this heritage mode, young leaders are given different levels of autonomy case by case.

The founder of WANXIANG Group, Lu Guanqiu, started his business in 1969. He captured opportunities, integrated domestic and overseas resources and led WANXIANG to success. He sent his son, Lu Weiding, to study business administration abroad for half a year after he graduated from high school. After Lu Weiding returned to China, Lu Guanqiu taught him by personal example as well as verbal instructions. He brought him along to meetings, took him to factories, and to meetings with clients etc., and had him work in different departments of the group. In 1994, Lu Guanqiu appointed Lu Weiding the CEO of WANXIANG Group. He gave Lu Weiding the automony to drive reforms and transformations within the company, while retaining for himself the control and guidance of the major direction and steps of the group based on his experience and wisdom. In order to prevent the new leader from becoming too adventurous, Lu Guanqiu set three investment prohibitions: no profiteering industries; no industry with too many competitors; no industry where the state operates. He convinced Lu Weiding to give up two acquisition plans under these prohibitions. Lu Guanqiu was fostering Lu Weiding's professional qualification while continuing to control the strategic direction of the enterprise, playing the role of "stabilizer".

Some private enterprises are co-founded by father and son. When the old generation retires, the new generation automatically takes over the business. The old generation's complete retirement and handover of power leaves the new generation leaders completely autonomous in running the enterprises. Because the young generation leaders have gained rich experience on the job, they are well qualified to adjust their operational directions and modes in the new competitive environment, and head to new success. The founder of FOTILE Group, Mao Lixiang, started his business in 1985, and accomplished the first stage of development of the enterprise after 10 years of hard work. In 1995, he called back his son, Mao Zhongqun, who was about to go to the United States to undertake PhD study, to start a second business together. Mao Zhongqun convinced his father to give up the idea of the new business of manufacturing microwaves and, instead, proposed extractor hoods. When he joined FOTILE, he requested his own company with new teams, and with none of his father's old work partners. After taking over the business, Mao Zhongqun pushed the enterprise forward with the introduction of independent branding and a professional manager system, and he led FOTILE to a new stage of development. Mao Lixiang surrendered his control over personnel, finances and decision-making and totally retired. He opened a training school to help small- and medium-sized enterprises complete succession management plans. He realized the older generation must give up power in order to create enough space for new generations to make full use of their talents. He says: "If I hold on to my power tightly, my son cannot grow, so he cannot develop his innovative business ideas. Some entrepreneurs are not willing to give up their power, even in their 1970s, so how can their sons take over the business in the future? Our first generation entrepreneurs must have this sense of responsibility and generosity."

Hengdian Group followed a similar mode to that of FOTILE. Hengdian founder Xu Wenrong established Hengdian Reeling silk factory in 1975. He built Hengdian Group into a modern corporate base in the high-tech and movie industries through his strong will and intelligence. Xu Wenrong invented the "community owned" and "incremental joint stock" enterprise ownership system. In 2001, Xu Wenrong officially handed over the CEO position to his son, Xu Yongan. Xu Yongan had shown his talents in management and commerce long before. In bringing new products into production, he had achieved all the steps from preparing plants to production in only 90 days. Under his lead, the Yongan chemical factory grew into the Hengdian Debang Corporation from nothing, and became an important member of the 17 group members of the industry. Xu Yongan was also very good at capital operations and he helped his father to enlarge the business of Hengdian Group. After Xu Yongan took over as CEO, he emphasized capitalized operations and internationalized development. He took a completely different path from his father in enterprise management and development planning.

4.3 Professional Specialty Type: Focusing on Business, Creating Advantages

We are never afraid of core technology. If other people have it, I can do it as well; what other people don't have, I have the courage to imagine it. Every time when a unit of BYD encountered problems, we would say: it's not because of your capability that you cannot solve the problems, it's because you lack the courage.

Wang Chuanfu

Since the late 1990s, the macro environment of China's society has changed a lot. China started to build a comparatively optimized market mechanism and the Chinese people also started to understand the market better. Many local governments issued policies to support the local economy. Since China was changing from a shortage economy to a surplus economy, the capability and management quality of an enterprise became more important to its business. The growing market economy and the improved market rules washed out those enterprises only working on speculation or taking advantage of policies. Enterprises which could meet the demands of the market and had a core competency survived. Conversely, this made market competition more fierce. After China joined the WTO, most industries were completely opened, foreign companies received the same treatment as domestic companies, and many kinds of international companies entered the Chinese market, which further increased competition. In this mature market competition environment, integration of internal and external resources, efficient and effective management, as well as developing core competitiveness, were the key conditions for an enterprise's success.

In this new market environment, the task facing Chinese entrepreneurs was no longer dealing with policy risks but focusing on enterprise management and increasing the core capacity of their enterprises. Entrepreneurs at this stage needed to analyze the trends of their industries, competitors, consumers, and technologies etc., formulate strategic directions for their enterprises, and organize the strengths and resources of their enterprises to implement the strategies. Integrating an enterprise's control system, organizational structure, rules and procedures, and corporate culture to support the implementation of its strategies is a test for an entrepreneur's management and organization capacity. During the past 10 years, a bunch of entrepreneurs emerged who had both high-level technical skills and sensitive market awareness. Even though, when they first started their businesses, they encountered difficulties in the form of insufficient funds and high technical barriers, they developed new markets by using their own innovations; and they are now leading Chinese enterprises to achieve the transfer from "China made" to "China created". Most entrepreneurs appearing in this stage belong to the "professional specialty" type. They have in-depth understanding of enterprise management and operations, which mainly present as the following four aspects.

4.3.1 Accurately Managing the Strategic Positioning of Enterprises

Some Chinese entrepreneurs have been able to strategically position their enterprises accurately, based on the growth trends of their industries and market needs, and thus have set fundamental keys for the enterprises' development.

After 20 years' development, China Merchants Bank developed from a small bank in Shekou district of Shenzhen to a large scale bank with the 6th largest assets in China. As the leading group of China's banking services, its achievement cannot be separated from a series of key strategic decisions made by its president, Ma Weihua. He was the first to transfer to retail banking in China, which won the bank a leading edge in the market. China Merchants Bank had fewer branches than other state-owned banks; however, Ma Weihua saw the opportunities brought by the Internet, and he took the lead in Internet banking in China. When China Merchants Bank was about to start a credit card business, a big international bank sought to issue a co-branded card with it. Ma Weihua and his team declined this offer, because they thought China Merchants Bank was not at the same level as this big international bank, and cooperation with this bank would constrain them. Instead, they decided to use a foreign management team. They developed China's first standard international double-currency credit card, which was warmly welcomed by middle- and high-level consumers of China. It took only three and a half years for the bank's credit card to grab 34 % of China's credit card market, and rank first in average consumption per card.

In 1988, Wang Wenjing established UFIDA by taking the opportunity presented by the computerization of accounting in China. The financial software it developed took the leading position in the domestic market. Later, Wang Wenjing found some clients were using ERP system, which was a comprehensive enterprise management software. So Wang Wenjing set his teams working on management software, even though the company's financial software was still their main product for revenue and retained a very good sales record. At that time, China's management software market was occupied by SAP and other foreign companies. The ERP software developed by UFIDA, NC, was specially designed for Chinese enterprises, based on their management features and developing methods, which were different from the circumstances for which foreign ERP software was produced. First of all, many of the parent companies of state-owned enterprise groups were transformed from administration departments of the government; they had very weak control of their subsidiary companies. Secondly, many Chinese corporations were created from a combination of several enterprises, with capital, technologies, products and other important resources all controlled by subsidiary companies. There was a lack of coordination between parent companies and subsidiary companies, and between the subsidiary companies themselves. Most corporations ran various types of businesses, and the connections between these businesses were very loose; thus, intensified centralized control was necessary for managing those different types of businesses. Foreign software was designed for a single business management mode, which was not suitable for managing Chinese corporations' loose multi-task businesses. Finally, foreign companies were normally good at specialization in a single business, but Chinese corporations were normally not so specialized. Therefore, management software designed by foreign companies could not fulfill the demands of Chinese corporations. UFIDA's ERP product, which was specially designed for Chinese enterprises' management demands, successfully broke the monopoly of foreign companies. Since 2006, NC's growth rate has exceeded 40 % 3 years in a row. And for the first three quarters of 2009, NC's revenue also increased by more than 40 %. So far, UFIDA has more than 4,000 clients, making it a clear No.1 in China's high-level software market.

4.3.2 Thoroughly Understanding Theories and Practices of Enterprise Operation

Nowadays, people request operational standardization and management refinement of an enterprise; thus, entrepreneurs who have a thorough understanding of enterprise management theories, and are familiar with the good practices of foreign enterprises, as well as the operational practices of Chinese enterprises, can lead their enterprises to achieve success.

When the president of China Merchants Group, Qin Xiao, first took up his post in 2001, the total debt of the Group had reached 23.56 billion HK dollars, net profit was 44 million HK dollars, and non-performing assets were nearly 5 billion HK dollars. Often, the cash flow could not cover the interest on the debt. After 2 years' restructure, the total debt of the Group had reduced to 14.16 billion HK dollars in 2003, the non-performing assets accumulated over its history were mostly sorted out by 2004, recurring profit reached 5.066 billion HK dollars, net profit reached 4.009 billion HK dollars, and the profit margin on net assets increased from 0.3 % in 2000 to 21.96 %. Qin Xiao attributed this success to his thorough knowledge of enterprise management theory and deep analysis of state-owned enterprises. He deemed that, previously, China Merchants Group had too many irrelevant businesses horizontally, which negatively affected coordination, and increased costs for internal coordination and management. Meanwhile, the organizational structure of multi-level corporate bodies derived vertically had elongated the management chain, and increased management costs, while also weakening the authority and capacity of headquarters in terms of resource mobilization and internal coordination. Based on the Transaction Cost Theory, Qin Xiao deemed that the existing organizational and business structure of China Merchants Group marketized the internalized transactions, which had been meant to reduce the cost, but resulted in the enterprise carrying double costs of internal management and market transactions. Further, he decided the market mechanism was overly used on the internal incentives and resource mobilizations of China Merchants Group, which destroyed the organization's functions of mobilizing resources and coordinating transactions.

Based on these understandings, Qin Xiao positioned the function of the headquarters of China Merchants Group as strategic decision making, and ended the situation of separated regimes within the group.

Fu Chengyu knew the developing trends of the petroleum industry very well after long-term practical experience in the business. After becoming president of China National Oil Offshore Corporation (CNOOC) in 2003, he proposed a development strategy that was "comprehensive, coordinative, and sustainable". He declared: "there is no non-performing assets, only assets which are not being well used." CNOOC Limited came onto the Hong Kong and New York markets in 2001, accounting for 3 % of its employees and 80 % of its assets. But what was going to happen to the rest of the employees and assets? Fu Chengyu solved this major hurdle to the reform of the state-owned enterprise by distribution listing, mutual support, and gradual revitalization. After CNOOC Limited was listed, he restructured and established two professional service companies using 37 % of the employees and 12 % of its assets. These two companies were also listed later. His purpose was to allow the petroleum company and the service companies to support each other. In 2004, he reorganized the remaining 60 % of the employees and the remaining 8 % of assets, which were considered bad assets, and structured a comprehensive supporting and service company. In the end, of the total 20,000 employees, no one was laid off or left waiting at home and the group returned to profitability in 2007. From 2004 to 2009, CNOOC's sales revenue increased 312 %, profit increased 247 %, surrendered tax increased 631 %, total assets increased 338 %, and net assets increased 373 %. The two indicators, returns on net assets and returns on used assets, were the best in the global petroleum industry. Further, through independent innovations, CNOOC established a unique offshore oil development technical system. Fu Chengyu said: "The development of a state-owned enterprise needs internationalized insights as well as Chinese features. Copying others is not an option. An enterprise needs to explore its own specialties and potential; and, through reforms, turn political advantages into core competency. The development of CNOOC cannot only depend on one single company's efforts; it needs marketization, professionalization, diversification, and collectivization to form a comprehensive force of the group, to become one fist. This is the unique competitiveness of CNOOC" (An 2010).

4.3.3 Creating a New Business Model

Some people have outstanding expertise or deep understandings of the needs of Chinese customers. Even though competition in their industry may be fierce, they still can stand out from the crowd due to their unique business models. This kind of entrepreneur mostly appeared in the new technology sector.

Internet search engine technology encountered a problem with cheating in the mid-1990s, when it was designed based on the word frequency statistic method. In order to promote their webpages or websites to the top of search results, webpage owners put words related to popular products in their webpages, even though they didn't develop or produce that kind of product. In order to solve this problem, the founder of Baidu, Li Yanhong invented hyperlink analysis (ESP) technology. It is based on the number of times the content of a website is quoted to decide the ranking of the website in search results. This invention obtained a patent in the United States. Up until 1999, most mainstream search engines in the world adopted the hyperlink analysis technology.

In 2001, Li Yanhong proposed to transform Baidu from providing search techniques for portals to an independent search engine company, and to experiment with the PPC, or pay per click, mode. He adopted the PPC method, which charges clients based on the visits volume brought by Baidu. However, all shareholders opposed this proposal. Li Yanhong insisted on his plan, and finally convinced the investors. Since 2002, Baidu's annual increasing rate on the revenue from PPC has reached 400–500 %. In 2008, Li Yanhong adjusted the business model again. He withdrew the software department of the company and gave up the portal mode to ensure the business development direction was in line with their core competitiveness. Baidu centralized nearly 70 % of its resources and time on the search business, which, on one hand, ensured innovation and, on the other hand, prevented its core business going in the wrong direction.

Wang Chuanfu established BYD Group in 1995. Now, its lithium battery business accounts for 60 % of the global market and 60 % of its manufacturing equipment is self-developed. At the beginning, when it produced nickel-cadmium batteries, one production line needed tens of millions in investment. Wang Chuanfu decided to separate the production line into manual procedures, which largely decreased the cost. In 2000, Wang Chuanfu decided to start producing lithium batteries. Because the equipment made by Japan was too expensive, he put the nickel battery production equipment on the lithium production line and they redesigned the incompatible parts. If some programs were unable to be redesigned, they would use tools to do it manually. BYD converted China's low price but rich labor source to its cost advantage for the massive industrial production, which gave it the upper hand against its international competitors. Wang Chuanfu further transformed BYD's unique production advantages into a vertically integrated capacity. It started from producing mobile phone parts, and gradually extended to mobile phone assembly and design; it provided a one-stop service from design to final production for Nokia and other clients. Compared with companies in the same business, BYD's cost is 15–20 % lower for the same design, and one third faster.

As late comers, Chinese enterprises have to reference to the existing technology when conducting technology innovation. Wang Chuanfu legally avoided existing patents and broke the patent block by international enterprises. The intellectual property department of BYD constantly provided information to the technical departments regarding the patents which needed to be avoided. During its development of cars, the company took many foreign cars apart to study their techniques. They directly used the techniques without patents, and adjusted or avoided the techniques which had patents. The distinctive element of Wang Chuanfu's approach was that he innovated by learning from other people's outcomes, while avoiding lawsuits. In recent years, many international companies have accused BYD of infringing patents, but BYD eventually won all the cases in and outside China.

4.3.4 Having insight into the Needs of Customers

Since the mid-1990s, China's market gradually transferred from a seller's market to a buyer's market. Along with the deepening and prevalence of the market economy, more and more enterprises started to engage in production and marketing. The kinds of products were varied, and merchants used all kinds of ways to attract consumers. China has said goodbye to a commodity shortage period, and many enterprises had to close down because of not being able to meet the consumer's requirements. This kind of environment has forced enterprises to get to know the needs of customers, to make the products and services that can fulfill customers' changing requirements, thereby presenting the advantages of the enterprises in competition.

Ma Huateng, the CEO and founder of Tencent Company, established his Tencent Empire on the foundation of a good understanding of customers' needs. At Jan. 31, 2009, the number of people logging in to his QQ messenger service each month was more than 200 million; by June 30, 2009, people who registered accounts on its instant messenger reached 990 million person times, active accounts reached 448 million, and the highest number of people on line at the same time was 61.3 million, which was a world record at the time.

After graduating from college in 1993, Ma Huateng started in paging software development. Due to his good sense of marketing, a stock monitoring card he developed became popular in the market. After he got to know the ICQ instant messaging system, he thought it had major shortcomings: first, it didn't support Chinese characters; secondly, messages on ICQ could only be saved at the user side, so, if the user logged in on another computer, the previously added friends would not be there; thirdly, users could only communicate online, there was no offline messaging function. In view of these shortcomings, Ma Huateng and his friends developed a Chinese version, OICQ, which later was renamed Tencent QQ. Tencent QQ can provide individual images for different users. It takes up little space and is easy for users to download. QQ's competitor, MSN, only had these features years after. Ma Huateng understood his customers very well; he merged his experience and needs into the product design. He positioned himself as the chief designer and chief experiencing officer, spent large amounts of time on testing all the products and services, trying to gauge the feelings of customers. Tencent gives very prompt replies to customers' requests. Tencent has special teams collecting customers' opinions on different forums, and it also invites its "fans" to try their new products, and uses various means to monitor and assess customers' experiences. The company also established a customer experience and design center, which has experience rooms, and carries out comprehensive training and assessments on user experience. Ma Huateng and his teams have been able to develop software and services which are suitable for Chinese internet users because of his correct understanding of customers' characteristics. All these high "user stick" products created a big and dynamic user group, which has brought the enterprise generous profits.

4.4 The International Operation Type: Venturing Out of China, Facing Challenges

The best way to deal with the challenges coming from multinational corporations is to become a multinational corporation. If you are "dancing with wolves", you have to become a "wolf", otherwise there will be only one outcome: be eaten.

Zhang Ruimin

Our guerrilla style is not completely gone, the internationalized management style is not yet formed, and the level of the professionalization of our staff is still low, we are not yet equipped with the capacity to gallop in the international market; as soon as our ship sailed into the ocean, problems occurred.

Battling in the overseas market, we should get familiar with the market, win the market, foster and train our management teams...if we cannot build up an internationalized team in three to five years, once the Chinese market is full, we shall just sit there and wait for death.

Ren Zhengfei

Entering the twenty-first century, Chinese enterprises accelerated their venturing out of the country. Some enterprises started joining the global industrial division or participating in competition in the global market. After more than 10 years' implementation of a market economy, the markets of some industries were showing signs of saturation, with excess production capacities. The extremely fierce competition resulted in less and less market opportunities and profits. After nearly 20 years' development, some enterprises already have accumulations in terms of capital, technologies and operational management. Since China joined the WTO, the barriers for Chinese enterprises to enter the international market have reduced. All these provided positive conditions for the internationalization of Chinese enterprises.

The internationalization of an enterprise requires core competitiveness. In order to participate in international competition, enterprises need to be equipped with standardized management, specialized techniques, and talents with international perspectives and experiences. Leaders of these enterprises seized opportunities during China's economic transitional period: they gradually identified the business directions during development, occupied the domestic market with their unique products and successful business operation models, and eventually led their enterprises to expand outside the country. They belong to the "international operation type" of entrepreneurs. They have the following characteristics.

4.4.1 Promoting Innovation, Building Competitive Advantage

In some freely competitive areas, local enterprises encountered pressure once international enterprises stepped into the market. Enterprise leaders had no safety zone to retreat into and had to fight. They developed their own techniques and services, firstly carrying on business in local areas and achieving the acknowledgement of customers, and then investing their profits in research and development, gradually building up their competitiveness. For example, since the 1990s, the network operators of China Telecom mostly used the equipment of international companies, such as Sony Ericsson, Nortel Networks, Alcatel, and Siemens etc. ZTE, HUAWEI and other Chinese companies conducted research and development, as well as effective market explorations in telecommunications and gradually improved the performances of their products to near that of the international companies. They then grabbed the market advantage using their lower cost and prompt services.

As the leading company in China's telecommunications equipment manufacturing industry, the self-developed technologies of ZTE Corporation are now in leading positions in both domestic and international markets. Hou Weigui established ZTE Semiconductor Company in 1984 in Shenzhen, where it engaged in producing small electronic products. At that time, the global telecommunications industry was developing very quickly; however, in China, the market for telephone switchboards had just started. That was when Hou Weigui sensed that the telecommunications market had huge potential and decided to invest in R&D focused on the digital SPC switch. Hou Weigui used his acute insights into the market, grasped the development trends of the industry, "stepped on the hottest spots of the market", and carried out product development and technology innovations based on his accurate understandings of China's market. To high-tech companies, the biggest risk is following the wrong product development direction, which can cost a fortune. Facing new technologies in the industry, ZTE adopted the strategy of "spying first, flexible investment". ZTE had set up R&D institutions internationally early, in the middle of the 1990s, to follow the latest technology trends. In the telecommunications industry, where changes happen almost every day and there are many product directions, Hou Weigui's principle was to never give up on any technologies which may have market potential, but never count on any product before the market started. When GSM only had 1 % market share, ZTE did not give up on it. In 2007, the delivered goods quantity for GSM products was fourth globally. Since 2006, the delivered goods quantity of ZTE's CDMA products ranked first in global market and its global market share reached nearly 30 %. The company always keeps an eye on market trends, ready to enhance its development once the chance is mature. In this fast-developing industry, where technology applications constantly change, ZTE grabbed the switchboard, CDMA, little smart, TD-SCDMA, and cell phone technologies – all the "lunch". In the area of 3G technology in particular, ZTE carried out work on all three systems: WCDMA,

CDMA2000 and TD-SCDMA. It became one of the few telecommunications equipment companies with the capacity to deliver all three 3G systems and achieved success. ZTE also is an equipment supplier with the most completed telecommunication techniques in the world. Hou Weigui's acute decision-making style generated rich assets, R&D capacities and market experience for ZTE Corporation. The corporation achieved world-leading and unique technical outcomes in several areas. Its business has extended to 140 countries and regions, its international income accounts for 60 % of total income, and it became one of the top five companies in the global telecommunication equipment area. In 2008, when the global financial crisis happened, ZTE enlarged its investment in R&D and recruited 30 % more people, aiming to narrow the distance with international companies in the same industry.

4.4.2 Borrowing and Integrating International Resources

Some entrepreneurs developed by grasping the opportunities presented by the market. They used the cost advantages of China and engaged in original equipment manufacturing (OEM), and completed import, digestion and absorption of the processes and technologies during the process of OEM. However, entrepreneurs were not satisfied with just OEM; they developed their own products and entered the international market. They occupied the international market using "China made" first, continued to track and integrate advanced international technologies, and eventually obtained their own core competitiveness.

Galanz Group introduced the most up-to-date microwave production line and technology from Japan in 1992, and enhanced their capacity through technology import and digestion. Three years later, its microwave production and sales volume took a quarter share of the domestic market and ranked first. Transformers are a key component of microwaves. Galanz imported production lines from Japan and the United States, and supplied foreign companies at a unit cost price of 5–8 US dollars. Besides ensuring the fulfillment of demands from foreign companies, Galanz also entered production themselves and learned the manufacturing technology of transformers, which laid the foundation for developing the magnetron, the tube that produces electrons in a microwave. The company constantly imported foreign production lines, and became the biggest microwave manufacturing base in the world in 1999.

The founder, Liang Qingde, invited domestic and foreign microwave technology experts to join Galanz, and established R&D centers overseas to engage in the development of cutting-edge technology. The company mastered all the core technologies of microwave manufacturing, with over 98 % of the core components produced and assembled by Galanz itself. Galanz set up strategic alignment with foreign companies, and moved from being part of "the world's factory" to a "world brand". In 2007, 60 % of all products exported by Galanz were indigenous brands. The enterprise evolved from OEM at the beginning to ODM, Original Design

Manufacturer. In recent years, Galanz started to establish branch companies overseas and set up their own sales channels. The company sent finance and management staff overseas from China, and hired marketing and network maintenance staff locally. Branch companies in each country carried out marketing activities tailored to the local situations. Galanz finally set up as an OBM, Original Brand Manufacturer, internationally. By 2007, Galanz's microwave production and sales volume had been the biggest in China for 13 years in a row, and the biggest in the world for 10 years in a row.

The leaders of Galanz are the representatives of China's entrepreneurs. They used the cost advantages of China and started with OEM, which supplemented their lack of experience and capacity in international business, and also managed to avoid face-to-face confrontation with foreign companies, to win themselves survival space in the situation where they had much lower capacity compared with their foreign competitors. Meanwhile, they constantly absorbed international management experience and learned advanced technologies, gradually developed their own R&D system, and eventually exported their own brands. They created an internationalized operational model for Chinese enterprises, especially those in the manufacturing industry.

4.4.3 Pushing Enterprises to Follow International Operation Standards

Chinese enterprises often experience frustrations during their internationalization process. The reasons for failures and frustrations on one hand are due to being unfamiliar with foreign society, laws and culture; but, most importantly, it is because of shortcomings in the general capacity of enterprises, or not being well prepared before going international. The success of internationalization not only requires an enterprise to have the comprehensive capacity internally, it also requires an enterprise to be up to standard with international practice in terms of management and operation, which means it needs to internally "internationalize" within firms before taking on international markets.

When HUAWEI first entered the overseas market in 1998, it could not fulfill the requirements of some top international network operators. The founder of HUAWEI, Ren Zhengfei, then decided to apply international standards to the company's management practices. The company introduced comprehensive international level management systems: it introduced a "position and salary system" from HAY Group; introduced IPD (integrated product development) and ISC (integrated supply chain) management from IBM; applied England's National Vocational Qualification system to the company as an enterprise vocational qualification system; cooperated with the Accenture company on CRM (customer relationship management); and optimized HUAWEI's entire flow – from products to customers – to increase the company's global operational efficiency. All these reforms mirrored the approach and working methods found in international customers and other international companies in the same industry.

For example, to become a supplier to British Telecom (BT), HUAWEI had to pass BT's supplier certification. For this purpose, HUAWEI specially set up a team focusing on the BT project, and tried to acclimatize itself to the requirements of BT in terms of research and development, marketing, supply chain management and working languages. In 2 years, it spent nearly a hundred million in funds to constantly improve the management of each step, and finally became an equipment supplier of BT at the end of 2005. It also signed a global procurement framework agreement with Vodafone Group. In order to achieve contracts with big international clients, HUAWEI always set up special working teams to integrate the company's resources with the clients' demands. Meanwhile, the company's headquarters adjusted its structures, with the top executive management team integrating market and services, strategies and market, products and solutions, operational and delivery departments, as well as finance and human resources, to ensure clients were responded to in the shortest possible time.

In order to better fit into foreign markets, HUAWEI has constantly increased the recruitment of local employees overseas. In recent years, the recruitment of overseas local staff has been increasing 15 % each year. Up until the end of 2008, 22,000 of HUAWEI's 80,000 employees were based overseas, and 12,500, or 57 %, of them had been hired locally (Qiu 2009). The company constantly updates its human resource objectives and plans according to the business's requirements. The human resource department constantly analyzes the competitiveness of the company's salary scale, and combines this with global business planning and the status of global human resources distribution, to recruit personnel with global working experience and the capacities to accelerate the company's internationalization process. Meanwhile, HUAWEI also makes efforts to seek foreign professionals with rich international telecom operation experience to work as high level managers in the company, providing the major force in helping the company to build its international market. In October 2008, HUAWEI won contracts with the first and second largest general network operators in Canada, Telus and Bell, for their UMTS/HSPA networks. This symbolized HUAWEI's official entry into the mainstream operator market of North America. Before this, in July 2007, HUAWEI obtained a contract with United States mobile network operator Leap Wireless for its CDMA 2000 network, to deploy CDMA 3G networks in cities around America.

HUAWEI successfully transformed from a domestic enterprise to an international enterprise. The enterprise used professionalism and the culture of respecting procedures, systems and standards to replace the "heroics" in the "Hyenas era", which allowed HUAWEI to operate successfully in the international market. Recognizing that there was commonality in international enterprises' practices, HUAWEI ensured its management systems were already in line with the international standards before it entered the international arena, and solved many problems by improving the management mechanism.

4.4.4 Creating an Open and Innovative Organizational Culture

Besides adopting the management systems that are in line with international practices, entrepreneurs also have provided endless impetus to the development of their enterprises by building corporate culture. Once they have found their corporate culture does not suit the internationalized operation of their enterprises, they have used their personal authority as leaders to rebuild the corporate culture, and guide their employees to adopt behaviors that are in line with international business culture.

In the mid-1990s, HUAWEI had already formed their own corporate culture. There were many slogans inside the company, like "wolf culture", "result oriented", "a burning bird is a phoenix", "toast for winning, fight to death for winning" etc. Ren Zhengfei deemed that the unification of an organization must be based on the development of minds and culture. He took the opportunity of formulating the "HUAWEI Basic Law" to build the company's value concept and corporate culture. From Ren Zhengfei's perspective, "HUAWEI's initial business exploration and development depended on the actions of the entrepreneurs, that they fought really hard to grasp opportunities no matter what resources they had in their hands. The company developed from small to large by the hard-working, farsightedness and strong courage of the first and second generations of entrepreneurs. The objective of the second business exploration and establishment is sustainable development. We should achieve bringing all of our work into line with international practice in 10 years. We should reduce the entrepreneurs' personal function, and enhance professionalized management. Turn the charming personality, spirit, and individual motivations to a kind of atmosphere to promote and guide the enterprise to develop in the right direction. . . .This guiding atmosphere is the commonly formulated and recognized as the 'HUAWEI Basic Law'."

After 2 years' preparation, the "HUAWEI Basic Law" was issued in 1998. It explicitly defined the objectives of the company, business operation policy, organizational policy, human resource policy, control policy, management succession, modification of the basic law and other aspects in the form of legal articles. Many articles reflected the characteristics of HUAWEI's business management in China, which showed a strong sense of crisis, aggressiveness, desire to expand and utilitarianism. This sharp and fierce "wolf" culture helped HUAWEI to seize territory in the Chinese market, and defeat domestic and foreign competitors. However, when HUAWEI expanded overseas, its aggressive style met with disgust and retaliation from other companies. Ren Zhengfei realized that the "wolf" culture was bad for HUAWEI's international development and quickly gave it up. The company then started to educate its employees to drop the "wild nature" and work in accordance with standard procedures, instead of personal passion and courage. In order to calm the enthusiasm of the employees, Ren Zhengfei stopped organizing large scale group activities, and tried to make fewer public speeches. The company gradually forgot the idea of the "basic law". In 2006, they changed to a new logo to show that HUAWEI would continue to focus on customers, keep innovating, grow stably, and work on the construction of a harmonious business environment.

How was HUAWEI able to adjust its business and change its culture in such a fast pace? The reason is that it formed an open and innovative culture. Ren Zhengfei emphasizes that, externally, the company should always listen to the customers' opinions; internally, resources should be shared between departments. The door of each office is always open; staff can talk to each other freely. The company breaks the office hierarchy, deliberately creates an honest atmosphere, in which managers and staff use the same desks and people can communicate any time they want. Ren Zhengfei often issues declarations and makes speeches to strengthen employees' sense of crisis, encouraging them to constantly innovate to meet the fast-changing market environment and face the future. The company also encourages employees to do self-criticism, to prevent empiricism, and improve constantly. It also accepts mistakes caused by innovation or the exploration of unknown areas. Inside the company, employees are encouraged to expose their shortcomings, analyze themselves and share their experience with others. This kind of culture stimulates the employees' passion for innovation and to continually come up with good ideas. This open and innovative cultural atmosphere created by Ren Zhengfei provides employees with the conditions to learn and improve, which complies with the international business trend.

Some entrepreneurs realize that improving the quality of management-level staff is very important to the sustainable development of an enterprise. For this purpose, they make plans to adjust the leaders' team. For example, Alibaba.com Corporation developed from having only "18 Buddha" at the beginning to a group of nearly 10,000 people. It has one listed company and six independent branch companies; therefore, the management skills of high-level managers must be improved. The company has a rule that people who take positions of chief managers and above must have 3–5 years' overseas education or 5–10 years' overseas working experience. From Ma Yun's perspective, the 18 people who founded the company together with him can be the leader of a platoon, but are not competent to lead a bigger group. He continually hired professionals and senior managers from GE, Wal-Mart, Microsoft, Motorola and other international enterprises. After Alibaba.com was listed, in order to better deal with international competition and further increase the company's management skills, Ma Yun asked some senior staff of the corporation, even some of the founders of the branch companies, to quit their current positions and arranged for them to study or rest for a while. Ma Yun believes, to achieve the objective of becoming "the best company in the world established by Chinese people", having a big heart, insight and global vision, as well as a world's best management team are essential.

4.5 The Changing Paths of Entrepreneurs

The previous sections described key features of excellent entrepreneurs who emerged during different phases of the past three decades. Although entrepreneurs in different phases were facing different tasks and features, generally speaking, they shared some common characteristics.

4.5.1 Three Types of Entrepreneurs and Their Fitting with Environments

With the constant change in the social environment, enterprises in different phases had different key tasks; therefore entrepreneurs in different phases shared some common characteristics. Table 4.1 summarizes the key characteristics of the three types of entrepreneurs: the political wisdom type, the professional specialty type, and the international operation type.

The political wisdom type entrepreneurs could understand the existing society, survive in an ever-changing political environment, adjust their business scope according to the market need, sometimes even try to operate the wrong way, and eventually realize the maturity of the enterprise. The market characteristics in this phase can be described as “unstable but full of opportunities”. As long as the entrepreneurs did not go against policies, their products and services could be received by the market. The political wisdom entrepreneurs mostly started their businesses in their 1940s. They experienced in childhood the passion of socialist construction, the craziness of the Great Leap Forward and the extreme poverty in 1960s and they encountered the decade of the Cultural Revolution when graduating from middle school and college. The experience of harsh living and complicated political fighting brought toughness and depth to their characters. Their unique experience during growth made them realize the significance of power, therefore they demonstrated a strong desire to control in terms of decision-making style. Though being the top leaders of the enterprises, they still worked in a hands-on way (Cheng et al. 2006). When starting their businesses, they didn’t have too much in the way of material resources. That’s why they could only persuade others to give up secure jobs and join their enterprises on far less attractive terms of employment by creating great expectations and beautiful visions. Other than that, their selflessness, diligence, and spirit of suffering before enjoyment inspired a large group of people.

The professional specialty type of entrepreneur mostly started their business when the direction of the market economy had been set in China. At that time, the market environment was comparatively mature, policies and regulations were stable and social capital was rich; however, the market competition was fierce as the market transited from seller dominant to buyer dominant. Because capital, human resources and available technologies were quite rich, it seemed easier to

Table 4.1 Comparison among three types of Chinese entrepreneurs

	Political wisdom type	Professional specialty type	International operation type
Time period of emerging	Mid-1980s	Mid-1990s	Early twenty-first century
Features of the macro-environment	Transforming from planned economy to market economy	Establishment of market economy	Moving to mature market economy
Major challenges	Challenges brought by changing policies	Challenges brought by market needs and competition	Challenges brought by competition from international enterprises and foreign social, cultural environments
Characteristics of successful entrepreneurs	Maintenance of harmonious external relations	Understanding strategic position	Gaining advantages based on innovation
	Winning understanding and support of the government	Getting to know business theories and practices	Integrating international resources
	Pushing forward institutionalization and professionalism	Creating new business models	Following international rules
	Developing and supporting successors	Having insight into customers' need	Creating an open culture
Key to success	Social networks	Professional specialty	Organizational capability

establish an enterprise than previously. However, it was even harder for an enterprise to survive or win in the competitive market. Only those mastering specialized techniques or establishing unique business models could stand out from the crowd. The professional specialty type of entrepreneur was mostly born in the late 1960s. Their youth coincided with the starting of China's economic reform. They received good education during the social development. Growing up in favorable circumstances forged their characteristics of insisting on equality, advocating sharing, not being stubborn, and being orientated towards professional specialty etc. They are comparatively not interested in power that much. They understand teamwork very well, so they find it easy to cooperate with others, and they are able to set up effective operational and management teams, and make up for each other's deficiencies. Some of them were not experts in any particular area, but they had the abilities to bring experts together to push forward the development of enterprises. For example, Ma Yun is very good at cohering common views; he believes "if you have a top-level working team and management, you are halfway to success". He engages in forging Alibaba's working teams, and believes that "no one can poach my teams!"

The international operation type of entrepreneurs built up the core capacities and competitive advantages of their enterprises through effective business management. They successfully occupied the domestic market first, and then extended their business into overseas markets. They mostly initiated their international expansion in less developed areas such as Asian and African markets, and then gradually moved into the mainstream markets in Europe, America and Japan. During this process, they "battled and failed, failed and battled". Unforgettable lessons and experiences made them understand the culture and rules of international business. They have wide vision; they are good at learning; they are the guides and the main force of the internationalization of current Chinese enterprises.

The above categories are neither distinct from each other, nor mutually exclusive. Some entrepreneurs may be both types or all three types. The different environments they were facing destined their different focal points in running their businesses. Entrepreneurs who could fit into the environment and take control of the key problems facing their enterprises normally achieved success. Entrepreneurs who failed, did so basically for two reasons. The first reason was that the strategic decision-making of an enterprise did not match the outside environment; for example, starting ownership reforms when the state did allow it. This kind of entrepreneur failed in the time phase in which they were operating. The second reason was that, having achieved success in one time phase, entrepreneurs built up their confidence in and dependence on the old path and stuck with the old strategies when the market environment moved into a new phase. Their failures, therefore, result from the failure to adapt to the changed circumstances. Entrepreneurs succeeded in new phases either because they changed their strategies to fit the new environment or they handed over to somebody else capable of carrying out the task.

4.5.2 The "Capital" of Successful Entrepreneurs

We didn't analyze the personalities of Chinese entrepreneurs. However, entrepreneurs from different time periods have more or less similar backgrounds that give them the "capital" to start, and help them succeed. The first type of "capital" is their rich understanding and life experiences from many years' accumulation and their strong motivation to make a career. Entrepreneurs like Liu Chuanzhi and Ren Zhengfei were very positive and eager to learn when they were young. They had high expectations for a future in which they could use their abilities to work for the country. Unfortunately, the country at that time was trapped in long-term chaos, the national economy had ceased, and all production and business were prohibited except for political wars. At that time, unlike most people who engaged in political activities, they fulfilled themselves by reading, studying and limited scientific research. They had a deeper understanding of the country's future and of life than ordinary people, which inspired them to accumulate their knowledge and wisdom consciously. When the country's situation reversed and its priority task returned to economic building, these people who had ideas and had been preparing stepped out of the old system with courage and passion. Years of wondering and figuring made them more confident and steady than others. They knew better about the importance of having a correct development direction, as well as organizational building and execution capacity. They paid great attention to what Liu Chuanzhi described as "setting strategies", "organizing working teams", and "leading a group" during management.

The second type of "capital" comes from their work backgrounds. Some people used to work in the government, and started doing business later. The founder of Vantone Group, Feng Lun, belongs to this category. These people accumulated deep social relations and networks for years, and achieved their "first bucket of capital" from trading by using all of their advantages. Success in trading not only brought them a funding base, but also made them experienced in the market. When some of these people further established enterprises to engage in industries, the funds and experience, as well as networks all became their capital. Working in the government also brought them more institutional and industrial information. They were in a better position to observe the state's policy trends and to identify gaps and opportunities in the market. The founder of UFIDA, Wang Wenjing, worked in the Government Offices Administration of the State Council after graduating from university in 1983. His work in government taught him to be steady and to observe all factors when doing things; more importantly, it allowed him and his colleagues to develop UFIDA's finance software by taking the opportunity of China's accounting computerization.

The third "capital" is outstanding technical expertise. Technical experts like Ma Huateng, Li Yanhong and Wang Chuanfu lived in a time of open information and knowledge. Good education made them very familiar with the development status of their own industries. They also mastered technical areas at a depth beyond their peers through their personal development, persistence, and talent. However, they were not happy with just being technical experts, they hoped to transfer their "special skills" to products. Luckily for them, when they started their businesses in the mid-1990s, China had already left the period of material and capital shortage, and already had many kinds of professional and specialized talents. All these conditions provided them with good opportunities to start their businesses. They easily raised funding to start up, and organized their own operational and management teams. However, these conditions were not sufficient for establishing an enterprise. The most important element was whether the founder of an enterprise had a specialty. For example, Ma Huateng played with computers from when he was young. His skills amazed his teachers and classmates. He was both the killer of viruses and the practical joker. Ma Huateng's success is largely due to his specialty in computers. Therefore, the capital for technical experts to start in business is their own technical expertise.

4.5.3 The "Unique" Common Characteristics of Entrepreneurs

Besides the above mentioned types of "capital", Chinese entrepreneurs in general have acute insight, prospective judgment, and the action orientation of grabbing opportunities and building on them fast, as well as the desire for excellence. The fast-changing Chinese society has given them different characteristics from the mature commercial society, especially for those entrepreneurs who started at the transitional period and have lasted till now. Their understanding and belief is: "win from knowing the change, lose from holding the past". Western entrepreneurs mainly need to deal with business competitors, consumers, and challenges caused by the changing demands of the market. In addition to those conditions, Chinese entrepreneurs also need to deal with challenges brought by the macro policy environment. They often encounter a situation like this: when an enterprise is doing well following its own path, a sudden new policy from the government or a sudden order from a government official requires the enterprise to abandon its current business or business model. Some people give up, but some choose to adapt to "survive". Therefore, successful Chinese entrepreneurs mostly include dealing with change as one of their leadership capacities; flexibility and adaptability become a common characteristic of Chinese entrepreneurs.

As latecomers to the global market, Chinese entrepreneurs only survived on the edges, in areas Western enterprises avoided or hadn't yet occupied. They came to compete with Western competitors in the open Chinese market after accumulating certain capacities. The "encircling the cities from the rural areas" model of HUAWEI and Galanz's OEM to ODM approach reflect the developing path of Chinese enterprises. When competing with Western enterprises, due to the huge differences in terms of technology, brand, and economic capacity, Chinese entrepreneurs could only depend on their deep understanding of the needs of customers and developed products which could fulfill Chinese customers and the Chinese market, and run ahead of Western enterprises by responding more quickly. This model helped Tencent, Baidu and Taobao defeat American enterprises in the local market. Therefore, Chinese entrepreneurs generally focus on the needs of customers. Hou Weigui, Ren Zhengfei, Wang Wenjing, Ma Huateng and Ma Yun still use different ways to communicate with clients now. Meanwhile, they require the whole enterprises to enforce a customer-oriented system. The work of departments and resource mobilization are all aimed at fulfilling customer needs.

As the latecomers, Chinese entrepreneurs especially focus on learning and absorbing Western advanced management and operational experience. Some of the young entrepreneurs have sought Western education to acquaint themselves with Western technologies and business culture. Others, like Ma Yun, visit many enterprises and universities all over the world each year, and often participate in foreign forums. Some older entrepreneurs remain the study and analysis of advanced international experience. During the development of HUAWEI, Ren Zhengfei visited enterprises in the United States and Japan, absorbed their successful experience and lessons learned from failures, and also introduced Western advanced management procedures through consulting firms. He started to learn English when he was nearly 60. This open mind and constant learning have enabled many Chinese entrepreneurs to well understand Western advanced experience; in effect, allowing them to "know the enemy". Influenced by the local social culture, well aware of the needs of local market and customers, they also "know themselves". "Know yourself as well as the enemy" reflects the fact that successful Chinese entrepreneurs have dual management conceptions and philosophies: in management and leadership, maintaining the traditional Chinese philosophy of "acting in the middle way" and "harmony is precious", while insisting on "scientific management" and the "pursuit of excellence" (Zhang et al. 2008). The dual philosophies reflect as "a combination of Chinese and Western elements" when it comes to management practice: they draw the qualities expected of employees from traditional Chinese culture and philosophy, as well as historical experience, but adopt Western systems and procedures to carry on business operations. For example, the management concept of the CEO of Alibaba.com, Ma Yun, is "Eastern wisdom, Western operation". He deems that Eastern people have in-depth wisdoms; however, there are shortcomings, such as family style, lack of systems, subject to bias etc. Western enterprises use systems to ensure the running of enterprises; however, Chinese enterprises use people, which is not very reliable. Therefore, Ma Yun insists on "all Western style" in terms of the management, capital operation, and global running of the company. The president of Hainan Group, Chen Feng, has a Western education. He manages Hainan Airline by international standards and rules, while drawing business philosophy and life wisdom from traditional Chinese culture. He requires his airline's employees to study "The guiding book of traditional Chinese culture", proposes "being a good person first in order to be a successful merchant", lectures on the "knowledge of being a person" in new staff orientations, promotes the philosophy of "doing something for society, doing something for other people, doing something for yourself", and emphasizes the transfer from the "little me" to the "big me".

Chinese entrepreneurs have open minds and are good at learning, which gives them broad vision and flexible strategic thinking. They can identify the key problems faced by their enterprises in different phases, and develop effective means of solving the problems. Once the environment changes, the management concept, practice and models all change accordingly. In the early days of HUAWEI, it lacked capital, technologies, brands and customer relations. Ren Zhengfei encouraged his employees to "hunt for food" in the market like "wolves", and achieved preliminary success. However, when HUAWEI was in its growth stage, Ren Zhenfei started to focus on organizational and system building. He realized that only by complying with systems and procedures could he achieve the controllability of an enterprise. When some high-level managers didn't support the consulting solutions provided by IBM, Ren Zhengfei insisted they strictly follow the IBM procedures, which laid the foundation for HUAWEI's professionalism and institutionalization. Further, Ren Zhengfei found that systems and procedures could restrict the enterprise's ability to react to changes happening in the outside market environment, so he also opposed the rigidity of big corporations. His words reveal his understandings of an organization's nature:

> *Who sounds the alarm for fire? It should be decided by people who can see the fire. But now we are in the opposite situation. The administration doesn't really know about the front line, but it has too many powers and resources. In order to control the risks of operations, they set up many control points, but are unwilling to delegate their power. Too many control points on the flow will decrease efficiency, increase costs, and generate bureaucracy. . . . We should optimize and organize the flow in reverse, which is demand-oriented, driving for objectives, thinking everything from the perspective of the front line, making common efforts to set up effective control points on the flow. Simplify unnecessary steps, downsize unnecessary employees, increase operational efficiency, and lay a good foundation for the future. . . . Previously, our organizational and operational mechanism was a "push" mechanism, now we are going to change it into a "pull" mechanism, or I should say "push" and "pull" combined, "pull" takes the lead. When pushing, it is the central authority's strong engine that is pushing, we cannot really see clearly those non-functional positions or useless procedures. When pulling, if we see any string is not working, we should cut it off, cut off all the departments and people who are attached to this string, then the organizational efficiency will largely increase.*

Using procedures and systems to enhance controllability, while retaining the ability to override those systems and procedures based on organizational objectives, especially the needs of customers: this probably represents the flexibility and pragmatism of Chinese entrepreneurs. Fortunately, this kind of pragmatism is derived from the understanding of the internal control of organizations, and sensitivity to changes in the external environment, as well as the importance attached to the needs of customers. It is not from ignorance of existing management practices. "A big road has no form", does the above indicate that a group of Chinese entrepreneurs with independent thinking is coming?

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Chapter 5
Organizational and Institutional Building of Enterprises

Jianjun Zhang

Due to the fact that the market in the IT industry changes very fast, if sales policies and promotion plans were all to be formulated by the headquarters of the company, the result would be bad due to time-lag and regional disparities. So upon the request of regional managers, the headquarters delegated partial authority to managers of each region. In a short period of time, because the regional offices knew their local markets better, plans formulated by them were more practical; meanwhile, the incentives for employees at the regional offices were also motivated, so the delegation of power demonstrated positive effects and, as a result, the sales volume increased a lot. However, problems occurred after a while. Corrupt behavior started to happen in regional offices after they obtained power. For example, rent-seeking largely existed in terms of price policy and marketing budget spending. The whole atmosphere and culture of the company were ruined, which severely damaged the company's long-term interest. In the end, the headquarters of the company took back the power... (Interview with a manager, November 2007)

Mr. Zhang, who used to work in an IT company, provided the above story. As a matter of fact, this kind of experience has been quite common among private businesses in China. In the past 30 years, Chinese private businesses went from none to something, from small in size to large scale; private entrepreneurs transformed from merchants to entrepreneurs by going through a "pre-corporate period", "corporate period" and "fortune-making period", in which there coexisted learning and innovations, confusion and confidence, frustrations and successes. Dealing with the conflict between work specialization and coordination, the contradiction between centralization and decentralization of power, the tension between impersonal institutions and human relationships, the balance between efficiency and control, and the considerations of maintaining both vitality and order have become the inevitable challenges for each entrepreneur.

Adam Smith indicated in "The Wealth of Nations" that a state's fortune was derived from the division of labor and rational organization of production (and trade on this basis); the emergence of factories in modern times symbolized the start of

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rational organization of production. Henri Fayol, one of the founding fathers of general theory in business administration, positioned the functions of a manager as planning, organizing, commanding and controlling. However, apparently simple theories are not enough to solve complicated real world problems. Practitioners cannot count on theories to light their way in the dark, they can only feel their way in confusion and by zigzagging between the obstacles.

For the purpose of examining and summarizing practices, this chapter tries to describe Chinese enterprises' explorations in structure, procedures and institutions during their growth and reform process, and to discover the distinctive features and development trends of business organizations in terms of structure design, procedure improvement and institution building. Enterprises like HUAWEI, Vanke and Lenovo, who have evolved to finally become top enterprises in China, or even in the world, will be cited; enterprises which encountered frustrations during development and even failed will also be looked at. Comparisons will be made to find the rules.

5.1 Structure Design – Feeling the Stones While Crossing the River

For an enterprise that has developed its own products and market, the core task would be: how to organize its production, including how to distribute tasks, how to design departments and how to arrange powers and responsibilities. The president of Lenovo Group, Liu Chuanzhi, concluded three core tasks for executives from his own experience: "Set strategies, organize leadership teams, and leading"; the last two are both related to structural design. As the link between strategies and execution, the design of organizational structure directly affects the implementation of strategies and the achievement of organizational objectives.

The challenge faced by Chinese private enterprises in terms of organizational structure was that they were starting from scratch; there was no history or accumulation of knowledge and experience. So, in the situation where they were starting from nothing, how did they overcome the obstacles and progress?

5.1.1 Looking for Models to Learn From

Generally speaking, anything new (no matter whether a product or management practice) normally come from two sources: one is innovation, and the other is from learning and imitation. The models to learn from normally come from the surrounding environment. When an organization is looking for a target to learn from, it considers two factors: one is the availability of the target; the other is the legitimacy of the target, which means the organization has to deem whether the target is advanced enough and worth learning from. There were limited resources when

Chinese private enterprises first emerged. In this circumstance, the availability of learning targets became the dominant factor. When looking around, there were so few models to learn from; therefore, they just grabbed anything they could find in the environment.

When looking at the models which private enterprises learned from at the early stage of their development, we found they imitated state-owned enterprises or government, military, foreign companies, even the organizational form of gangsterdom.

5.1.2 State-Owned Enterprises or Government

It is well-established that the mechanisms of private enterprises are more flexible than state-owned enterprises (SOEs); however, private enterprises still have many problems in terms of organizational structure and professionalization of management, even today. In this regard, private enterprises decided to learn from SOEs and governments from the beginning. Indeed, some managers of private enterprises used to be leaders in SOEs; they thus knew SOEs very well, so they consciously or unconsciously imitated the management mode of SOEs in the early days of their businesses in order to supplement their own deficiencies in management. More frequently, private enterprises learned the organizational structure and management mode of SOEs through business interactions with SOEs: they learned the good sides of SOEs and applied into their own business. As a result, we saw that some private enterprises also named their departments “divisions” or “offices”, and arranged their hierarchies the same as in SOEs or governments, such as calling section managers directors or chiefs. Some leaders of private enterprises wrote their articles like editorials, the internal documents looked like the “red titled” government papers, the slogans also closely followed the political trends, signed at the bottom as “xxx company announced”, which was clearly government style.

Of course, there were some enterprises that chose elements of the organizational principles of government that would be beneficial to them, aimed purely at developing the enterprise. For example, the president of Macalline Group, Che Jianxin, shared his thoughts once at a management forum:

> *As the president, I’ve always focused on the study of human resources. I think the most important thing is to do organizational management. I recently studied the constitution of the Communist Party. Article 14 says: “Under regular circumstances, the central level governments of the Party should always consult the opinions of lower level organizations when making important decisions regarding lower level organizations, ensure the normal operation of lower level organizations; except for special circumstances, upper level governments should not intervene in the actions of lower level organizations.” So, how come our organization has been developing so slowly? I think it is because we always intervene in the actions of lower level staff. There has not been enough delegation of power, which has caused lower level staff to have neither responsibilities nor powers. That’s why I divided many business departments into three or four sections, like the first, second, third and fourth field army in the liberation army back then* (Anonymous 2008).

In the past 10 years or more, setting up Party organizations and labor unions, as well as setting up model workers by private enterprises, became popular. This was partly due to it being promoted by the government and partly the choice of private enterprises themselves. Enterprises who had set up party organizations are usually enterprises that had developed for a longer period, were large scale and had promising futures. When an enterprise develops to a certain phase, both the entrepreneur and the enterprise naturally wants to get closer to the government. We have talked about this point in the chapter of business-government relations.

5.1.3 Military

Many of the Chinese entrepreneurs have experience in the military, such as Ren Zhengfei of HUAWEI, Zhang Ruimin of Haier, Liu Chuanzhi of Lenovo, Ning Gaoning of COFCO, former president of Air China Li Jiaxiang, Wang Shi of Vanke, Sun Guangxin of Guangsha Group, and Chen Ping of ZJS Express, etc. The experience of being in the military more or less influenced their management style; emphasizing execution is one of the causalities we can all imagine. A famous saying of Chen Ping vividly reflects the influence of his military experience: "execute if you understand, execute if you don't understand; understand in execution, execute in understandings." From daily communications, we also found that most of the entrepreneurs who were still very active in business circles were very interested in talking about the histories of the Communist Party and the People's Liberation Army. They figured out principles from it and used them in their businesses. For example, from a TV episode describing the Menglianggu campaign, the managers of Beijing International Airport discovered the essential reason for the failure of the Nationalist forces and the success of the liberation army was cooperation; and they promoted this concept to their managers at all levels and employees.

Some entrepreneurs absorb useful learnings from the organizational structure of the military. Shi Yuzhu vividly demonstrated the military influence on him when he first started his health products business in 1994. He designated himself as the commander in chief, and set up three headquarters and seven front armies: East China, Central China, South China, North China, Southwest, Northwest and Overseas. He turned more than 30 independent branch companies into corps and divisions, and called the managers of different levels "front army commander", "army commander" or "division commander". In his mobilization order, he wrote: we will invest several billions of Yuan for the three major campaigns, hundreds of thousands of people will directly and indirectly participate, the operational mode of the campaign is by group army, and the direct objective of the campaign is to achieve billion Yuan-based monthly profits. Meanwhile he pointed out that the long-term goal was to forge a troop in the campaigns that could develop young soldiers to become army commanders or division commanders in a few months, and lead tens of thousands of people in a battle (Wu 2001: 180).

Similarly, Sanzhu Group, which is also in the health products industry, also adopted the organizational structure of the military in the liberation war period. Originally, the headquarters referenced to the Western model and established departments based on the kind of products; the departments were run independently and directly reported to headquarters. In order to ensure the smooth coordination of the products, it also established "the command office of the market front line", and established "the command commission of the market front line" at headquarters. Chairman Wu Bingxin described their functions thus: "the command commission of the market front line is like the State Central Military Commission, the command commission of every provincial branch company is like Front Line Military Commission. Using the military mode to run business means militarized actions, and the biggest characteristic of the military mode is absolute obeying of orders." (Wu 2001: 216)

Today, there are still many entrepreneurs enlightened by the cutting edge revolutions in military affairs. For example, Feng Lun wrote: "Observing from a global perspective, military organizations are evolving towards two directions, namely official organizations and legitimate organizations are becoming "S.W.A.T.", while illegitimate and non-contractual organizations are becoming 'Al-Qaeda'. " 'S.W.A.T.' means big backstage, small frontend: spending 70 % of the money on looking for targets, and 30 % of the money on destroying the targets directly. The frontend organizations have the full functions; the backstage becomes the supporting forces of the system. The so-called 'Al-Qaeda' is a group activity coordinated by concept of value, culture and emotion. The cost is carried separately, and the incomes are huge. The cost of '9/11' is 220,000 US dollars; however the direct cost to the United States is 200 billion US dollars, indirect cost is 400 billion US dollars. The organization of Al-Qaeda is comparatively scattered. There is no hierarchic management. Many actions were not directly deployed by Osama Bin Laden. They just use concepts of value and religious emotion to rule the organization." (Feng 2007: 86–87)

5.1.4 The Gangsterdom

As Feng Lun says, many private enterprises in early times had some characteristics of gangsterdom. Private enterprises were like gangsters and bandits, or rangers. They had been constrained under the old system for a very long time, so, once they were freed, they felt extremely relaxed and wanted to enjoy all the freedom and happiness. In terms of organization type, gangsterdom can be considered as a non-official organization. It is a structure in the middle between the government and the people. In the Ming and Qing dynasties, the population largely increased, and the contradictions between people and land were becoming more severe. In addition, the occupation of land by courtiers and despotic landlords by force caused more and more people to leave traditional rural society and adopt the third kind of living mode – gangsterdom. Besides the traditional type of merchants, rangers, necromancers, doctors and theatrical troupes, there were also outlaws, thieves, ethnic groups, bandits and gangs in the turmoil of wars. These organizations and their cultures have deeply penetrated every part of Chinese society, especially the bottom class (Yu 2006). Some warlords in the era of republican China, like Zhang Zuolin and Lu Rongting – they themselves had been bandits, also ruled their troops and governed their territories by the rules of gangsterdom (Zhang 2008).

Due to the fact that private enterprises originated from the edge of the old system, they were born with the features of gangsterdom. Private entrepreneurs also use the language and the ways of gangsterdom to run business, with phrases like "make a living in the gangsterdom", "live in the gangsterdom", etc. In terms of management, some entrepreneurs use the ways of gangsterdom to bond people's hearts to their purpose. They see being faithful to friends as a merit. For example, Feng Lun deems that during the period of gangsterdom (i.e., pre-corporation period), the highest level of management is the management in "Shui Hu" – "there are hierarchy of titles, but the same benefits for all". He also carefully read the book "Bandits in Republican China" which was written by a British author, and hoped to learn incentive mechanisms from the bandit organizations.

5.1.5 Foreign Enterprise

After Reform and Opening-up, foreign-owned enterprises surged into China, especially in the southeast coastal area. Therefore, wherever foreign enterprises could be encountered, they were definitely the priority learning object for Chinese private enterprises. Besides the indigenous factors, the reason why most private enterprises adopted family business was that most foreign enterprises which came to China in the early stages of the opening-up were from Hong Kong, Macau and Taiwan (where family business donates). The communication and mutual observation among Chinese communities naturally circulated organizational structures and management modes.

Learning from foreign enterprises was also reflected as the copying of various dazzling Western management theories. As Chinese enterprises grew quickly, they targeted the management practices of transnational companies and international communities. As a result, the multi-divisional form, matrix structure, balanced score card, scientific management and core competence came on to the copying list; private enterprises also spent big money on hiring people who used to work in foreign enterprises – the so called "internationalized talents".

Wang Wenjing hired He Jinghua, who had rich international experience, to work for UFIDA in April 2002, in order to prepare for UFIDA's entry into the international market. Based on research and analysis, as well as his long experience of working in foreign companies, He Jinghua restructured the sales management of UFIDA. He combined the U8 and NC product departments into one division. Then he repositioned the big client department, dividing it into a central big client division and a sector-oriented big client division to make them a sales unit with levels; this was vertical reform. He also re-divided the previous four areas into six areas to bring the sales teams closer to the demands of the market; this was horizontal reform. In this way, two sales lines were formed: the big client sales line, which was the vertical line and the regional sales line, which was the horizontal line. This was called the "jingtian pattern system (well-field system)" inside UFIDA.

5.1.6 The Variation of Fashion and Fit

In modern times, Western culture became dominant and learning from the West gradually became a common phenomenon in every industry in China. After the establishment of the new China, the government thoroughly wiped out the old culture; the mentality of "cannot live without the Celestial Empire" completely disappeared. Once the door was opened, Chinese people immediately opened their arms to embrace the world with great enthusiasm. By this time, China had entered an era of comprehensively and massively communicating with the outside world. The call to "be in line with international practice" soon became very popular around the country. Due to the fast-changing nature of management, new ideas and new concepts constantly came up; management, especially, became a special area of learning Western theories and practices. Concepts such as the "multi-divisional form" and "matrix management" came one after another, which looked very much like nationals pursuing fashion.

The first concept that came to people's attention was the divisional structure. The divisional structure was warmly welcomed by Chinese managers because it included some of the features of China's economic reform (e.g. delegation of power, the sharing revenue and expenditure between central and regional governments, etc.) in the 1980s, and also because it could mobilize the incentives of lower level agencies and departments. At that time, consultations with regard to how to adjust an organization to the divisional structure greatly increased. The author of this chapter also received many enquiries from students and business people on what the divisional structure was and its application range. Some big private enterprises established the divisional structure one after another. Lenovo established six major groups (namely business divisions) in 2001, respectively: enterprise IT, consumer IT, handy equipment, IT services, Internet, and machine components manufacturing. Later, the six groups were integrated into three big groups, among which A group included PCs and laptops; B group included mobile communication; and C group included IT services. UFIDA set up a U8 division and an NC division based on its products. Both divisions have sales, marketing, services, and R&D functions; and they run separately and independently.

If the above cases show rational choices by those enterprises, some other enterprises were purely pursuing fashion. The author knows of a company which had a single product and only 20 employees; the departments in the company were all called "divisions", but, in fact, they were just functional departments. So why did they use the name “division”? The boss of this company answered: “Because it sounds good. My friends’ companies all use this name.” Reasons behind this fashion trend included the worship of all things foreign by some people and promotion by consulting companies. SWOT Analysis became the essential course in strategic consultation. Using initials of English words to strengthen impressions became routine in the business, e.g. 4S, 7P. It seemed that working without an S or a P was not international enough or good enough. Pursuing organizational concepts as a fashion brought many troubles, even failure to Chinese enterprises. McKinsey’s failure on Fujian Start Group is a case in point.

After Start Group was listed in Shanghai in 1996, it encountered a series of problems during its fast development. It expected to solve the two biggest problems – in its sales channel and its marketing mode – through consultation with McKinsey. At the end of both 1998 and 1999, in accordance with McKinsey’s plan, Start Group twice conducted large-scale and in-depth structural adjustments: breaking up all the branch companies and setting up different business units, with marketing and sales activities all to be conducted by the business units.

McKinsey’s prescription didn’t help Start Group; on the contrary, it worsened the group’s “illness”. For some time, management staff who were good at their jobs no longer knew how to work under the new system. In the first half of 1999, the group’s business performances declined significantly; many receivables, material assets, and inventories started to pile up; many bad accounts were produced during these structural adjustments. Start Group itself also found that too many coordination steps and endless meetings decreased the efficiency of coordination, which caused a decrease in the efficiency of the marketing system operation. Five months later, Start Group could no longer afford the pressure of the continuing declining business performances and was forced to go back to its original management and marketing system. Besides internal factors, the reason for McKinsey’s advice failing at Start Group was that McKinsey applied the successful experience of Western enterprises directly to a Chinese enterprise without modifications, copying a successful model without considering the local situation.

After several years of the divisional structure being popular, the matrix structure soon became the new favorite in business circles because of its function of sharing limited resources. In a few years, Lenovo, UFIDA and other companies all started to use the matrix structure. In 2007, Lenovo adjusted its organizational structure again. It broke up the grouping mode (namely the divisional structure), which had been in force for 3 years, and set up 4 “military regions” nationwide (the east, the south, the west and the north), and 18 small regions under the 4 big regions. This adjustment completed Lenovo’s matrix organizational structure. As we have introduced previously, UFIDA had previously already completed its transformation from the divisional system to the matrix structure under the leadership of He Jinghua. Kingdee Group also started to transform to the matrix structure after using the divisional structure for a short period of time. “The previous market was short-supplied; so once you had the products, you had the market. Back then, there were big variances in products, the competition was not intense, so enterprises were all product-oriented. After the quantity of products increased, and the types were more diversified, enterprises found that the resources for R&D, marketing and services started to get wasted." That is how the chief strategic officer of Kingdee explained the company's transformation to the matrix structure.

Several years later, the problems of the matrix structure were completely exposed. There are only a few enterprises still using the matrix structure. Looking through the reasons, firstly, the matrix structure didn't match the development phase and the actual needs of enterprises; secondly, the unique Chinese features inside enterprises' management and culture didn't match the requirements of the matrix structure. The matrix structure requires people to coordinate, communicate and be project-oriented instead of leader-oriented. Many enterprises cannot meet these requirements.

During the implementation of the matrix structure at some enterprises, their extensive business range meant space and time intertwined, and business and professional sides intertwined, increasing the difficulty of communicating. Some enterprises stopped the matrix structure because the branch companies had too much power, so, even though the matrix structure was set, it was difficult to really enforce. Some enterprises failed because of complicated office politics, they were human-ruled rather than regulation-ruled. Plus Chinese people were used to single leadership rather than multi-leadership; so, reporting to two bosses often caused a complicated interpersonal dilemma. The two-way commands in the matrix structure and the "unified commands" in business administration theory have always been an inevitable contradiction. Working in a matrix, everyone was subject to the confusion of whether to achieve success one way or another or act involuntarily; accept being trapped or find a way out.

While some enterprises were busy in pursuing fashion, we also witnessed Chinese executives making efforts to look for the most suitable organizational structure. The above cases about Lenovo and UFIDA were all about adventure. Guo Fansheng is an example of wisdom; he explained his journey of reforming his enterprise's structure and changing in accordance with needs at different development phases. At the early stage, Guo Fansheng used two-dimensional matrix management. He horizontally set up a marketing department, editing department and publishing department, and vertically set up three departments – home appliances, IT and automobiles; which all directly reported to Guo Fansheng. Because of the unified management, the sales people went to attract business without dividing areas, which created an imbalance in benefits for different business areas. If it was easy to find business in the IT area, people would all focus on IT; if it was comparatively difficult to find business in the home appliances area, there would be no one working on it. In view of this, he decided to try to enforce a professional company type of business unit to solve the problems. He set up home appliances, automobiles and IT as individual business units, let the general manager of each unit take full charge of the business operation, market coordinating, and editing and publishing. After a while, the professional company type system also exposed problems. For example, it was difficult to find ideal general managers; it was prone to slipping into the human-rule system due to the concentration of power in the general manager's hands; the Internet platforms were difficult to unify and resources could not be shared, etc. After serious consideration, he enforced a three-dimensional matrix structure, the first dimension was product, R&D and branding, the second was branch agencies, and the third was an independent business accounting unit (Guo 2009).

5.1.7 The Confusion of Centralization and Decentralization

Just like in the relationship between central and regional government after the new China was established – "Dead once controlled, messy once delegated" so the power went back and forth between "control" and "delegate", many enterprises also faced the same sharp challenge of balancing centralization and decentralization of powers. As enterprises continue to expand and diversify, a critical question is whether power should be "centralized" or "decentralized"? Many cases show that some enterprises stagnated or fell into difficulties because of the centralization of power; while other enterprises insisted on "democracy" of power and tasted the result of "losing a thousand pieces of gold and not having them back". Centralization and decentralization of power really put business leaders in a dilemma.

One of the features of the management of Chinese society is the high centralization of power. From Wang An requesting 232 of his managers to report to him directly, to the famous saying of the president of IDALL Company Hu Zhibiao: "all contracts with the amount above a penny have to be signed by me", there were many examples of high centralization of power. This centralization on one hand is an extension of the traditional Chinese culture – its "grand unification"; on the other hand, it reflects the frustration at the lack of generalized trust in Chinese society. This so-called generalized trust means the trust one can place in a complete stranger. It is well known that a feature of Chinese people's trust is that they only trust "their own people" or people "in the circle". This circle could be determined by the leader's family background and could be changed along with the leader's personal experience. In other words, the circle limits within families or friends. But it is very difficult to expand trust to people outside "the circle". A lack of generalized trust became particularly obvious in mainland China after Reform and Opening-up: the damage to interpersonal relations caused by the "Cultural Revolution", the decline of traditional Chinese culture after the new China was established, the difficulties of breaking down the old system and establishing the new system, and the speed of the market economy, all made integrity and interpersonal trust a rare resource. This is the social background to the wide existence of centralization of power that Chinese entrepreneurs have to face when undertaking management.

From the perspective of entrepreneurs, the popularity of centralization of power is either because of the limitation of personal capacity and insight of entrepreneurs – that they don't know how to delegate power, or because of the "individual heroism" caused by their early success, over-inflating their confidence. By using an authoritarian approach and centralization of power at the start-up stage of their business, some private entrepreneurs increased efficiency in decision-making while decreased management risks and achieved success. Despite the continuous expansion of their enterprises, they still tried to deal with everything by themselves with absolutely no delegation of power or insufficient delegation. As a result, they ended up extremely busy and inefficient.

> *There was a group company which had 30 branch companies. Before, every branch company had its own independent finance, accounting and independent accounts. Because each branch company had its own finance power, and the management mechanism of the group company was disordered, the expenses of the group company remained very high for years; the profits of the group company were all diluted by the strong branch companies. The president of the group company was very angry; he withdrew the financial power from all the branch companies overnight, and had headquarters control all the finance. He was the only person who had the right to sign all the bills. As a result, he had to spend 4–6 hours on signing all kinds of bills every day. With the time needed for auditing by departments and the time needed for the accountants to draw cash, a request for disbursement needed 4–5 days. Because the boss could not participate in every activity, he inevitably had some doubts or even rejected some of the expenses. In addition, the boss might lack frontline information and on-the-spot experience, so he inevitably made some wrong judgments, which caused the death of some very good business opportunities. In this circumstance of high centralization of power, a manager had to spend all of his or even 120% of his energy taking care of the finances. He lost the opportunities of improving his personal capacities as well as the company's performance.* (Interview with a manager in the enterprise, November 2007)

We have seen different kinds of problems caused by centralization of power, such as a decrease in the quality of decision-making, limiting the adaptability of enterprises, and negative effects on the morale of employees. If a sales staff has to go through all the levels of the company to get one business deal approved, he or she will inevitably feel discouraged. As a result, they may turn to a passive solution, such as an attitude of "We don't want money, we won't do things either. What can you do about it?" In this constantly changing business environment, this centralization of power mode has already displayed its drawbacks.

After experiencing the confusion and anxieties of centralization and decentralization of power, some enterprises pulled themselves out of the vicious cycle of moving from one dead-end to another. They tried to find the balance between the two in practices. They realized that balance was the true essence of management; an excellent manager must be good at balancing. Therefore, "there should be co-existence of centralization and decentralization of power", "decentralization in centralization, centralization in decentralization", "centralize and decentralize at the right time" became their new management principles and practices.

Vanke Group is an example. At the early stage of its development, Vanke enforced centralized control due to its low number of staff and limited business areas. Limited resources were all centralized at headquarters; branch companies' decision-making, personnel, capital and other professional business affairs were all referred to headquarters for decisions. At that time, the headquarters was a professional headquarters. It provided support and management services to branch companies in different cities, and participated deeply in many operations. As Vanke expanded quickly, more and more regional branch companies were established.

But, by depending on headquarters to make every decision, good business opportunities must be missed. Therefore, Vanke conducted major reform of its management and control mode in 2005. It altered the centralized control mode to a decentralized control mode. The headquarters was positioned as the strategic headquarters; its responsibilities were mainly strategies and investment, products categorization and innovation, capacity and culture, guidance and control. Meanwhile, it delegated project operation and professional management to regional companies. At the same time, Vanke started to adopt new control ideas. It assigned control to regional companies and companies in cities based on the value chain. In detail, because the front-end of the value chain of the real estate business is the key point, and also the high-risk point, for value creation, the company positioned this part as the intensive control area and enforced comparatively centralized power; to the middle part and the end part of the value chain, the company would enforce control based on balance of power and according to the principle of monitoring and supporting the services. At the decision-making phase, the group company participates in the whole process. At the middle part of the value chain, the company conducts key point decision-making and monitoring; at the end part, it is mainly support and services. Thus, Vanke achieved the unity of the opposing forces of centralization and decentralization of power.

5.2 A Two-Way Movement of Process Reform

In the 1980s, the concept of process appeared in the West and soon spread throughout world. Simply speaking, process is “the procedures to complete a task”. Frederick Taylor’s scientific management, Henry Ford’s assembly line, the Toyota production system and Dell’s direct selling are all cases of innovations of process. Innovation of process was popular in the 1980s mainly due to the fast-changing environment, which intensified the pressure of global competition, and the new technology revolution, especially the impetus brought by the information technology revolution. In terms of the methods of process reform, famous Western management scientists all suggested the adoption of revolutionary ways to remold the process. That was how propositions like “process revolution”, “reengineering Work: don’t automate, obliterate” came up. The sole objective of all these propositions was to shorten the time and distance a product took from production to consumers to increase efficiency.

When the author looked into the process emphasized by Chinese enterprises, a two-way movement of management process and business process were found, which was: in the management process, enterprises emphasize more on mending the loopholes to achieve effective control; and in the business process, enterprises prioritize efficiency, which is in accordance with the Western proposition of remolding the process.

5.2.1 Management Process Reform: Control Is the Key

Both private enterprises and state-owned enterprises have the problem of achieving "effective control", which was largely solved in the West a long time ago. For private enterprises, due to their short history and insufficient institutional building, managers are facing the issue of how to maintain good order while completing tasks. For state-owned enterprises, due to the owner vacancy and serious agency problems, people seek to feather their own nests once there are chances for rent-seeking. Therefore, when Chinese enterprises try to improve their management process, they more or less consider control as the top priority, at least at the early stage.

Let's use State Grid Corporation of China as an example. The corporation originated from the Ministry of Electric Power and electric power bureaus at all levels. Before 2004, the electric power companies at all levels basically managed in their own ways. They made decisions on grid construction and maintenance, investment and capital-raising for their own areas, and they also had autonomous rights in managing personnel, finance and materials. In the case of Shaoxing city electric power company, before 2004, its branch companies (county level) had great autonomy over their financial resources, they had their own finance departments. Even though the upper level management controlled the total budget, the lower level companies could decide themselves how to spend the money. Some directors spent tens of thousands RMB to buy a camera, some branch companies distributed tens of thousands in subsidies when holidays came. This caused an imbalance among different branch companies. The upper level had difficulty mobilizing capital; if a director-general needed to spend money, he had to consult with directors of lower level companies. Control was hard to enforce. In terms of personnel management, all levels were inclined to hire more people and expand their offices. The business was so big and belonged to the country, so finding positions for relatives or others in their personal networks was very easy. Doing things in their own ways disturbed the effective sharing of resources among regions inside the company; it also affected the economies of scale, and provided opportunities for leakage at each level. Apparently, if managers had the motivation, opportunities were everywhere. In procurement, for example, benefiting oneself from a large-scale construction project at the expense of company interest did not take much effort.

Since 2004, however, the State Grid Corporation of China has used information technology as a tool to largely enforce the intensive management of personnel, finance and materials. The main method was to change the previous situation in which branch companies had too much autonomy, and enforce centralized management of personnel, finance and materials by headquarters. It conducted necessary reform of the management process. Taking the construction of a regional sub-station as an example, the previous process was procurement first, reimbursement later. But now, budget planning has to be reported first, and the substation is then built based on the plan and the budget. Previously, whichever unit purchase the asset paid for it. But now procurement is organized by headquarters and the provincial company together, and the project owner can only choose from the list of companies approved through a tendering process. Let's look at how the online reimbursement system intensified the internal control of enterprises. Employees have to log on to the Internet reimbursement system by using their own ID, which is their employee number, and perform applications of reimbursement and salary disbursement. The system identifies the flow spontaneously, based on the type of business, amount and other factors. Then the request is forwarded through the system to be approved. Employees can check the status of the request anytime; financial staff and managers ratify the request in the system and activate the disbursement automatically without entering any inputs. By using an Internet reimbursement system, managers cannot see the original receipts; they only justify the activities online. For financial staff, the point of the system is, firstly, not to check signatures but to check if the receipts are legitimate, real, legal and effective; and, secondly, not for accounting, but to effectively monitor the management system and control system of enterprises. For employees who submitted the reimbursement request, they don't need to run around offices getting signatures. What they need to learn is how to state things clearly so managers understand. By using the Internet reimbursement system, employees can check the budget status while submitting reimbursement requests, and enterprises can achieve the ratification process of reimbursement through intensifying internal control (Zhang 2009).

5.2.2 *Business Process Reform: Efficiency Is the Priority*

Compared with management process reform, which sets control as the top priority, the pursuit of efficiency was the first thing on the minds of Chinese enterprises conducting business process reform. This is also the window for us to view and understand China's economic miracle of the past 30 years. Why do Chinese enterprises have this high efficiency? How did they overtake Western enterprises and occupy the market? On some level, this resulted from the fast reaction and process innovation of Chinese private enterprises. Haier, HUAWEI, BYD and Geely are all good examples of process innovation. Below, we will use BYD as an example to introduce the features of process innovation by Chinese enterprises.

BYD's main business when it established was the production of nickel-cadmium batteries. The first production line could produce three to four thousand nickel-cadmium batteries per day, and only cost a million RMB. At that time, Japanese manufacturers used fully automated production lines and robots. BYD faced the reality that it had insufficient capital to introduce similar production lines by introducing a hybrid line that was half automatic, half manual. They found that conducting movements manually in a big range caused very tiny errors, which mostly appeared in the final step when parts were assembled. So they designed many simple and practical processes for the last step; if the standards were not met, the parts could not be assembled. By combining manual work and processes, BYD simulated a low-level robot. In this way, certain parts of the production line became manual; therefore, the biggest advantages for BYD were very low fixed assets investment and very low depreciation costs. BYD's depreciation cost was only 3–4 %, while the depreciation cost for Sanyo and other companies with automatic production lines was as high as 30–40 %. The fixed assets investment of BYD was 1/15th −1/10th of Japanese enterprises, and the price of BYD's products was 30 % lower than its competitors.

Most importantly, BYD's half-automated production line was very flexible. When a new product came into production, adjustments to the production line only needed to be made to some key steps and technical training for workers would be enough. By contrast, the fully automated production lines of Japanese manufacturers could only produce one kind of product. Every new product required the whole production line to be re-built, at a cost that could be tens of millions or even a billion. BYD developed and produced products by itself; it also tested equipment by itself; which largely reduced the need for capital. In addition, since labor is quite cheap in China, the restructure and innovation of the production line process to include a mix of automated and manual work to a large extent increased its low-cost competitiveness as a Chinese enterprise.

As its experience increased, BYD continued to optimize its process. It divided the production process of batteries into many detailed steps, workers in each group only needed to do one simple step; therefore, they didn't need to undergo complex training but simply enough to handle the one or two essential skills required to work in their posts. BYD doesn't even have one complete production line. Between each procedure, battery embryos need to be transported in plastic boxes. Except for battery ingredients, quality and standards in all steps are controlled by corresponding molds and calipers. The test box for testing the charge and discharge times of each battery was also developed by BYD.

Wang Chuanfu attaches great importance to efficiency. The major way of increasing efficiency in this manual-dominant production method is monitoring. Every production procedure has its team office in front of it; team leaders sitting in the office can see clearly the working status of each worker. Report forms are piled up on each team leader's desk, with each production procedure required to be completed according to certain quantity and quality standards.

BYD made great efforts in research and development. It tests almost every ingredient and component by itself. Under the precondition of ensuring quality, it tries to reduce cost and look for replaceable materials and techniques. In addition, the production equipment of BYD is practically all produced by the company's design department, engineering department and branch electric companies (Zeng 2008).

BYD achieved the balance of cost, quality and effectiveness by its unique business process. Ensuring quality first and then continuously reducing cost by many Chinese enterprises is the secret to China's economic miracle. Innovation on production (operation) process is at its core.

5.3 Institutionalization with Different Starting Points

Institutional building is a task that every enterprise has to face. Private enterprises and state-owned enterprises have a common challenge, which is the conflict between institutions and human relationships originating from China's tradition. That aside, challenges faced by private and state-owned enterprises are quite different. Private enterprise started from zero, it needed institutionalization; however, state-owned enterprises needed re-institutionalization to change the rigid system formed during the planned economy period and to achieve the ability to react quickly to the market and the environment. No matter how, the precondition of successful institutionalization of an organization is whether high level managers can take the lead and accept the restriction of the institutions voluntarily.

5.3.1 Institutionalization of Private Enterprises

Chinese private enterprises started with zero, so institutional building also needed to start from the very beginning. We've often seen that enterprises fell into chaos due to deficient institutions or no institutions at all. The following two cases are not fairy tales, people who used to work for private enterprises in the early times would be familiar with them.

Case one: Once there was a small company in Zhongguancun. The accountant of this company was a female. Her boyfriend was obsessed with gambling. Once he lost all of his money, he convinced his girlfriend to give him tens of thousands of Yuan from the public funds of the company, and promised to return it with interest. But he lost again. One more time he asked his girlfriend to move company funds for him. The female accountant could not stand his bothering, so she did it again. This happened again and again until the total amount she had provided reached nearly one million Yuan. When the company needed to use the cash, these two were in trouble. In the end, the girlfriend went to jail. She had much to regret.

Case two: A supermarket in its early days used a first generation cash register, which could not list the prices of the goods being transacted. Therefore, the cases of cashiers entering false prices were common. For example, if a customer paid 100 Yuan, the cashier would ring up 50 Yuan on the register and pocket the difference. They normally targeted male customers (because men tend to pay less attention at checkouts). As time went on, this kind of thing happened more frequently. In order to strengthen management, the company switched to third generation cash registers, and introduced barcode scanning. Then the stealing disappeared.

Even though "developing in the chaos, growing in the wild" was an inevitable choice for Chinese private enterprises in their early stages, if the chaos continues, progress will never be made, and even the most entrepreneurial cannot save themselves. There were examples involving Nian Guangjiu and Bu Xinsheng in the 1980s; and the failures of Mou Qizhong, Yu Zuomin and Shi Yuzhu in the 1990s. In the face of the chaos, successful private enterprises all went through the process of institutional establishment and improvement, like HUAWEI, Vanke, Haier, Lenovo, BROAD Group etc. If we can use one sentence to conclude the management principle of BROAD Group, it would be "use the institution as guidance for action". In the eyes of its CEO, Zhang Yue, every move by the enterprise can be separated, as detailed as possible, into every move of every employee. At BROAD Group, even an employee getting divorced needs the approval of the company first. This kind of management mode is one of the key factors to maintaining the sustainable and stable development of a company like BROAD Group, which places extreme importance on the stability of the system.

During the development of Lenovo, Tang Xudong made great a contribution to the institutional building of the company. He joined Lenovo at the time of the Sun Hongbin embezzlement incident. Tang Xudong's position was not high in the company, but his legal background came in handy. After a few months, the storm caused by the incident passed and life returned to normal; however, Tang Xudong found that "this incident had a big influence on Lenovo". He decided it was necessary for the company to introduce the employees to the concept of "institutionalization". This conformed with Liu Chuanzhi's thinking.

At that time, governance inside Lenovo was really messy. The personnel director didn't know how many people the company had, the finance director didn't how much money the company had, the logistics manager had no idea how much storage the company had. The company had been famous in the business for its "god rules" of "no kickbacks" and "no bribes"; however, Tang Xudong found those "god rules" were only passed on orally, there were no written rules for employees to reference. He believed that any institution needed a charter which was absolutely understandable to all, otherwise there were no principles for employees to act in accordance with, and punishments and rewards from management levels would also be without reason. He drafted the first edition of the "god rules" of the company, which is detailed below:

A: Employees are not allowed to receive kickbacks in any way for any reason during business activities. People who violate this rule shall be dismissed.

B: Employees are not allowed to have a second job outside the company. People who violate this rule shall be dismissed.

C: Employees are not allowed to seek personal benefits by taking advantage of their position and the company's business. People who violate this rule shall have all benefits obtained confiscated, and shall be charged the same amount of money as punishment.

D: If employees are receiving honorariums outside the company, they need to report to the chief manager of their own department, and submit all the honorariums to the chief manager for decision. People who violate this rule shall be fined twice as much as the honorarium.

E: If employees are receiving gifts during business activities, they have to report to department managers. Gifts valued under 50 Yuan are subject to the department manager's decision; a gift valued between 50 and 100 Yuan is to be submitted by department manager to the chief manager; a gift valued above 100 Yuan is to be submitted by the chief manager to the personnel director. People who violate this rule shall be fined twice as much as the gift costs.

F: Employees are not allowed to ask each other's entitlements and bonus. People who violate this rule shall be deducted the bonus of the month.

G: These rules apply to all the employees of the company (official employees and contracted employees included).

Tang Xudong's efforts and faith in "putting the company on an institutionalized track" received support from the president's office. Liu Chuanzhi even set up a special team to draft all the necessary rules and regulations. The year 1990 became Lenovo's famous "institutional building year". At the end of 1990, the company accomplished its first batch of rules and regulations (Ling 2005), which opened Lenovo's institutional building history. Later, Lenovo conducted in-depth institutional establishment, even reporting people to the authorities for corruption, which resulted in several going to jail. Every new employee was required to undergo training that included learning the company's institutions and culture, which is called "human mold" by Liu Chuanzhi.

In order to set up the authority of the institutions, Ren Zhengfei emphasized "rigidify first, solidify second, optimize at the end", and insisted this be followed regardless of circumstances, or, to use the old Chinese saying, "cut your feet to fit your shoes". However, some enterprises have paid a price for their adherence to institutional rules. Vanke is one of them.

> *In order to show that the enterprise appreciates employees' concept of value, Vanke's personnel department sets the rules that people who make mistakes during work shall be downgraded first. If he or she still performs badly, they shall be dismissed. According to the "Employee handbook", dismissing an employee needs to be approved by both the chief manager of the branch company and the personnel department at headquarters, plus consultation with the employee committee. However, once, a sales manager fired one of his staff because he acted against the company's rules and caused loss but only sought the permission of the chief manager of the branch company. This action broke the company's personnel rules; however, it was meant to protect the company's interests. The person who was fired complained to headquarters. However, this sales manager threatened that, if headquarters overruled his decision, he would quit his job. After investigation, the personnel department decided to maintain the branch company's decision because, even though the branch company violated the personnel procedures, the person who was dismissed did damage the company's interests; further they claimed there would not be a next case. Conversely, the employee committee strongly opposed the personnel department's decision; they deemed that the "Employee Handbook" should be strictly followed. In the end, all the opinions were collected and reported to the president of the company, Wang Shi. Wang Shi's opinion was that the company formulated rules for the purpose of making the organization more standardized. If the branch company violated the rules, headquarters had the responsibility to correct it. Therefore, he decided to overrule the decision of the branch company. Instead, he downgraded the position and salary of that person. Soon after, the sales manager, who was very competent, quit his job* (Zhang et al. 2006).

5.3.2 Re-institutionalization of State-Owned Enterprises

State-owned enterprises already existed at the beginning of Reform and Opening-up; they had formed some institutions during the planned economy period, although some institutions may look ridiculous today, for example, even establishing a toilet needed approval from a general manager. There were also legends, such as getting one thing approved might need more than ten stamps and might take several months. If we say private enterprises were “messy”, then the main problem for state-owned enterprises was “rigidity”. Solving the “rigidity” problem and establishing a new system suited to a market economy were the priority tasks for state-owned enterprises.

Generally speaking, the institutional reform of state-owned enterprises, on one hand, was the process of the delegation of operational power by the government to enterprises; on the other hand, it was the process of enterprises reforming internal systems and getting closer to the market after obtaining autonomy. In June 1992, the State Council issued the “Regulations regarding converting operational mechanisms of state-owned enterprises”. In this document, state-owned enterprises were granted 14 major operational rights, which put state-owned enterprises’ business activities on a marketization road. Up until 2001, more than 80 % of state-owned enterprises basically had these 14 major business operation rights, including investment rights, foreign guarantee rights, import and export rights of proprietary trading, foreign contracting and labor service cooperation rights etc.

Inside state-owned enterprises, reasons such as pressure of the market, progress in the supervision of state-owned assets, and the sense of responsibility and superior consciousness of leaders triggered a series of institutional reforms, which were in accordance with the changes to the market. We can see this from the institutional building of the State Grid Corporation of China, which is a large-scale state-owned enterprise. Actually, as a big monopolized public business unit in the situation where the lack of electric power hadn’t been improved, the State Grid Corporation could have chosen another way for surviving, but it chose to put pressure to itself. As the director-general of Shandong electricity bureau, Liu Zhenya carried out the famous “Rainbow Project”, under which people who provided criticism on the work of the bureau were rewarded. Today, both the rules and the awareness for State Grid Corporation’s good service are internalized. According to the corporation’s employees, this progress mainly came from “internal benchmarking”, namely the appraisal through comparisons inside the corporation without external competition and pressure. The corporation compares performances at the same level, based on a number of indicators each year, and publishes the results. People have to work hard in order to make progress and save their reputations; meanwhile, there is the pressure of saving their positions and the impetus for self-promotion (Zhang and Wang 2009).

5.3.3 The Contest Between Institutions and Human Relationships

The biggest obstacle to implementing institutions in China comes from the social structure and the cultural tradition. The nature of institutions is to request all members of an organization to act according the same rules in an impersonalized way, namely people are equal before the law (institutions). But some incompatible logics exist in the ethics (or particularity) of China's social culture. Chinese culture stresses networks and human relationships; people normally decide their actions based on their relationships with the other party when doing things, or as Fei Xiaotong calls it: the differential mode of association. There are also many sayings which talk about the flexibility and adaptability of doing things in our language, e.g. "order different meals for different people", "eat different cakes to match with different dishes", and "sing different songs when walking on different mountains" etc., which inevitably make us treat people differently.

Another very distinctive feature of Chinese culture is the high value placed on human relationships. As a social standard in China, human relationships require people to keep harmonious relations and create reciprocity for people with whom they are close. Behaviors that break the rules shall be punished in modern enterprises; however, members of organizations will sacrifice the rules in order to maintain their networks and take care of their human relationships, which are characterized by keeping silent when encountering conflicts or making concessions to avoid trouble. The preference for personal networks and human relationships leads to invalid execution of rules and regulations when it comes to particular individuals, which undermines the authority of the institutions.

Therefore, overcoming the obstacle of human relationships is the first step which needs to be taken, and successful private enterprises in China, especially family businesses, all make an effort in this regard. For example, in order to solve problems caused by corruption inside the family business, which could not be solved by institutions, Wenzhou Sharmoon Garments Company finally chose to merge its business with an Italian company and let the Italian side provide the CEO.

> *Chen Xiaoxiang and his two brothers came from rural areas of China. They had completely no sense of English and Western culture. How could they enter the Middle Asian market with this background? Meanwhile, the severe competition also required the company to have a more modern and professional management system. Was the family business style, which had bred and nourished the company, becoming an obstacle to its development? This was an unavoidable fact. Chen Xiaoxiang had very deep feelings about this: "When an enterprise is becoming bigger, it just cannot perform its original way; family members all come up with many ideas along with the growing of their experience and ages, which may cause many kinds of obstacles during the execution of a decision… I used to sign a document, which was about cash against delivery. The client knew that I was very tough with the policy* (refers to cash against delivery)*, so they went to persuade five or six of my family members. They knew it would work on at least one of them, and then they would get the goods. Some family members thought this could show their power … In order to maintain good relations, family members normally don't investigate and affix responsibilities for some big malpractices. However, one time after another, this could lead the*

enterprise to death." Meanwhile he deemed that "this is not only Sharmoon's problem, this is a common problem for all private enterprises."

With this idea, Sharmoon finally found its ideal overseas partner in 2001 – Ermenegildo Zegna. After over two years' negotiation, Sharmoon Company's brand "Sharmoon" garment officially signed a contract with the Italian Zegna Group on March 28, 2003. By investing share capital, Zegna participated in Sharmoon's management and decision-making. They established the new SHARMOON EZ Garments Co., Ltd. Chen Xiaoxiang was appointed as the chairman of the board, and left the Italian side to recommend a CEO. According to Chen Xiaoxiang, after the new CEO came on duty, some administrative staff who were not suited to the modern business management were requested to leave their posts. It was also required that middle level management staff needed to have College English Test (CET) – level 6, and a minimum five years' work experience in foreign trading. It was also decided to attract people who had CET-8 to join the company. "Today, the reason we request ourselves to study is for the purpose of taking more initiatives in international competition tomorrow."

As it turned out, a new broom sweeps clean. The CEO, Silvio Galimberti, with his Western cultural background, completely changed the company according to the requirements of professional management: providing insurance for all the employees, increasing subsidies for overtime work, and using the Internet system to manage finance. According to the consultant of SHARMOON EZ Group, Li Yanhui, the company bought five kinds of insurance for employees; the monthly salaries of employees were all above 3000 Yuan; the subsidy for overtime work was 150 Yuan per hour. In China, this high treatment of employees was like a fairy tale, which caused 35% more in operating costs in one year. This nearly 20 million Yuan extra cost really hurt Chen Xiaoxiang. When talking about his feelings back then, Chen Xiaoxiang said: "The only feeling is hurt! I can buy 20 Mercedes Benz with this 20 million Yuan. I don't even have a car now, not to mention a Mercedes." However, Chen Xiaoxiang chose to compromise, because he knew that was the essential step which Sharmoon had to take to achieve professionalization and internationalization (Dong et al. 2005).

5.3.4 The Role of Top Leaders in Institutional Building

The key factor for institutions to be successfully implemented in an organization is whether leaders are willing to be constrained by institutions or if leaders are prepared to choose "rule of law" rather than "rule by man". In Chinese tradition, there is a saying: "the authority will be unpredictable without laws"; which means, if there is no law, the authority of leaders will be even stronger. If everything is done according to laws, what's the role of leaders? Even today, there are still different opinions about "rule of law" or "rule by law". The first one is a Western tradition; in this tradition, laws are used to constrain the power holders; the second one uses laws as tools for governance, it is a tool for leaders to rule people.

Among those organizations which successfully established the authority of institutions, we found that leaders taking the lead and accepting the constraint of institutions voluntarily was a premise. In Lenovo, there used to a rule that people who were late for meetings would be punished by standing. The amount of time they had to stand was equal to the amount of time they were late. Several times, Liu Chuanzhi was late due to accompanying important guests but he voluntarily stood instead of explaining. One time after another, this rule was reaffirmed.

The reason Vanke has become a transparent and very professional company is Wang Shi's crucial role in the whole process. All the arrangements of institutions were made under his lead, including the human resource system, governance system, training for managers, the standardized actions on government relations etc. This whole system has become the key factor for supporting Vanke's fast development. Wang Shi chose to be a professional manager instead of an owner; he designed the governance structure by himself and constantly improved it. The governance structure of Vanke has a feature which every good governance structure should have: everybody has limited authorities, limited responsibilities, and limited space. If there is a supreme boss of the whole company, it is easy for a situation to appear in which there is no boundary to the boss's power, so he or she can do whatever they want. Therefore, Wang Shi chose not to be the boss. Instead, he became one of the managers under the supervision of the board and shareholders. He receives supervision and constraints from the shareholders' commission, the board of directors, and the supervision commission of the company; meanwhile, he is also constrained by China's Securities Regulatory Commission, supervision and regulatory departments of the government, and the capital market. The leader accepting supervision and constraint voluntarily is certainly the key reason for Vanke successfully setting up the authority of its institutions.

5.4 Various Kinds of TMT Combinations

During the organizational and institutional building of enterprises, building the top management team (TMT) is absolutely an important step. In Chinese private enterprises, there are many examples of enterprises that fell apart or even failed due to disputes among TMT. Therefore, solidarity at high levels has a significant impact on an enterprise's long-term survival. However, compared to normal internal organizational and institutional building of an enterprise, TMT building is a lot more difficult, due to the involvement of family relations, friendships and other factors.

5.4.1 Combination Mode: Family, Friends and the Needs-Oriented

What constitutes TMT in Chinese private enterprises? This is not only determined by times and environments, it also depends largely on the family backgrounds, experiences, networks and visions of entrepreneurs. Some entrepreneurs have simple experience and limited networks, so they have to look for partners from among relatives or people they are close to; some others have rich experience and wide networks, so they have more options. Thus, we can see the following kinds of TMT combinations: family style, founding businesses with college mates or friends, or looking for business partners according to needs.

5.4.2 Family: Father and Son Are Always a Natural Team

Among many private enterprises, the family business certainly is the most common organizational form. For entrepreneurs during the early stage of China's reform, choosing family members to cooperate was a convenient and had-to choice. Liu Yonghao many years later said: "If you are not my brother, I wouldn't do business together with you back then." Even though we do not have an exact ratio of family enterprises to all private enterprises, its dominant position is certain. According to a study conducted in Zhejiang province, more than 90 % of private enterprises were family business. This is consistent with the arguments of some academics who study Southeast Asian Chinese enterprises: due to the influences of traditional Chinese culture and social structure (e.g. strong family focus, differential mode of association, low social trust and the appreciation of networks during interpersonal communications etc.), the family business became the main organizational form of Chinese enterprises. Of course, during the thousands of years of Chinese history, the family has played a central role in production and livelihoods, so it was easy for this type of organizational form to be adapted to business activities.

Meanwhile, family businesses released a lot of vitality right after the introduction of Reform and Opening-up, due to its high unification of ownership and management, low agency costs, fast decision-making, and flexibility, among other features. Wanxiang Group, Joincare Group, Zhejiang Jinyi Group, Fotile Group, Lifan Group, CHINT Group, China Delixi Group, Shaanxi Huanghe Group and Huaxi Hope Group are all famous family enterprises. Chen Jinyi was born into a peasant family in Tonglu county of Zhejiang province. He started his business in 1989 and officially established Zhejiang Jinyi Group in 1993. At the beginning, there were more than 30 of his relatives working in the company, and most of them were working in high-level positions. These people included his two brothers, a nephew, and his brother in law. These people had undergo hardship with him during the start-up stage of the business and they had made great contributions to the development of the company. However, due to the fast development of the company, as well as these family members' backgrounds, some of them could not meet the requirements of the new business environment. Chen Jinyi himself also realized the defects of the family style business administration. Therefore, in 1998, he decided to move the company away from family style management and started to hire professional managers from the outside (Zhong et al. 2005).

Mao Lixiang's Fotile Group is also a family business; two generations of leaders have come from the Mao family. Production, supply, sales, human resources, finance and materials are all in one pocket of the family jacket. Mao Lixiang chose his second son, Mao Zhongqun, to take over the business, appointing him general manager without a deputy. This action apparently has the eastern feature – a son taking over the father's business. But this time, it was not only because of the blood relationship. Mao Zhongqun was completely competent and qualified to take over the business. He explored a series of successful measures for introducing and keeping professional managers. In order to maintain the healthy and long-term development of the enterprise, Mao Lixiang set strict rules when his wife came to work for the company: relatives from both sides were allowed to work in the company, but must not carry positions above the level of workshop manager. Currently, there are still a few relatives working in Fotile, but they are all under the level of workshop manager. More relatives started their own businesses with the financial help of the Mao Lixiang couple (Li et al. 2005).

5.4.3 Friends: Sworn "Brothers" (Friends)

Friends who co-found businesses and constitute TMT are normally schoolmates, colleagues or comrades in arms. Similar experiences and dreams bring them together to look for opportunities in the tide of the market economy. In the UFIDA team, Wang Wenjing and Su Qiqiang were colleagues back in the Government Offices Administration Affairs Management Bureau of the State Council; another two original founders, Wu Tie and Guo Xinping, are their friends, who used to work for the Ministry of Finance. The "five tigers" of the founding team of FOSUN were all friends or classmates back in Shanghai Fudan University; among them, Guo Guangchang was a member of the Youth League Committee, Liang Xinjun was the research director of the Youth League Committee, Wang Qunbin was secretary of the Youth League Branch Committee of the Life Science School, and Fan Wei was the manager of the printing division. At other enterprises, members of Shi Yuzhu's team are mostly his university schoolmates; members of Ma Yun's team at Alibaba are mostly teachers and their students; members of Ma Huateng's team at Tencent are also mostly schoolmates or colleagues from China Motion Telecom. The following story about Vantone's experiences in Hainan province explains the friends combination in detail.

Feng Lun was appointed by the China Society of Economic Reform under the State Council System Reform Committee to establish a reform and development research center in Hainan province in 1988. His position was deputy executive chief. At the beginning, Hainan province gave him 50,000 Yuan, a car, a computer and an approval document for 10,000 color TVs. It also hired a bunch of people to run magazines. Pan Shiyi was one of them. Before this, Feng Lun already knew Wang Qifu and Yi Xiaodi. He got to know Wang Gongquan through Wang Qifu, and then came to know Liu Jun through Wang Gongquan. Later, Feng Lun, Wang Qifu, Wang Gongquan, and Liu Jun worked together at NANDE Group; they often sat together and talked about life, which laid a mature ideological foundation for their future cooperation. So, when Vantone Group was established, these six people were already friends. Shares in the group were split equally into six and distributed equally, so the six people had the same power in decision-making. They formed an executive board of directors; all the major decisions were made by the six people together.

5.4.4 Needs Oriented: Looking for Talents with Humility

Organizing a TMT according to needs is an ideal situation. However, this happens rarely in Chinese private enterprises. In most circumstances, entrepreneurs have no other choice but to exploit combine the existing resources. The founding of online travel flight booking agency Ctrip.com's top team followed the model of first based on sworn friends and then looking for needed talents. The second step is the measure reflecting a needs-oriented philosophy. Liang Jianzhang went to work at the headquarters of the world's biggest software supplier company, ORACLE, in 1991. In 1997, he was transferred back to China as the consulting director of ORACLE China region. Shen Nanpeng finished his MBA at Yale University; he had many years of work experience in investment banking, and had a strong capacity in financing and macro decision-making. Ji Qi had lived in the United States for many years; he used to found and run high-tech companies, and had rich experience in management and sales. A month after the team was established, Fan Min, who also had an overseas training background, having worked in the tourism industry for many years, joined the team. Fan Min used a metaphor to describe the positions of the four original founders: "If we want to build buildings, Ji Qi is the one who gets the approved documents and the land, because he has passion and is good at dealing with interpersonal relations; Shen Nanpeng is the one to find money because he is an expert in financing; Liang Jianzhang is the one to formulate the overall framework because he understands IT and can explore business models. I come from tourism industry and I'm good at stirring the concrete and sands together to fill in the framework. And that's how the building is done. Talking about personalities, Ji Qi is very passionate and has a strong will to develop; Shen Nanpeng is all about the big moves, he always acts like a sophisticated investor; Liang Jianzhang is very rational, he talks using numbers and has good vision; while Fan Min is good at running business, and can always deal with things properly in all aspects. Four people all have their own specialties, they each handle one side of the company. We have high consensus about each person's role inside of the company."

5.4.5 Operation Modes: From Paternalism and Gangsterdom to Professionalization

In accordance with the three forms of combinations of TMT, there are three operational modes: paternalism, gangsterdom style and the professional management team.

Paternalism mode of operation mainly exists in, but is not limited to, family businesses. Under the influence of thousands of years of the Chinese patriarchal clan system, there are traces of paternalism from time to time even in the leaders of some very modern and large-scale enterprises. The features of paternalism are that:

there is a "big daddy" whose word carries weight; centralized decision-making and control; no delegation of power; family relations are more important in assigning tasks than actual capacity; direct management; and leaders always lead and deal with issues by themselves. All these features, while bringing vitality and good order to enterprises, also brought blind spots to decision-making and, as a result, created the preconditions for failure.

Hu Zhibiao of Shenzhen IDALL Technology Co., Ltd is an example. At both the start, when was company was just a small factory, and later, when it grew into a much larger scale enterprise, Hu Zhibiao employed the family style management and operational mode. The CEO and vice CEO were namely him and his wife, Lin Ying. In terms of the decision-making and control of the company, from enterprise-wide strategies to detailed tactics, Hu Zhibiao himself had the final say. There were no decision-making teams, nor an optimized decision-making process, not even an effective mechanism for feedback. After Lin Ying took the post of vice CEO, she took over full financial decision-making power. Other high level and middle level managers had almost no say at all. All the reimbursements at IDALL were subject to Lin Ying's personal approval. Before crisis finally struck at IDALL, a sales manager went to Lin Ying with a proposal to solve growing debt problems at the company. There was no response from Lin Ying and that sales manager finally chose to leave the company. Subsequently, many high-quality personnel left one after another, and IDALL's top management team fell apart.

However, there are quite a number of family enterprises which continuously learned from their experiences during development, introduced new methods while keeping the advantages of a family business, and gradually transformed their businesses into modern enterprises. For example, Guo Fansheng of hc360.com proposed: "It is an entrepreneur's responsibility to build good relations with outsiders (those non-family members), and it is the capacity of an entrepreneur to keep family members in good order." Yin Mingshan of LIFAN Group proposed to "promote both families and talent": using family members for stability and talented people for development.

The gangsterdom style of operation is normally adopted by TMTs formed by friends or schoolmates at the early stage of their businesses. Among these, Vantone was an excellent example of using the gangsterdom style. In 1991, in Haikou city, Vantone started to build its hierarchy. The top criterion was age; the second criterion was previous social status, which was the importance of their positions in previous work places; the third criteria was their contributions to the enterprise. Feng Lun was the oldest, he was the leader of a group at his previous work place, and he provided Vantone's initial capital; therefore, he became the chairman of the board and undisputed leader. After building the hierarchy, it was time to distribute money. As the big brother of the team, Feng Lun made a grand gesture. The capital would be divided equally among the six team members, as would salary. Feng Lun recalled: "At the beginning stage of the business, it was hard to say whose contribution was bigger or smaller. I had the idea that assuming we were together was not an investment of money; it was of people's cooperation. The system would not work without any one of us. That's why we needed to equally divide the money.

Only by dividing the money equally could we avoid contradictions. We needed unity to walk longer and further." However contradictions appeared anyway in the end. Vantone started with using gangsterdom mode and quit that stage in a businessman's way, during which the empathy of brotherhood can still be felt. Quitting the game in a businessman's way promoted Vantone's organizational evolution, and the transformation from an institution-free company into a professional organization that could involve more people (Feng 2007).

Finally, TMTs according to needs mostly adopt a professional manner of operation way. They are familiar with the operational methods of modern business organizations, so they are able to work in accordance with business principles; in addition, they can manage themselves when problems contradictions occur. In 1995, HUAWEI was swept by a management storm referred to as "resign first, compete for posts again", which required all marketing department managers to submit two documents: an annual report on the year and a resignation letter. After this move, 30 % of the managers found themselves in new posts. In relation to this event, Ren Zhengfei's view is: "Any organization will die without metabolism. If we take care of every old contributor's feelings, we will bury our company's future." On Sept, 10, 2009, which was the 10th anniversary of Alibaba Group, the chairman of the board, Ma Yun, said something which shocked everybody. He announced that the 18 original founders, including himself, would "resign together", and "apply for our posts again" under a decision to "start from zero" at Alibaba. From then on, Alibaba graduated from the era of founders to the era of professional partners.

Along with the elapsing of time and the evolution of enterprises, many enterprises are trying to keep pace with the times, and continuously improve the operation of their TMTs. A very obvious path is the evolution from paternalism and gangsterdom to professionalized management teams. The above mentioned Jinyi Group and Vantone Group all experienced this evolution.

5.4.6 Shareholding Arrangements: From Vague to Clear

In terms of shareholding arrangements, 30 years' development of Chinese enterprises has resulted in the passage from a vague to a clear arrangement. Enterprises which were established at the preliminary stage of Reform and Opening-up had very vague shareholding structures. This on one hand was because of the inadequate institutional environment, which lacked institutional arrangements to support a clear shareholding; something like "Company Law" had not yet appeared, so some enterprises had to wear the "Red Hat" (i.e., private business registered as publically owned) to avoid policy and personal discrimination. Some enterprises didn't know how to arrange shareholdings at all. On the other hand, when China first entered the market economy, people were ashamed to talk about profits and money. They were ashamed to, or they didn't even know how to, express their claims for benefits.

As Feng Lun recalled: "It's hard to determine which money was the capital investment at the beginning, and later on it became difficult to divide the shares clearly. We had no idea, and there was no 'Company Law'. There was not even any evidence for us to talk about. So I said the cooperation of our people was not based on money, but a common dream, faith and the pursuit of those. We set a principle the first time we were trying to distribute the benefit. We used the mode of 'The Marshes of Mount Liang' – orders in titles, same benefits".

The vague shareholding sets a time bomb for disputes; it becomes a big obstacle for many enterprises' development. Even inside a family, when there is a conflict over profit distribution, brothers, couples, and even fathers and sons can turn against each other. The typical example is the Nian Guangjiu family of the "Sillymen Guazi" brand. The lawsuit between Nian Guangjiu and two of his sons, and his two wives turned the "Sillymen Guazi" business upside down. There were some other private enterprises which took precautions, and removed these obstacles in time, like UFIDA. During the development of UFIDA, one of the original founders, Su Qiqiang, chose to start another business, and Wang Wenjing raised money and bought Su Qiqiang's shares. Chinese private enterprises had been constantly studying and quickly developing, after they entered the new century. Something like "clear accounting between brothers", or "be super specific with money first, be a gentleman later" became their new behavioral standards. This evolution grew from the lessons learned from disputes caused by unclear shareholdings, and also the enforcement of institutions and norms in the outside environment, as well as the impetus of formalizing shareholdings driven by the needs of development (i.e., to go to the stock market or to introduce strategic investors).

No matter whether it was from the continuous exploration of structure, process or institutions, or from seeking to keep pace with the times in TMT management and operation, we can see that, during the past 30 years, Chinese private enterprises have been developing quickly through frustrations and experiments, constantly innovating by imitating and learning, and breaking through the traditional human relation barriers to adopt rational systems, and refining China's experiences like a phoenix reborn from ashes.

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Chapter 6
Corporate Culture

Li Ma

A manager who has worked in many Chinese companies described her different experiences in those companies like this:

> *The first company I worked for was a China-US joint venture. We called the Americans by their first names; but when speaking to Chinese managers, we called them by their titles. The switching was quite interesting; people just laughed and got over it. My second company was Founder Digital, which is a joint venture between Founder (the Company originally set up by Peking University) and Hewlett-Packard (HP). We also used their names when speaking to leaders from the HP side, but, influenced by (Peking University's) campus culture, we called leaders from the Founder side professors ... Later on, I started to work for this Taiwan-based company where I could strongly sense the boundary between levels. For example, in our factory, workers would call an engineer "commanding officer"... In a Taiwan company, there is such a strong sense of hierarchy... It may be a culture thing.*
>
> *As you can see, the doors of our company are all grey or blue, very serious ... Previously, at Founder Digital, because it is a network company, the walls are all green or multi-colored, colors that attract people's eyes. But this would not happen in a Taiwan-based company. Things here are all quite precise, even the font in company files has to be unified, as well as uniforms we wear... Our company is a big group in Taiwan... Our president is a member of the Straits Exchange Foundation (the semi-official coordination agency between the Mainland and Taiwan) ... He requires the whole group to behave like this... (Zhang and Han 2010)*

The experience of this manager reflects the features of different enterprises. Enterprises use tangible environments and intangible rules to influence employees' behaviors, and guide employees to work towards the same direction as the enterprises head on. Enterprises make use of many ways to coordinate employees' behaviors, including the leader's role and influence (Chap. 4 of this book), the organizational systems (Chap. 5 of this book), and daily management, especially

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the work on human resources and labor relations (Chaps. 9 and 10 of this book). In addition, enterprises also need “invisible hands” to influence employees everywhere at anytime. These “invisible hands” are the “corporate culture” we are talking about in this chapter. The arrangement of the internal working environment and the names people call each other, as exemplified in the opening vignette, are both lively reflections of an enterprise’s culture.

Basically, corporate culture is a system of values or a basic belief formed by employees through gradual sedimentation, progressive cultivation and long-term shaping during the development of an enterprise. Many aspects reflect the rich content of corporate culture. Corporate culture includes visible aspects such as the working environment, what employees wear, and the logo of an enterprise. It also includes the formulation of rules and regulations, the arrangement of incentive mechanisms, the distribution of powers and responsibilities for employees at different levels and of different kinds, and other “systems”. In addition, it includes the ways that employees think and even employees’ behavioral patterns (surely affected by those values and systems). In this chapter, I will firstly introduce the relationship between corporate culture and business administration, then discuss the sources of corporate culture and Chinese enterprises’ practices in building corporate culture, and introduce the current status of Chinese corporate culture and a few considerations.

6.1 Corporate Culture and Business Administration

Similar to establishing management systems, building leadership and improving management specifications, the construction of corporate culture of an enterprise is not to show how “civilized” the enterprise is, but because doing so has positive effects in promoting an enterprise’s business performance, as has been shown by many academic studies. The more a corporate culture is acceptable to managers and employees, the bigger influence it has on people’s behaviors, the higher level of match between the proposed values and an enterprise’s business direction, the better performances there will be in sales revenue, employee satisfaction and client loyalty (Tsui et al. 2006). Precisely because corporate culture is reflected everywhere within an organization and because it is very difficult to really influence employees’ values and behaviors, the construction and change processes of corporate culture are normally very long, making it impossible for other enterprises to imitate. However, once a good corporate culture is formed, it turns fairly stable, and it becomes a source of competitive advantage for an enterprise. Some scholars even say that, in future competition between enterprises, corporate culture may become the key factor in deciding an enterprise’s fate.

To sum up, corporate culture can present an enterprise's image to the outside, and can unify employees and coordinate their behaviours inside an enterprise.

6.1.1 Presenting the Enterprise's Image to the Outside

Even though some enterprises may exaggerate the functions of corporate cultures a bit, it is definite that the building of corporate culture can practically affect people's impressions of an enterprise. To outsiders, the behaviors of an enterprise, the relations between people inside an enterprise and the reactions of an enterprise to changes in the external environment all deliver information based on which people build an "image of an enterprise" in their heads (Gioia et al. 2000). The different ways in which corporate cultures are built will have different effects on how "outsiders" see an enterprise. Conversely, when outsiders are trying to deal with an enterprise, they will adjust their approaches based on their impressions. An enterprise fully aware of the process can surely enhance its culture construction accordingly.

Thus, when people mention an organization, an impression of the organization normally comes into their heads spontaneously. For example, when we talk about Huawei (a major communication company in the world, competing with Ericson and China's ZTE), we think of militarized management, wolf-like culture, customer orientation, and sense of risks, etc. When people are communicating with members of an organization, they actually feel the unique character of the organization. Deputy Chairman of the board of UFIDA (China's leading business software company) Guo Xinping provides an example: A business man from Taiwan came to Beijing looking for cooperative business opportunities. After meeting several companies, he was attracted to UFIDA because he felt a greater affinity with them at a personal level. Talking with UFIDA's staff was like talking to an old friend. Comparatively, other companies were too commercial; they were always trying to make a sale (Chinese Entrepreneur Investigation System 2005, p. 221). Apparently, UFIDA's culture played an important role in building up the company's image and promoting the company's business development.

6.1.2 Coordinating Employees' Behaviors Inside Enterprises

In terms of the coordination of employees, direct face-to-face supervision is one way often used, but apparently not very efficient and it easily annoys people. Technical means, such as a production line or surveillance cameras, which also have been widely used, can also control employees' behaviors and performances. However, these ways have been criticized by workers and society as dehumanizing and boring, as represented in the movie "Modern Times". Many technical measures are not effective when applied to certain types of employees. Max Weber's bureaucracy theory, which is to control everybody's behaviors by using policy systems, even becomes a substitute term for modern management; however, "an organization which depends solely upon its blueprints of prescribed behavior is a fragile social system" (Katz 1964). In addition, no enterprise can solve all its problems through systems alone, because an "institutional system is a rigid system, it is a reflective system rather than a prospective system; it is not enough to direct employees' behaviors in an environment of uncertainty. In order to supplement the institutional system, enterprises need to set up a 'softer' type of control system, namely, corporate culture" (Zhang et al. 2006). Developed countries, after experimentation and experience with different control tools, started to introduce "soft" control, or the construction of corporate culture. Chinese enterprises also have implemented similar measures effectively. In the past 20 years, Chinese enterprises have consciously started to study and implement corporate culture as a management tool. As a "soft" restriction, corporate culture is helpful in consolidating the efforts of employees and guiding them to work towards the same goals.

From the perspective of coordinating employees' behaviors, corporate culture can be reflected in an enterprise's rules and regulations; it is also a supplement to an enterprise's rules and regulations. In 1995, Haier Washing Machine Company (the former Red Star Electrical Appliance Factory) announced a punishment: quality inspector Fan Ping was fined 50 Yuan due to malpractice and negligence in quality inspection and for lacking a sense of responsibility. At that time, the rate of return of Haier's washing machines was still far from meeting the criteria of being a top brand. Haier's high-level management realized gaps in the company's management. So, they directed the "Haier Newspaper" to raise a discussion question: what responsibilities should Fan Ping's supervisor take? The whole company got involved in the discussion and, in the end, they reached a consensus: Leaders should take the leading responsibility. Taking the leading responsibility was not just an irrelevant self-criticism, there were actions. Managers in charge of quality control were fined 300 Yuan, and were required to make written self-criticisms. From then on, the 80/20 principle (a manager carries 80 % of the responsibility for any malpractice) became established within Haier as a management rule. In this way, not only basic level staff, but all the managers learned a lesson: they understood that they all should make an effort.

Culture can also affect employees' behaviors as a supplement to systems. For example, Motorola's core value is "People First". Employees can make decisions based on this value in cases where there is no specific rule to follow. In this case, what should an employee do if the warehouse is on fire? Traditional Chinese values require people to put the community's interest in front and sacrifice individual interest; however, according to the "People First" principle, people's lives are the most important thing, and employees are the most important resource of the company. In this situation, even though there is no clear rule about how to act in case of fire, employees can act based on their own understandings that they cannot get themselves hurt by trying to put out the fire. In this instance, the culture guides employees' behaviors where no policy exists.

No matter whether it is reflected in the systems, or as a supplement to systems, culture is consistent and harmonious with management systems. Promoting a culture verbally doesn't mean this culture can really become the core value; an enterprise also needs to have clear and operable institutional systems which match the culture. Furthermore, the culture needs to penetrate the mentality of employees; the matching behaviors need to become the employees' habits; employees are able to behave as the culture advocates where there is no rule to follow. There are always situations where systems cannot cover, but culture exists everywhere, due to its "softness".

6.1.3 Solidifying and Cohering Employees

With progresses in societies, employees become more resistant to tough control, even soft culture control. Culture provides employees with a collective identity, which turns them into a community answering the call of duty of an enterprise. People who have been working in distinguished enterprises for a long time all have a crazy 'sense of the elite' in which they think of themselves as the best. This self-acknowledgement plays a big role in cohering people's minds. Employees can feel that the companies really recognize their value in this atmosphere, which is beneficial for improving performances.

For example, Vanke (a leading real-estate company in China) has attached importance to a cultural atmosphere of respecting people inside the company since its establishment, as well as respecting employees' choices and maintaining an equal opportunity policy among other supportive policies. An employee named Xiao Lu came to work in a modern scientific equipment exhibition center run by Vanke from a plastics factory. He worked in an administrative role and performed well. After a few months, the company wanted to promote him to a manager's position. The personnel department went to talk to him, but Xiao Lu's answer was that he did not like administrative work at all. He had worked hard in order to get the leader's attention, but what he really liked was trading. After hearing from the personnel department, even though the company thought Xiao Lu's personality and background did not suit him for the work at the trading department, they still chose to respect his desires and arranged for him to work in the trading department. In the end, Xiao Lu was transferred back to the administrative department because he couldn't get used to the job in the trading department. However, the culture of respecting people provided a platform in which employees had choice in pursuing their individual development (Wang and Miu 2006).

In sum, through presenting an enterprise's image to the outside, coordinating employee behaviors and cohering people's minds internally, corporate culture has a special function which systems or other measures cannot in enhancing an enterprise's performance. Then, from where do the primary elements of Chinese corporate culture come?

6.2 The Sources of Chinese Corporate Culture

> *When talking about the building of corporate culture, the former president of Datang Telecom Technology & Industry Group, Zhou Huan, said Datang had established the philosophy to "Be a proud Datang person, build an honored national team" from the very beginning. During the process of building Datang's corporate culture, it insisted on four features. First, China has over 50 years of socialist tradition, which is different from all capitalist countries. So, some socialist values must be inherited in the corporate culture, like the spirit of dedication to society and the public. Second, the "strict, rigorous, serious" working style and the meticulous work attitude formed during the over 40-year history of the research institution must be carried on. Third, China has 5,000 years of traditional culture, principles such as "the benevolent loves others", "every man has a share of responsibility for the fate of his country", "to love others' children as loving your own children, to care about others' old parents like caring about your own parents" should be kept in mind. Fourth, Datang carried on the advanced culture formed during international economic communications under the market economy, like honesty, respecting people and win-win cooperation and so on* (Chinese Entrepreneur Investigation System 2005, p. 128).

Generally speaking, the construction of corporate culture is one of the reasons causing the success or failure of Chinese enterprises. As the leader of Datang Telecom said, the contents of Chinese corporate culture came from many different sources; however, the sources could basically be categorized into the following: traditional Chinese culture, the influence of socialist management practices, the features of the industry and the enterprise, modern (largely Western) management concepts, the influence of the personal values of leaders, and the features of the times. Precisely because there are so many factors involved during the construction of corporate culture, Chinese enterprises' culture connotation presents a phenomenon of "flowers of all kinds are blooming". Of course, for the same reason, it also has caused uneven appearances and some messy situations.

6.2.1 The Imprint of Traditional Culture

Today's Chinese people, no matter whether they are managers or front line employees, are all consciously or unconsciously influenced in their daily thinking and behaviours by Chinese traditions, which have developed over thousands of years. The building of corporate culture certainly cannot avoid this reality. Indeed, it is necessary to take advantage of this reality in building corporate culture. Many enterprises have drawn valuable lessons from traditional culture to facilitate the construction of corporate culture.

Ping An Insurance Company stresses four principles in its corporate culture: use the essence of traditional Chinese culture as the foundation; use Confucian culture – be kind, be helpful, be polite, be wise and be honest – as the basic principles for life; absorb and adapt advanced Western science and technology and modern management experience; and use "professional" and "valuable" as the basic principles for work.

The founder of Hainan Airline, Chen Feng, himself is very interested in traditional culture; so, the corporate culture he has personally developed at the Airline is full of the imprint of traditional culture. The "Ten principles for all colleagues" (e.g. the criterion for mastery is persistence) and the "Employee disciplinary articles" (e.g. do good things, be kind-hearted; enjoy working, be an honest person) all fully reflect traditional Chinese values.

Himin Solar Corporation embodies the features of its solar energy products in the corporate spirit that it has set: "Keep promises like the sun rises every day, make constant efforts on the right track like the orbiting of the sun every day, be generous like the sun shines on everything every day, and create and innovate like the sun giving new life every day". It advocates "all creatures on earth live harmoniously and accomplish their missions through continuous effort; as the most intelligent creature, humans adhere to harmony and believe in nature" inside of the company. All these are consistent with the Chinese concepts of "humans are an integral part of nature" and "harmony".

However, it is worth pointing out that some elements of traditional Chinese culture are harmful to the development of an enterprise. For example, the president of COFCO, Ning Gaoning, says that, in traditional Chinese culture, there was a concept of "nothing is impossible"; so, Chinese people are flexible when doing things, but lack discipline and a systemized approach, making it hard to exercise rigorous procedures. For example, in a meeting discussing the upfront problems, some people might blame the strategy, some might blame the financial management, some others might blame the personnel management. Then, it is possible that everybody just leaves when the meeting is over with no problems solved. This phenomenon is very common in China. Therefore, he suggested that building corporate culture should not only focus on the humanity aspect, but also on the disciplinary. Some good enterprises wisely have realized the merits and weaknesses of traditional culture, and selected only those elements that were appropriate. For example, Vanke sees the term "standardization" as the lifeline of their enterprise. It adopts a policy of hiring professional managers and tries to reduce office politics to the minimum to make for a simple working environment for employees to decrease communication cost. This has overwhelmed the "human relationship" principles of traditional Chinese culture.

6.2.2 *The Culture of "The Top Leader"*

Despotism has a long history in China; respecting the officer's will, giving him exactly what he wants is also a long-term tradition of China, which is why "when King Wu liked swordsmen, citizens received more injuries; when King Chu liked a slim waist, many females in the palace died from hunger". In current management practices, due to the unclear assignment of duties and responsibilities, the top leader, in effect, has the final decision-making power on many important problems, including corporate culture building. Especially in China, where there is a lot of uncertainty in the external environment, the individual wisdom of an entrepreneur often becomes the key to success for an enterprise. As time passes, the individual imprint of the leader will become more distinct in an enterprise. When extracting the core value of an enterprise, including the content and ways it presents itself, it depends to a large extent on the top leader's likes and dislikes or his or her preferences. Therefore, the personality and values of a leader can have an important influence on the contents of the corporate culture.

Many entrepreneurs proudly admit their own or other senior leaders' contributions to the shaping of corporate culture. We can clearly tell the influences of senior leaders from many enterprises' cultural expressions. For example, Wang Shi (founder of Vanke) said himself: "Soldiers are born to obey orders; in the military, you would consciously or unconsciously build up a sense of teamwork. So when some people say that Vanke has very strict discipline, I assume it has something to do with my experiences in the military." Wang Shi also stresses "respect for people"; that's why Vanke evaluates employees' performances based on objective criteria rather than the personal judgments of the president. Yu Liang, The general manager of Vanke, said: "There was a book called 'A message to Garcia' a while ago, which talks about execution. Many people were reading it. I personally don't suggest Vanke managers read it, because I think over emphasizing on execution would sacrifice the respect of people, and respecting people is exactly what Vanke wants." (Lu 2004, p. 5, 144)

The founder of BYD (a leading battery producer in China), Wang Chuanfu, personally likes innovation, adventure and high technology. His personality clearly influenced the corporate culture of BYD. He quit his job in the General Research Institute for Nonferrous Metals and established BYD with a 2.5 million Yuan loan as an adventure; he entered the mobile phone component production and assembling area, and confronted the leading companies as an adventure; his decision to buy Qinchuan Automobile – an industry in which BYD had no experience – in the face of almost total shareholder opposition (some even threatening to withdraw shares), and faced the loss of 2.7 billion HK dollars in the company's market value in 2 days, was even more of an adventure. He deemed that, "if you use the same strategy as all the others, what do you have in hand to win?" so, it had to be "you adopt your way, and I adopt mine." When other automobile companies all invested in high-grade, precision and advanced technologies, BYD instead adopted its successful battery-manufacturing operation's "half-automatic" approach and "labor strategy", which maximized the advantages of China's rich resource of low-cost labor and high-quality engineers. As a result, BYD consolidated its status in the battery industry and also advanced in the automobile industry.

6.2.3 The Needs to Advance Business

Enterprises expect to present their objectives and intentions through corporate culture, and influence employees' behaviors; thus, during the building of corporate culture, enterprises are highly likely to tightly combine the headline contents (values, corporate spirit, behavioral standards, etc.) with the reality of the enterprises. For example, between 1994 and 1995, in order to survive, Lenovo laid more stress on its employees being responsible for their tasks: "No matter how hard you work, only real outcomes will be acknowledged", "constantly set new business records", and "turn the 5 % hope into a 100 % outcome". This kind of guidance clearly showed that the point was to "deliver real results". Later, between 1996 and 1998, Lenovo's objective switched from "seeking survival" to "seeking development, scale and effectiveness". At this time, in order to enforce better control and management, internal standardization was urgently needed. Thus, it started to stress "strict culture" and "control". After 1999, the enterprise developed to a bigger scale. Communication and coordination, understanding and trust, affinity, centripetal force and group cohesion were all needed to seek even bigger development. At this time, employees' individual pursuits started to upscale to the level of life values, the respect of society, and mental satisfaction. Thus, Lenovo proposed a "family" culture – equality, trust, appreciation, and love, in order to support the bigger picture of enterprise development.

In China, the ownership of an enterprise also has a big influence on corporate culture. The result is that, even though there are many similarities in the organizational cultures among state-owned, private and foreign enterprises, there are many differences. For example, all three types of enterprises emphasize staff development, harmony, contribution of employees, strengthening of leadership, customer orientation, result orientation and innovation. However, private enterprises and foreign enterprises emphasize both internal integration and external adaptation, while state-owned enterprises emphasize respect for existing economic orders and hierarchy more (Tsui et al. 2006). These are all closely related to enterprises' respective main tasks and challenges.

6.2.4 Western Management Philosophy

Similar to the centuries of trend of "Western knowledge spreading to the East", China has certainly been greatly influenced by the West on enterprise management. From the blooming of professional education via management and consulting companies, we can see that Western management philosophy may be the major influence on Chinese management practices. Corporate culture building is also absolutely influenced by Western enterprise management philosophy, as well as the modes and theories of Western corporate culture, even the values of Western society. For example, the president of COFCO, Ning Gaoning, said:

> *My overseas experiences make me pay more attention to things like democracy, Westernization, and humanity in management. In the West, managers listen to the upper level but are not afraid of them; managers would also listen widely to more opinions when making a decision; in the East, it's the opposite. A decision is made by one person, and people who don't agree with the decision normally don't execute. This is a big problem. Because we all know that one or only a few people cannot accomplish anything. To achieve something,*

people have to work as a team. A team is like a person, it needs to grow, and it has life. The basic conditions for a team to grow are constant studying, thinking and communicating, as well as self-criticism and looking for the deficiency in our own culture by the team.

The vice CEO of Aigo Company, Feng Jun, portrays the importance of introducing Western concepts in corporate culture building by comparing Chinese chess with Western chess. In his view, the “cannon” is a very important piece in Chinese chess. It reflects the intelligence of Chinese people, as well as forward thinking and the courage to fight alone. Therefore, when competing with international enterprises, making full use of the “cannon” is a major asset. Meanwhile, some of the mechanisms of Western chess need to be introduced, like the “soldier”. In Chinese chess, the “soldier” can be as competent as a “chariot (vehicle)” after it has crossed the river; but it is of no use if it goes all the way to the end. On one level, this is a trap for soldiers. However, in Western chess, if a “soldier” goes to the end, it has the opportunity to be promoted to a “queen”, which is a very important role. This is extremely important in inspiring the company’s morale. If employees excel in their roles, they can be promoted and do their ideal jobs. No matter what kinds of positions they had when they first entered the company, as long as they can be in the top one or two in their functions, they are going to play larger roles. As long as this point is understood, everybody will strive hard in their work. “Therefore,” he said, “we suggest playing an ‘integrated’ chess, which has both the advantages of Western chess and the power of the ‘cannon’ in Chinese chess. In this way, the future of China will be infinite.” He also provided an example: There was a project recently; the project manager was a young lady, 22-year-old. Why did we promote her? She started in sales and was the “individual sales champion” five months in a row. Then we promoted her to the chief in a shop. Subsequently, she won awards for excellence in that position for four months. This proved that she has individual capacity, and the capacity to manage others. This is the type of person our company wants to promote. This is according to the “soldier” being promoted to “queen” rule (Chinese Entrepreneur Investigation System 2005, p. 266).

6.2.5 The Influence of Socialist Enterprise Management Practices

Several decades before the policies of Reform and Opening door, the experience of building up a socialist society and the associated enterprise management practices also had deep and far-reaching influences on later enterprises and entrepreneurs. Many enterprises imitated the structure of state-owned enterprises when they first established. For instance, HUAWEI and Lenovo both used to call their different departments “divisions” or “sections”, and called those in charge “directors” or “section chiefs”.

China’s business administration before reform left a certain amount of effective values, which satisfy the needs of the current corporate culture building. These include the tenets of “Being honest in three aspects and being strict in four aspects”, "to love the factory as home", "revoluting and striving", and "to proceed when ready, or to create readiness". In addition, socialist legacies include the "Anshan Steel's Constitution": "Workers participate in management and managers participate in production; to reform all non-ideal policies, and combinations of merits from managers, technicians and workers". The socialist era also left the very inspiring slogan, "throwing the oil-shortage country cap into the Pacific Ocean", which combined the development of the enterprise with the fate of the country. There were also role models of workers, such as Meng Tai and Wang Jinxi, which are all worth learning from even for many of today's enterprise practices. For example, many enterprises try to guide employees by setting up a model employee. The CEO of HUAWEI, Ren Zhengfei, often encouraged his employees to learn from role models such as Jiao Yulu (a dedicated party leader in a poor county) and Lei Feng (a former soldier and role model of helping others nationwide).

Associated with the tracks of China's progress for decades, some enterprises were influenced by military culture from the beginning. This is because the establishment of some of the large-scale state-owned enterprises had a strong military background, and many later private firms' entrepreneurs had experience in the military. For example, 40,000 liberty soldiers engaged in the "Daqing petroleum campaign" in 1960. Ren Zhengfei and Liu Chuanzhi also served in the military for some time. With this background, in many enterprises, "production" is called "going to a battle", production motivation is called pre-war mobilization, requesting a production task is called asking for a battle, solving a technical problem is called tackling a critical point, a pledging meeting is held when there is a difficult task to accomplish, excellent workers are called war heroes, concentrating efforts on finishing a task in a short time is called a campaign, and enhancing technical skills in work is called soldier training. We can see that military culture left very deep impressions on enterprise management.

6.2.6 The Features of the Times

Before Reform and Opening Door, China's enterprises were unaware of the concept of "corporate culture"; however, they emphasized patriotism, dedication, specialization and other concepts. These concepts are still influential in current enterprises. Of course, along with the changing outside environment and the development of enterprises, the popular values of the times also reflected in corporate cultures. In the 1950s and 1960s, Chinese enterprises emphasized the spirit of "hard working and swift living"; in the 1980s and 1990s, in face of the economic development and social demands, slogans such as "competition", "producing quality products", "going forward in solidarity", "the customer is always right", and "time is life, efficiency is money" were promoted. Entering the twenty-first century, enterprises placed more emphasis on "rational competition", "doing wise business", "environmental friendliness" and other new spiritual standards.

In its early period, HUAWEI used high salaries as a means to drive its employees hard. It demanded high efficiency. Under the extensive management mode, Ren

Zhengfei urged his staff to adopt the qualities of the wolf: its acute sense of smell, the spirit of attacking, and fighting as a group. At that time, many research and development staff kept mattresses under their desks. If they worked too late, they would just sleep in the office. Later, when its management mode was refined, it started to use the tenet of "be patriotic and dedicated" to cohere people. When it became an international player, urging its growing number of foreign employees to dedicate themselves to China's development was obviously inappropriate, so, HUAWEI adopted a new vision of "enriching people's communications and lives", and its mission as "focusing on the challenges and pressures which attract the attention of clients, providing a competitive telecommunications solution and service, and constantly creating maximum value for customers". All these concepts are internationally accepted and matched the development of the enterprise.

From the point of view of Liu Changle, chief of Phoenix TV, the building of corporate culture needs to be integrated with the needs of the development of an enterprise. Phoenix TV places particular stress on an innovative spirit and keeping pace with the times. Soon after the TV station started, it adopted the slogan of "using a unique form to reach mass appeal". Phoenix TV continuously develops new programs with unique styles and fresh content; it also promotes a warning that there is only one step between "being in favor with the general public" and "a target of public criticism" to remind its staff that only by making constant effort and thinking "outside the box" can they maintain their leading status. The maxim is to "make changes before your competitors do, make things happen before the policy changes, innovate before your audiences change their tastes."

In addition, the generation gap has become a conflict of the current times. Employees from different generations have different concepts and values. The "born after the '80s phenomenon" (those who have grown up with the benefits of China's reform policy) has attracted much attention. Some managers proposed a new way to communicate with the "after '80s" generation.

> *There are two secrets in working with people born after the 1980s: firstly, you have to get them interested; if you assign them work which is consistent with their dreams, they would even work for free. Secondly, you have to treat them as good buddies... they have their own styles... they are very direct when expressing their feelings. They also have their own principles. Their only shortcoming is lacking of persistence. When they are making efforts to do something, they expect certain rewards; if they cannot see the rewards for a while, they will just stop doing it. So, they really need someone by their sides to encourage them all the time, constantly saying to them, "go ahead, go ahead". If you are the boss of an "after '80s", you should do so...* (Zhang and Han 2010).

6.3 The Promotion of Chinese Corporate Culture

In order to really influence employees' behaviors using the "invisible hands" of corporate culture, slogans on the walls and pictures in booklets are not enough. Diligent work is needed to get people to truly accept it deep in their hearts. During the process of advocating and practicing corporate culture, Chinese enterprises have shown their special prowess. There are some achievements. There are also books devoted to introducing the details of corporate culture construction (Zhang 2003). According to Edgar Schein's theory, the keys to building corporate culture construction include the leader's attention and action in the face of problems, the settlement of key incidents and risks, the inculcation from the top to the bottom, the distribution of rewards, daily work management etc. Other activities include the arrangement of organizational structure and workflow, material environment, stories and legends, official statements etc. (Schein 1992). Based on this framework, below we are going to introduce some detailed actions of Chinese enterprises.

6.3.1 The Personal Practices of the Leaders

Leaders are the reservoirs of corporate culture; they are also the impetus for accomplishing the construction of corporate culture. "Teaching by using role models works better than just words" (or "Deeds speak louder than words."): the leaders' personal practices and concepts can effectively motivate employees to imitate them. For example, for the purpose of building up an equal and honest environment, Sina.com CEO Wang Yan prefers his staff to call him by his name. Only newcomers sometimes call him President Wang. He sends jokes and greetings to his staff during the Spring Festival. He makes an assessment of himself each quarter and sends it to his subordinates. Wang Yan is spreading the concept of "equality" by these actions.

In the eyes of the employees of the State Grid Corporation, their general manager, Liu Zhenya, has no hobbies. It seems like work is the only thing in his life. To Liu Zhenya, work always comes first, working overtime is the norm. He doesn't stop until the work is perfectly done. He never realizes when the weekend is. He often spends New Year's Eve in the office. According to him, he "doesn't sing, doesn't dance, doesn't like golf, doesn't play poker, doesn't cater dinner parties, and doesn't enjoy wine". To him, work is everything, and work is his pleasure. He does nothing but work from morning to evening. A manager of his company said:

> *Our leader often works overtime. He doesn't even rest at weekends. So we also need to work overtime to catch up with his schedule. If you see your manager hasn't left at 8 pm, can you really just go away? In addition, the whole pace of the company is faster than before. For example, the meeting minutes of a headquarter's meeting normally has to be finished the same day and delivered to all the provincial branch companies to let each branch understand the purpose of the meeting in time. It's like that the work pushes you to move, and you have to be fast!* (Ma and Zhang 2010).

The general manager of IRICO Group, Ma Jinquan, deems that, if the top leader of an enterprise sees corporate culture as the engine of enterprise management, he or she will spend time to work on it, as well as providing financial support. Only by really spending time and energy can these concepts or spirit actually be enforced in the right places. He said: "The key part is the leadership, especially if the top leader acts as a role model to others. The top level acts, the lower level imitates. If leaders don't do anything, what makes the staff do anything sincerely? If what they say is different from what they do, corporate culture certainly cannot be really enforced. In the IRICO Group, employees like to talk about our corporate culture, and they even more like to talk about what the leaders do." The president of Baoding Yimian Group, Wang Lijuan, talked about her feelings: "I think the most important thing for corporate culture change is for the high- and middle-level managers to behave as role models for the employees. Do it yourself, even if only once; it is much more effective than saying it many times. So the behaviors of the management level are the best way of spreading culture."

6.3.2 Utilising Striking Incidents

It is difficult to change people's behaviors; it is even more difficult to change people's values. However, if enterprises wisely utilise striking incidents as a form of shock treatment, old mindsets might be changed quickly.

Haier Group has made use of some major incidents to very good effect in building up its corporate culture. In 1998, Haier bought the Hefei Huangshan TV factory in Anhui province. Afterwards, the production efficiency and quality of the factory were all largely improved by using Haier's management measures. However, the previous employees, who had been working in a state-owned environment, were not happy. Previously, even though salaries were quite low, they enjoyed a relaxed work environment with plenty of time to rest. After Haier took over, salaries were increased, but the administration was way too strict for them to follow. On June 2, 1998, Haier's employees went on strike and held a large demonstration on the street. Haier decided to stop their production for indefinite duration and to discuss management issues with the workers. After 2 days' discussions, the employees understood that the strict management was reasonable because the competition in the market was severe. The workers reflected their own thinking and reported many non-ideal old practices for changes. Many workers who participated in the demonstration wrote self-critics to be publicly posted. The series of incidents triggered by the demonstration caused a tremendous shock to the employees, and made them realize it was time to really make an effort at work.

In 1985, some customers reported that Haier's refrigerators had quality problems. Zhang Ruimin appointed staff to check the 400 refrigerators in the warehouse. As a result, 76 of them were found to have various defects. Even though these defects didn't really affect the refrigeration function and customers were waiting for products outside their factory, Zhang Ruimin still decided to destroy these refrigerators in public. He used a hammer to destroy the first one himself. The "refrigerator smashing" incident built Haier a positive image of valuing quality. It made Haier stand out in the market, which was full of low-quality products at that time. Meanwhile, Haier implanted the concept of "products with defects are not acceptable products" in every employee's mind, which established the culture of valuing quality. Later, this culture won Haier very good reviews in the EU market, where its repair rates were lower than the average.

Hisense Group also successfully used a special incident to implant the concept of quality. On the morning of July 8, 1996, staff at Hisense's No. 2 factory found somebody had put a TV right in the middle of the hallway. A large arrow sign directed their sight to a place where a screw was stuck between the monitor and the back shell of the TV. Next to the TV, there was a workflow card stamped "qualified" at every stage, and there was a big question mark drawn on it. This shocked the staff: how could a TV like this have passed through that many checking points to the packing house, and almost made it into the market? After discussions and recommendations, those people who were responsible received punishments. The leader of the factory decided to keep this TV permanently in the hall, so the offending screw would alert people that they should always pay full attention to quality (Zhu 2003, pp. 47–48, 101).

6.3.3 Inculcation and Education

Both Chinese and foreign enterprises like to disseminate their leaders' ideas by passing it down from the top to the bottom. For example, a popular channel for Chinese enterprise leaders is through meetings. An effective meeting can fulfill the purpose of disseminating ideas. First, the formality of a meeting itself gives people a feeling of being in a team and formality, it is a ceremony of constructing organizational culture. Second, the way a meeting is run can express certain ideas. For instance, some enterprises enforce standing while having the meeting, which expresses the idea of efficiency. Finally, the actual content of a meeting has the function of unifying thoughts. For example, Changsha BROAD Group has organized its employees to study and discuss "A message to Garcia", "God likes her and lets her clean the toilet", "Who do you work for" and other articles since 1998. The president of BROAD Group, Zhang Yue, often selects papers himself and teaches his staff. He used the story of "A 'foolish' man moves the mountain" (a traditional Chinese story teaching perseverance) to teach his staff the point of "where there is a will, there is a way". The president of Hainan Airline, Chen Feng, often requests his subordinates to submit their study essays through the internal web; he selects some for comment. Through these means, enterprises can spread "mainstream" concepts and solidify divergent thinking (Luan 2008).

6.3.4 Enhancing by Rewards

Some scholars see the relationship between an enterprise and its employees as a relationship of exchange. According to this logic, the most effective way to influence an employee's behaviors and beliefs is by means of rewards. Through rewards and punishments, an enterprise can deliver to its employees the clearest signal: what behaviors are expected by the enterprise, and what behaviors are unacceptable. In an enterprise, if an innovator is considered a hero, then the culture of innovation tend to be established; if a contributor is rewarded, then the culture of contribution tend to be established.

Haier promotes the slogan, “everybody is an SBU (strategic business unit)”. Haier selects talent based on an open, equal and fair principle; it encourages innovation by using the market effects as the standard, and creates good working and living environments for its staff. Zhang Ruimin, Haier’s major leader, said: “As the enterprise is fast developing, there are huge risks. It is like a car that is running really fast on the highway; it will roll over if it meets even a little bit of a barrier. In order to not roll over, our only choice is to keep innovating. . . . we have a culture that makes everybody realize that they need to conquer themselves and innovate, and there will be no place for them if they don’t innovate.” (Hu 2004). Haier also invested heavily in R&D and innovation. It has been ranked among the highest for “the proportion of investment for R&D out of total revenue” for many years. Through changes in organizational structure and systems, the relationship between superior and subordinate becomes a business relationship, which spontaneously provides every employee with impetus for innovation. As time goes by, innovation gradually merges into each employee’s behavioral routine.

Here is a specific example in Haier. Hu Wei is an employee of Haier’s powder spray company. He found that the powder spray products tended to be tinted with a green color, because the powder was too thin. The normal way of avoiding the green tinge and the complaints it would generate, was to spray more powder on it. However, this added to the company’s manufacturing costs. Under the mantra of “everybody is an SBU”, he carefully investigated the reasons for this phenomenon and found that the powder on the racks was too thick, which interfered with the conduction of electricity and therefore the quality of the coating. So, he invented a form of protection for the rack, which removed the problem at its source; in addition, it reduced the need to clean the racks from once every 3 cycles to once every 60 cycles. He also visited other divisions to learn how they worked with powder spray. In this way, he saved 7,613 Yuan per week for the company, and added 86 Yuan to his own account (Zhu 2008). Haier also names techniques or products after the people who invented them; so now there is the “Qirong Ice Bar”, “Qiming welding gun” and “Xiaoling wrench”. These practices significantly motivated Haier workers to innovate and work in the culture rewarding innovation.

Different enterprises design different rewards to encourage their employees, based on the enterprise’s own needs. For example, Sina.com has an Excellent Employee Award, Innovation Award and Team-working Award. Among them, the Award for Excellent Employees depends not only on an employee’s performances, but also on whether the performances are in line with the company’s values. To promote their values, the Eastern Holly-High Consulting Company sets 13 annual awards, which are highly valued by staff. These awards include Unity Strength Award, Greater Power Award, Special Contribution Award, Sales Award for new business won, Dedication Award, New Ideas Award, Special

Innovation Award, Workload Award, Best Customer Service Award, Best Dressed Award, Exemplary Conduct and Nobility of Character Award, and Thrifty Award (Qu 2006). All these awards target at the core values the company is proposing and hoping their employees to embrace.

6.3.5 From "Visible" to "Invisible": The Permeation of Corporate Culture in Daily Life

Corporate culture is the "soft" tool of enterprise management. Without a "hard" tool to work with, corporate culture can only stay "soft". Changing people's behaviors needs to start with the "hard" approach of enforcing rules and regulations, then attaching the "soft" spirit and letting culture play its role silently, until the hard restrictions of systems are no longer needed.

Hui Cong International Consulting Company encourages employees to participate in the company's management through its internal web system. Employees can comment on any managers of the company on the forum anonymously. The management level must respond to any comments posted on the forum. The vice president of UFIDA, Guo Xinping, deems that a slogan is not equal to a corporate culture; the key is to convert the slogan into operable action standards, and enforce those requirements and assumptions in the right place through the enterprise's management systems.

HUAWEI feels the many years' fast development and supernormal development it has experienced is due in large part to management. Since 1998, it hired consulting experts from IBM and spent 5 years and invested more than 1 billion Yuan in implementing the Integrated Product Development (IPD) management system. This system not only manages research and development, it also stresses merging customer values into the whole process of production – from understanding customers' needs to product design, manufacturing, cost, service and many other processes, to improve the management of the enterprise. At that time, many managers and employees did not agree with this big move, they thought it would ruin the previous familiar and smoothly running process. As a matter of fact, Ren Zhengfei himself also used to ignore planning and work desperately without a rest. Sometimes this approach paid off: when development of a high-end router was lagging behind, Ren Zhengfei ordered the disruption of all procedures and organized a large number of personnel to concentrate on its development, with the result that HUAWEI was able to complete the development of the router and get it on to the market in a very short period of time. Nevertheless, in the interests of long-term development, Ren Zhengfei aimed to "cut the feet to fit in the shoe". His approach was that one must first change oneself to comply with the rules, and then improve to integrate with the rules. In the face of confusion among some of the employees, he took a very tough stand: "People who don't learn IPD, or don't understand IPD, or are not supporting IPD will all get laid off!" In this way, HUAWEI merged its culture of respecting customers and satisfying customers into the IPD system, consolidated its previous achievements through the system, and exchanged short-term inadaptability for long-term stability. By enforcing IPD through the resolve to "cut the feet to fit in the shoe', the phenomenon of overtime working receded in HUAWEI; however, its average individual income increased (Zhang 2008, p. 111, 128; Wu and Ji 2006, p. 63, 69).

Many other enterprises emphasize the education of employees in the corporate culture when they first join the enterprise (so called "socialization" process). Lenovo tries to help its new employees fully understand and accept the corporate culture through the "human mode"; it organizes training so employees get to know the vision of the enterprise, as well as to experience teamwork. Vanke has a "New power camp", in which new employees can learn and embrace Vanke's values through various team-building activities, such as courses, climbing the "graduation wall" and hiking competitions. Vanke likes to recruit new graduates, because they deem that "it's better to let Vanke 'pollute' them than let the society pollute them". The reason for this is that it's easier to get new graduates to accept the company's culture through socialized training. Tencent Company (a leading online communication and game company in China) conducts corporate culture and systems training for its new employees through "Tencent College"; it strengthens the result of the training through a "mentor program", a "review camp after 60 days" and a "review camp after 90 days" among other initiatives, so new employees adapt to the culture of the company.

The CEO of Huaqi Digital Company, Feng Jun, describes his company's system and culture like this:

> *From the perspective of the enterprise, the operation of an enterprise is mainly restricted by rules and regulations; in this way, people have a common principle. But meanwhile, only having rules and regulations is not enough, because rules and regulations cannot take care of every corner and every detail. Nobody reads the thick book of rules and regulations. So, in some places where rules and regulations cannot reach, and under some special circumstances, it's where corporate culture plays its role. Our definition of corporate culture is that, when some things are not clearly stated in rules and regulations, everybody knows, "Oh, we should do it this way... "* (Chinese Entrepreneur Investigation System 2005, p. 263).

Precisely because the influence of culture on people is flexible, so this influence can often have effects which hard systems cannot achieve. Ren Zhengfei once said:

> *The unification of an organization must be built on the basis of the construction of ideology and culture. An organization is a structure system, and culture power and ideology power are the biggest powers. ... People who don't accept HUAWEI culture will be excluded, or will not be promoted. However, when exercising it, mild approaches are needed at the same time [because we cannot dramatically change]. If some people cannot accept HUAWEI culture, as long as they work well, we don't want to argue with them. But as time goes by, they themselves will think: It seems like I cannot stay this way forever, at least I can pretend to fit it. And after they have pretended to be good long enough such that they build a habit of being good: things really change. "Pretending" forges an atmosphere, a peripheral atmosphere, which influences others and, consequently, brings others with it on the way.* (Qin 2002, p. 222)

6.3.6 The Inculcation of Culture and Concept Through Lively Activities

Many Chinese enterprises are good at organizing lively and exciting activities. They aim to deliver the spirit of the enterprises through these various activities, and permeate the values which are promoted by the enterprises into the communication between employees.

When it comes to organizing activities, there are various forms in Chinese tradition, including speech contests, contests of the knowledge of the enterprises' culture, essay writing, entertainment (e.g. group singing), sports games, charity activities, etc. For example, ChinaHRD.net organizes one birthday party every month for staff, and introduces new staff members at the birthday parties (Qu 2006). When Qingdao Telecom was designing its logo, it encouraged all the staff to participate. It collected votes and recommended service brand slogans from all staff members, and carried out discussions on its internal newspapers. In a month, the company received more than 600 votes and more than 100 branding ideas. At the end, the company picked "love delivered to all families" as their brand slogan through collective voting. In addition, Qingdao Telecom invited all staff members to give suggestions on the values and behavioral standards which the company should promote, and let all staff discuss and comment on hundreds of suggestions. A few of them stood out from the crowd. The company did not ask famous calligraphers or celebrities to write the selected slogan. Instead, it asked its own staff to write. Based on company votes, General manager Wang Zhili congratulated the staff member whose handwriting was chosen, and made it the final brand slogan. This brand collection activity reflected the high trust the company had in its employees. It also successfully delivered the values of the company. At every stage, the values of the company were deeply implanted in the minds of its employees, because the participation process itself had focused the attention of the employees on the corporate culture, and merged the culture into their work (Zhang 2002).

However, activities need to be carefully designed to be aligned with the corporate values and make the values penetrate-able. Some enterprises equated corporate culture building with only organizing activities; as a result, the so-called culture remained only superficial and everything stayed the same.

6.3.7 Sowing the Seeds: Designing the Workplace to Build the Corporate Image

Systems, concepts and other mental materials influence employee's values, but so does the material environment. As employees spend a lot of time in the material environments of enterprises, it is obvious the look and feel of those environments will have an influence on them. After the president of Changsha BOARD Group, Zhang Yue, got to know "Pan Art", he thought that everything in a person's sight could be arranged and managed with an artist's taste. He decided to use colors and images to improve everything his employees saw; he believed this could improve their emotional wellbeing and therefore their work. So, the BOARD Group standardized its factory's area based on an arty norm: open lawn, the arrangement of objects in the factories marked with different colors, clean roads and green fences. All these improvements were aimed at sending a signal to the employees: they should behave well in order to match this beautiful environment. The BOARD Group also invited sculptors to make a hundred sculptures of Chinese and foreign famous people, and placed them near the BOARD Management School and BOARD Academy. In this way, the employees of the BOARD Group would unconsciously have the feeling of walking in a hall of art (Zhu 2003, pp. 189–193).

6.4 Problems of Chinese Corporate Culture Building

After experiencing a fads of corporate culture for more than 20 years, many enterprises have built their own features into the practice, which have had positive effects on the improvement of management. Many entrepreneurs have also established their own understandings of corporate culture. However, this doesn't mean that Chinese enterprises all have suitable culture constructions. There are some problems worth of considering for managers of enterprises.

6.4.1 Trends Come and Go: The "Campaign-Like" Practice and the Scarcity of Persistence

I have stated the difficulty in changing people's attitude and behaviors, especially in modern times, when the society's mainstream values emphasize more on respecting people's independence. It has become more apparent that it is more difficult to change people's thoughts and values. In the 1980s, corporate culture became a hot topic. It was introduced to China as a new method of management. As a result, corporate culture for a while was like a fashion trend which quickly spread to every corner of the country. Business and academic people all started talking about corporate culture. Now, a search of "corporate culture" on China's academic journal dataset (epub.cnki.net) will get 90,000 results; a search of books with the title including "corporate culture" on the biggest Chinese web bookstore Dangdang (dangdang.com) will lead to 400 titles; in addition, a search of "corporate culture" related webpages on Chinese leading searching engine (baidu.com) will lead to approximately 30 million results.

However, what is hidden behind the upsurge is the divergent approaches during the construction of corporate culture. Some managers told people very proudly that their enterprises had established high level of corporate culture, the reason being that they had printed fabulous handbooks on corporate culture. Under the influence of the fashion trend, many enterprises were trying to forge a culture-respecting atmosphere, and they were very interested in creating slogans which reflected their visions, missions or faiths, but they seldom integrated the content of these into the enterprises' daily management. As a result, all this content was hung on walls, or written in papers, or printed in booklets, but not reflected in managers' and employees' behaviours. As soon as the "hot time" passed, these enterprise leaders probably would not mention corporate culture again.

If an enterprise builds corporate culture like it is running a campaign, then it will be like a passing wind – it seems like employees are talking similarly or behaving similarly for a while, but when the moment passes, they are still who they were. Thus, if enterprises only pay attention to short-term effects without insisting on it continuously, it will be impossible to carry it out to an in-depth degree. The former president of Datang Telecom Technology & Industry Group, Zhou Huan, said that leaders should carry forward corporate culture construction persistently and with no efforts spared; the timeline should not be a year or a half-year, but to use many years to work on it. The CEO of Huaqi Digital Company, Feng Jun, clearly said, the construction of corporate culture is only about one word: persistence; or, to make it part of the blood.

6.4.2 The "Cure-All" Magic Medicine

Like everywhere else in the world, the rise and spread of corporate culture in China mainly has depended on four popular books. Two, in particular, "Theory Z" and "The Art of Japanese Management" (the other two are "Corporate Culture" and "In Search Of Excellence") talk about the different management measures used in Japan compared with their "American teacher", and lead many Chinese readers to believe that Japanese enterprises made fresh progress by using corporate culture as the breakthrough point (it even made readers believe Japanese enterprises were superior to American counterparts). To Chinese people, this provided hope of improving enterprise management by taking the "shortcut" of studying corporate culture and learning from Japan. Thus, everywhere training in corporate culture was held, and everybody was reading articles about corporate culture. In a "campaign-like" hot trend, people looked at corporate culture as a "cure-all" medicine. Consequently, corporate culture became a big omnipotent "bucket", into which people put everything.

As a result, many enterprises, while being passionate about corporate culture building, forget that they didn't have coherent management systems. As a matter of fact, culture is not omnipotent; culture is a beneficial supplement to enterprise management systems; however, it cannot replace the management system. Developed countries focus on corporate culture building with the background of already existing strict management systems, and the systems have reached a certain phase where it starts to restrain the development of the enterprises and of the employees; therefore, continuously relying on systems will be unhelpful in solving problems. That was when the corporate culture of emphasizing "soft restraint" arose. If an enterprise is trying to replace systems with corporate culture without a strict management system as the foundation, it will be like building a house in the air, mission impossible. Some Chinese enterprises are probably already on this road. We need to know that corporate culture is not a "cure-all" medicine. It needs a strict and matched system to play its role.

6.4.3 The Unduly Grand Ideal

Many Chinese enterprises have highlighted some great ideals, or corporate spirit, when developing their corporate cultures or establishing their "visions" or "missions". For example, China Mobile Group sets up its corporate spirit as "Reform and Innovation, Development without any delay, work hard, team cooperation"; and its values are "to continue to create more value for the enterprise and society". Shanghai Bright Dairy & Food Co., Ltd.'s mission is "Innovate life, share health", and its values are "Go beyond oneself, pursue excellence, contribute to society, fulfill dreams, be honest and trustworthy, be friendly and generous". Bao Steel Group's corporate spirit is "In good faith, be simple, make the right effort, be fast and efficient", its values are human-oriented (including customers, investors, society and employees). Some of these principles are well matched with the enterprises' businesses and management; but some others look more like just trying to create the effect of "being grand". If enterprises hope to use this method to unite people, the result may not be as expected.

A lively corporate spirit which can influence employees' behaviors and build up the corporate image only if it matches the reality and tightly integrates an enterprise's spirit, mission and visions with its core business. For example, Qingdao Telecom's old values were: "Be united, love the company, seek truth and pursue top place". This kind of slogan is not very different from the grandiloquence used by many enterprises. When the telecommunications industry was still a monopoly, users didn't have other choices; so, the enterprise didn't push itself to improve, even when the demands of users were fast increasing. Building up a corporate culture was more like pursuing a fashion back then; it did not become the principles which could guide and constrain employees' behaviors. As a result, the employees had a very low sense of service; the attitude and quality of services were very bad. In order to find the right values, the high-level management of the company carefully analyzed the external competition environment and the internal conditions. They realized that, as a service-oriented telecom company, the satisfaction rate of customers and market share were a better indication of the company's competitiveness than development speed or enterprise rankings. The company started to reform the original systems by taking increasing service quality as the core, and also started to guide the establishment of a new value by setting increasing service quality as the direction. In the end, Qingdao Telecom established “teamwork, service first” as the values. In this way, the values aligned with the company’s business and played a practical role in guiding the development of the company (Zhang 2002).

In fact, enterprises did this for a reason. Traditional state-owned enterprises always identified with the needs of the country, and tried to unite people’s minds by adopting values which were closely related to the fate of the country. Nowadays, the power to appoint and dismiss top management at state-owned enterprises remains in the government’s hands. Therefore, having a slogan expected by the government helps enterprises to maintain their legitimacy politically. Private enterprises often imitated state-owned enterprises in their early stages because they also faced legitimacy issues, which was why they continued to advocate those grand principles, even though they were not practical. In these circumstances, even foreign consulting companies might also be tempted to develop grand “visions” for enterprises – and progressively become good at it.

The values set by Chinese enterprises naturally will reflect some of the characteristics of Chinese enterprises. Some scholars have compared the values of a selection of good Chinese and American enterprises. They found that, similar to American enterprises, Chinese enterprises also attached great importance to customers, innovation, teamwork and other principles (Qu 2007). However, comparatively, American enterprises think the organization and people are equally important, while Chinese enterprises apparently think the organization is more important; American enterprises are more individual-oriented, but not in the extreme. For instance, variety, equality, care, dignity, and happiness are mentioned more frequently in an American enterprise; while, in a Chinese enterprise, we hear more about society, the country, dedication, study, discipline, making efforts, the environment, being practical etc. As another example, in American enterprises, “development” mainly refers to individual career development and capacity enhancing; but in Chinese enterprises, “development” shows up more frequently in “sustainable development”, which refers to the development and the “greenness” of enterprises. In addition, these principles are added to some Chinese enterprises’ slogans probably because of fashion trends, because that is what all enterprises are doing. They might not match the enterprises’ reality. Meanwhile, Chinese enterprises have stronger performance orientation than the US. This means Chinese enterprises put more emphasis on encouraging and rewarding group improvement and pursuing excellence. However, American enterprises have a stronger human orientation than their Chinese counterparts. This means American enterprises put more emphasis on equality, selflessness, generosity, sympathy and kindness.

6.4.4 Over-Reliance on Image Shaping

From many Chinese enterprises’ perspective, “shaping the enterprise’s image” is one important objective of corporate culture construction. As a matter of fact, according to data published in 2004 by the Chinese Entrepreneurs’ Investigation

System, nearly half of the enterprises surveyed (43.4 %) set "improving the enterprise's image" as one of their objectives of corporate culture building. A good image certainly will win favour among customers.

However, during the process of those campaign-like corporate culture constructions, many enterprises primarily attached importance to image shaping, including trademarks, advertising slogans, reference colors, logos and theme songs. These aspects certainly are necessary for representing an enterprise's corporate culture; however, enterprises should not "catch the shadow and lose the substance" by only focusing on these elements and ignoring management. "Packaging" and "spin" are not enough to shape a good corporate image. As COFCO president Ning Gaoning said: "Nowadays, enterprises are attaching more importance to promoting their healthy corporate culture. There are many official ways of promoting corporate culture, most enterprises use meetings, slogans, corporate journals, staff alignment etc., and these are easily acceptable to people. The problem is that not everything you promote superficially can become the core culture of the enterprise; the superficial corporate culture often becomes the bad stuff which cheats on everybody, including yourself ... " (Chinese Entrepreneur Investigation System 2005, p. 147).

Qingdao Telecom seeks to reinforce its corporate image of "love delivered to all family" through each contact between its employees and its customers, which is worth learning by other enterprises. Qingdao Telecom attaches importance to using genuine caring to win customers; it hopes customers can feel the authenticity of that care in every facet of their work. Once, an old couple came to one of the company's retail shops to request a caller ID service and pay a telephone bill. The old man used all the couple's money to pay the bill. As they were about to leave, he told his wife they would have to walk home as they had no money left for bus fares. The shop assistant heard this and immediately returned the old couple two Yuan for bus fares, indicating the fares were on her. But the old couple would not accept her money so she chased them to the door and put the money in their hands. On another occasion, an old man called the testing station to report that his phone often was disconnected. The staff on duty checked the phone line but found no problems. She suggested it must be the problem of the telephone wiring in the man's home. According to the rules, customers are responsible for repairing hardware faults inside their homes. However, the old man indicated he could not do this himself. So, the staff member on duty used her own lunch break to help him: She bought new phone wire, went to the old man's home, replaced the broken wire, and returned his phone service to normal (Zhang and Wang 2006, pp. 402–412). Both these cases are now used models from which later employees learn. Thus, the corporate image presented by these cases becomes deeply imprinted in people's minds.

6.4.5 Regulations and Culture Being like Oil and Water

An enterprise needs to practice its principles more coherently; in other words, an enterprise needs to, put the culture concept on the ground and let it merge with an enterprise's internal management and the actual behaviors of employees. Some enterprises focus more of their energy on beautifying their external images; they see corporate culture building as "image project" or "face work". As a result, what they say and what they do go in completely different directions – as oil and water do. For example, an enterprise might design a complete Corporate Identity System (CIS) for itself. It builds up an "advanced thinking, standardized management" image for the enterprise from different levels, including concept (corporate spirit, corporate values, corporate belief, management aim, business strategy, corporate responsibility, development planning etc.), behavior (organizational systems, management standards, product development, social responsibility activity etc.), and vision (corporate name, corporate brand, corporate reference font, reference color, slogan etc.). However, once you really got to know the enterprise, you might find out its actual management is a mess, it is very different from what it claims.

Since Chinese enterprises started becoming enthusiastic about corporate culture building, many of them hoped it would give them a big push forward in their development, some even hoped to copy Japan's success. However, because their management foundation was weak, corporate culture building often remained only superficial. Many enterprises often focus too much on the superficial aspects of corporate culture building. For example, they try to use staff alignment parties or internal journals to build up corporate culture. Short-term excitement cannot really generate significant meaning for the business and management of enterprises. As a result, corporate culture and business-running were not supportive of each other, and they even went against each other in some aspects. This is what some scholars call the "two skins" (Chinese saying similar to oil and water) phenomenon of management reality and culture campaign.

Corporate culture building needs to be consistent with the management reality. In the long term, the "two skins" scenario will not only fail to upgrade the corporate image, it might create an untrustworthy image for the enterprise. Corporate culture should be a reflection of the enterprise's management behaviors at an abstract level; it should match all of the enterprise's management behaviors. Building corporate culture by only working on a part of the whole is not enough. Corporate culture has no form, so it is not rules written on paper. As a matter of fact, any society's or enterprise's behaviors cannot be totally managed by words or rules; no enterprise can control what employees are thinking when they are at home, no one can really control what kind of tone a manager uses when talking to his staff. However, corporate culture is able to form such a standard. This standard operates at the subconscious level of people's minds; people who don't accept the standard will feel excluded by the enterprise. In many of the excellent enterprises in the world, strong and powerful corporate culture makes employees feel encouraged, and encourages them to take efforts in the direction expected by the enterprises. In the atmosphere of a strong culture, people feel happy and comfortable in developing their creativity; people who do not fit into the environment will feel uncomfortable, establishing the mechanisms of "culture selecting people" and "culture retaining people".

6.5 Conclusion: The Evolvement and Future of Corporate Culture Construction

Corporate culture is one important step in establishing a long-lasting business; it can provide many advantages to an enterprise. However, as with any competitive advantage, the construction of corporate culture needs to be integrated with steady work which matches the reality of the enterprise. All enterprises successful in corporate culture building are first good at fundamental management building; also, their culture building matches the actual demands of the enterprises' businesses. In this regard, many Chinese enterprises still have a long way to go.

For a long time, influenced by the tradition of state-owned enterprises, many enterprises used slogans and ideals to encourage people. After adoption of policies of Reform and Opening Door, employees' appeals for benefits, as well as their ideologies, appeared in many different forms. Enterprise leaders then realized that depending only on ideals and slogans was no longer enough to stimulate employees; that a strict management system was needed. The process for establishing systems is slow. Chinese enterprises were already far behind developed countries in this regard. In addition, private enterprises only started to appear in the 1980s, they were starting from scratch in terms of systems. However, China and Western countries encountered the concept of corporate culture almost at the same time. Chinese enterprises started to count on corporate culture as a life saver; they thought corporate culture was the way to promote business performance. With this background, they joined a grand and spectacular rush to build corporate culture without even knowing where to start.

After entering the 1990s, foreign consulting companies and their Chinese clients started to design visions and goals, or other cultural content for enterprises, based on their needs. Meanwhile, the Corporate Identity System became very popular. For a while, the trend of building culture was like a fashion, and the content of culture-building also seemed more systematic. As the content of this exogenous type of corporate culture mainly came from consultants outside of the enterprises, the emergence of the "two skins" phenomenon was understandable. In fact, the background of developed countries' corporate culture construction came from the fact that the systems were too stubborn, and even restrained employees' actions, especially in the circumstances where the environment was fast changing, and providing employees with freedom was the only solution to enhance enterprises' competitiveness. Thus, mature enterprises used culture to supplement the shortcomings caused by the inflexibility of their systems. However, Chinese enterprises used culture as a supplement in a situation where their systems were not even completed;

as a result, the corporate culture they built up certainly had limitations, and became a castle in the air.

The exogenous corporate culture actually turns upside down the relationship between the means and the ends. It also has the flaw of being too aggressive. Corporate culture is supposed to form during the long-term development of enterprises; it needs to match certain development phases and the outside environments. It is not built overnight by several activities or a culture project designed by a consulting company. Even to an enterprise which plans to conduct culture reform, the new concept and values also need to be permeated into each level of the business administration, and implanted into every employee's mind by project, piece by piece, so that it is reflected in each employee's behaviors.

During this period of time, there were some excellent enterprises which developed their culture from their own special incidents, workflow, stories and traditions. Thus, the construction of corporate culture must be integrated with the reality of the enterprise, highlight the features of the enterprise, and develop the enterprise's unique culture foundation, combining everything to serve the running of the enterprise (Zhang 2003, pp. 79–80). During this process, these excellent enterprises also learned and absorbed advanced management experiences, systems and culture from foreign companies; their aim was to develop their enterprises, not create a corporate culture as a goal in itself. This kind of culture is called endogenous culture, which appears more vital and more closely integrated with management. The enterprises which have been successful in building their cultures that we mentioned in this chapter mostly belong to this kind. Their cultures were extracted progressively as a result of their management practices. The founder of Shenzhen Kamcaine Textile Garment Company Lou Baijin runs an open and mutual-trust style of management. He invited his employees to participate in decision making, which won the trust of the employees. The company's productivity is 50 % higher than other companies in the same industry. The first time its management heard the term, corporate culture, was when people visited and commented that the company had a good one. This kind of company seems like it learned after doing, but it actually had been building its image and influencing its employees' behaviors through the power of culture. In a nutshell, to build a good corporate culture that can help improve performance, enterprises must base it on their own reality and steadily build up their management systems at the same time as they build their culture.

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Chapter 7
The Survival Wisdom of Middle Managers

Yulan Han

> *As a department director, I'm at the middle level . . . It's a sandwich position. The sandwich position is the most confusing position, because I need to coordinate with the upper level, and accurately pass the messages to my lower level. I also need to solve the lower level's confusion caused by the unseen future of the company . . . To some of the requests raised by the upper level, the lower level staff might not understand. It is understandable to me that since people at different levels have different thoughts, they see things from different angles. When there are different opinions, it is difficult to solve, and our middle managers need to make some effort to coordinate . . . (Interview record, Dec. 14, 2009)*

On the morning of Dec. 14, 2009, during an interview at a large-scale manufacturing enterprise's Beijing research and development center, a manager described the paradoxical situation that his position brought to him. On the one hand, middle managers play the important role that links the upper level and the lower level; on the other hand, they often need to make balance between the conflicting requirements and demands of different constituencies. If they don't manage the situation appropriately when interacting with superiors, subordinates or peers, they are probably unable to do anything and thus get their work done. "Work diligently, speak cautiously" is the guiding principle for middle managers to survive in organizations.

Along with the development of Western management practices, there have been ups and downs in the fate of middle managers. In general, they have been heading in the direction of professionalism. They try to increase management efficiency by standardizing and formalizing management work. Western management practices have always been considered the advanced way by Chinese managers. However, as their own management experience increased, they started to have second thoughts about Western practices, especially when some of them did not fit with Chinese situation. They started to think about how to play the role of middle manager in the

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unique organizational eco-environment of China. For example, Mr. Zhao, who was called “the most excellent middle manager we’ve known” by his colleagues, described middle managers in China like this:

> *The current political eco-environment of China is not suitable for the growing of professional managers. Like me, for example, I know clearly about my daily schedule. But if my boss said to me that two employees were petitioning and I should go and take care of this trouble, then I cannot do my daily work as scheduled. In my performance appraisal, this task is not included. But I cannot refuse to do it, especially in a state-owned enterprise... So, the Western-style, totally rational professional manager market cannot possibly come into being in China. My company is already quite advanced, but there are still many affective things... A future professional manager, I think... should be like this: A person who has a deep foundation of knowledge, good professional integrity and professional standards, and meanwhile knows about China, and can be flexible. Being a professional manager in China, firstly you have to understand what you are doing. For example, if you work as a finance manager, you must really understand finance, have a solid foundation of knowledge, be able to address the work-related problems with clear logic and good sense, have a strong learning capability, and most importantly, have a very strong ability to deal with issues with unique Chinese features. There is a word in China called “coordinate”. This is a multi-functional word. Things which need to be coordinated are almost things which are beyond rules, and most of a manager’s work is to coordinate... (Interview record, April 15, 2009)*

After graduating from college, Mr. Zhao started his career with the basic level. He worked at many positions and in many subsidiaries of the group company, and after only 9 years, he was promoted to be the director of a core department in the headquarters. When he was asked to recall his past experience, all sorts of feelings came to Mr. Zhao’s mind. He addressed how a middle manager grew in the Chinese organization context which is complex and confusing. From the conversation, I came to know Mr. Zhao’s interpretation of China’s organizational environment, how he used his wisdom to achieve the balance between reform, development and stability in an environment which was confusing and in which there were always ‘other conditions’, and how he made his own management philosophy progressively grow inside the organization, gradually and imperceptibly influence the organization and get recognition from his leaders, subordinates and peers.

Many Chinese middle managers have experienced a professional maturing process similar to Mr. Zhao. During their professional development processes, they became more and more skillful in handling the organizational environments, understood more about the people and things inside the organizations day by day, and developed the ability to tactfully negotiate with the complex environments. Meanwhile, they constantly absorbed the Western management experience and integrated it with their own interpretations of Chinese organizational environments. They used every possible chance to influence their organizations. These managers are no longer just executing machines, neither are they “bureaucrats” who just drink tea and read newspapers every day to kill time. They more and more value themselves, and have clearer perceptions and better positioning of their roles and their work in the organizations. Even though they have limited authority, they can make things happen, which might seem impossible, by using their boundary-spanning roles and by mobilizing resources. They are the promoters and practitioners of the organizational rules. They also “imperceptibly” revise the organizational rules or build new rules through their own expertise and work behaviors. They focus on the realities and also look to the trend. They more and more tend to consider things from the enterprise’s perspective, and meanwhile, they do not exceed their discretion in practice, which could make their superiors feel comfortable.

The main purpose of this chapter is to explore the survival wisdoms of middle managers in Chinese organizational environment. I will explain how middle managers interact with their organizational environments, and how middle managers survive in the environments from the perspective of environment reading. I will also present the successful experiences of many middle managers to the audience.[1]

7.1 Interactions Between Middle Managers and Organizational Environments

Who are the middle managers in an organization? Theoretically, middle managers can be defined as “who occupy positions between the strategic apex and the operating core of an organization” (Mintzberg 1989, pp. 98–99); but in practice, middle managers can be “any managers two levels below the CEO and one level above line workers and professionals” (Huy 2001, p. 73). Generally speaking, these definitions demonstrate three features of this position: ① Middle managers are management staff who are at the “middle levels” (namely, they have upper levels, lower levels, and same levels); ② In the organizational structure, vertically speaking, middle managers may include several levels of staff, some closer to the highest level, some closer to the bottom level; ③ Horizontally speaking, middle managers include management staff of each functional department and thus their work contents are different.

From the perspective of organizational role theory, the characteristic of a formal organization or social system is preplanned, task-oriented, and hierarchical. Roles in such organizations are associated with identified social positions and generated by normative expectations. This means, in a formal organization, individual roles are decided by their positions in the organization and people’s expectations toward those positions. This is the so-called “behave as a leader in the leader position, and behave as a subordinate in the subordinate position”. Because middle managers are at the middle level of an organization, their roles depend on the expectations of their superiors, subordinates and peers, creating the particular attributes of this position. Detailed characteristics of their job are as follows:

[1] The interview records used in this chapter are all from the interviews with 52 managers by the author.

1. Full responsibility with limited authority. Middle managers need to be responsible for their departments or teams, but in contrast to high level managers, they have limited authority to mobilize resources. They often need to cooperate with departments or teams at the same level. Their bosses may not always provide them with enough guidance and support. In order to deal with this imbalance between authority and responsibility, they need to consider long-term cooperation and coordination with same levels and look for opportunities to build network while getting their own work done. Meanwhile, they need to maintain good relationships with their bosses, pay attention to their bosses and understand their bosses, in order to get their support when needed.
2. Meeting and balancing multiple expectations. Middle managers play the roles of both boss and subordinate, as well as partner of other departments. They need to enforce the decisions of superiors, finish tasks assigned by superiors, and meanwhile provide guidance and support to their subordinates during the implementation of tasks. In addition, they need to assist the work of other departments in exchange for assistance to themselves when needed. Furthermore, when conflicts of interests or ideas happen between upper levels and lower levels or between their own department and other departments, they also need to coordinate to avoid the intensification of those conflicts. They even need to be a "shield" for leaders and an "umbrella" for subordinates. In terms of outcome, they need to maintain the balance between decision executing and organization stability.
3. A bridge between the upper level and lower level in an organization. From the perspective of task execution and information flow, middle managers act as the link between the upper level and the lower level in the organization. On the one hand, middle managers need to translate the strategic decisions of the higher level into operable action plans and appropriately assign them to the lower level; on the other hand, middle managers need to report the task implementation results to the higher level in a way that they are expected to report, and deliver valuable information, which they gather during the execution of tasks, to the upper levels.

It's noteworthy that the work of middle managers is not only determined by their formal positions in the organizational structure, but also influenced by other informal organizations, other organization members around them and social conditions. Thus, the role-related requirements on middle managers and their ways of dealing with things vary across the organizational environments (including interpersonal rules, systems etc.). I will explain the interaction between middle managers and the environments in which they are embedded by reviewing the change of roles of middle managers in the West.

With the change of socio-economic environment, the roles of middle managers in Western organizations mainly passed through two phases of evolution. The first phase was from the beginning of the twentieth century to the 1970s. This phase is called the "golden time" of middle managers. The main characteristics of this phase were: ① The number of middle managers was constantly increasing, and the levels were becoming more detailed and specific; ② The roles of middle managers changed from purely task monitors to a profession; ③ Workers' increasing awareness of their rights forced the management to focus on the human nature, and thus, the interpersonal skills of middle managers became more and more important; ④ The organizational environment faced by middle managers became increasingly complicated, and the conflicts between upper and lower levels became much severe (Edwards 1979, p. 19).

The second phase was from the 1980s till now. This period is called the "step in" time. "Step in" has two meanings. One is that middle managers were facing the risk of being laid off. Along with the increasing competition in the market and the development of science and technology, the uncertainty of the external environment increased and the core of management switched from planning and control to quality, cost, flexibility and speed. In the eyes of high level managers, middle managers were just a group of people who executed orders like robots, and even "just to read the reports of people who had been hired to write reports" (Osterman 2008, p. 2). The organization became fatter and fatter so that the transfer of information was blocked between upper and lower levels and further the importance of middle managers was devalued. Therefore, flattening the organization became a popular goal of high-level management. As a result, many middle managers lost their jobs.

The second meaning of "step in" refers to the fact that opportunities for middle managers increased during this period of time, as high level management started to give them more responsibilities. The flattening of organizational structures alone did not achieve the goals of reducing costs and increasing performance. On the contrary, it destroyed part of the social network inside organizations, which caused even more damage during the enterprise restructuring. As a result, people reconsidered the value of middle managers to organizations. Delegating middle managers became another important management practice. Middle managers had more discretion in decision-making at the operational level and on the other side they had to face an even more complicated and ambiguous environment. In these circumstances, it did not work any longer that only passing orders on down the line or unquestioningly following orders. Middle managers had to consider issues from multiple perspectives with open mind, and solve problems creatively. The capacity to read and interpret the external environment and current issues became more and more important.

Compared with Western enterprises, the management practices of Chinese enterprises started a bit late. There was also less research on Chinese middle managers. However, we still can see the interactions between middle managers and the organizational environments through the different working styles of middle managers in state-owned enterprises, private enterprises and foreign-invested enterprises. During the interviews, a middle manager described his different experiences in a state-owned enterprise and a private enterprise:

> *It is a big change to switch from a purely state-owned enterprise to a purely private enterprise. First of all, from the perspective of the whole environment of the company and people… because [the state-owned enterprise] is in a monopolized industry, there is*

no competition. We didn't have any pressure to work, and the whole working environment was very relaxed or, you could say, a bit undisciplined. The employees' work attitudes were also like that. The work load was not heavy, and redundancy of employees existed. More people, less work, discipline was not exactly strict... When I was a newcomer, I was trying to show people my diligent image. But later, after I was promoted to a certain level, especially from the level of section chief to vice director, and then to director level, just work capacity cannot ensure promotion.... So, I waited and waited. Only working hard was not very helpful. It was a bottleneck phase. If I think the life was easy and the compensation was not bad here, I could wait for a few years and when the current director got promoted or reached the retirement age, and, if I had good performance and some guanxi and background, the position would be mine...

In this kind of big state-owned enterprise, you have iron bowl... There is no such problem as being fired. There are only problems of having the motivation to make progress or not. When dealing with some people who don't have the capacity or willingness to go any further... if you only use your authority to require them to work hard, they will probably not listen to you... "What can you possibly do to me? You can't fire me, anyway." Their salaries, bonus and other benefits are not decided by their direct bosses. It is all settled... Of course, if you are really angry with them, you can criticize them from time to time, and do not give them any opportunities to be promoted or be rewarded. That's it... You don't have that much authority to constrain them, so they are not afraid of you. In this case, more communication is a better way. Of course, the authority cannot be completely dropped... With people who newly joined, who have the motivation to make effort at work, and care about their work performance and what leaders think of them, the power of positions might work well. Even in this case, if you can supplement with some interpersonal relations and good daily communications ... they will follow your orders completely gladly and wholeheartedly... Now, in private enterprise, the power of position is very useful... because we have the authority to fire people. If I'm not happy and want to fire someone, he or she will have to leave here. In most situations, my boss would absolutely support my decision... However, I always show respect to my staff ... I try to let them work happily, and let them work spontaneously...

No matter whether it's a private enterprise or a state-owned enterprise, respecting leaders and obeying leaders' orders always come first. But differences still exist. For example, previously, in the state-owned enterprise, with the influence of the big environment, to my subordinates, I was the boss; to my boss, he had to face the same problems... He deemed interpersonal communications were important... So, on the one hand, I did my work well, well played the role of my position, became his real good helper, and solved problems for him; on the other hand, because he thought interpersonal relations were important, when I was with him, I intentionally did something to build good relationship, and he would acknowledge and accept it... I think the big environment is important. In my current company, which is a private company, my leader is the boss of the company, the shareholder of the company. He pays more attention to the business, development and revenue of the company... He doesn't think private relations are important, and he doesn't actively build this kind of relationship... Now, I count more on my work performance, the loyalty to the company and the loyalty to the leaders... (Interview record, March 24, 2009)

In addition, during the interviews, some middle managers described their different experiences in state-owned enterprises and foreign-invested enterprises. The common responses were: in foreign-invested companies, organizational rules are clearer, work is more standardized, there is less organizational politics and its influence is lower, people communicate directly, and their opinions are easy to understand; in state-owned and private enterprises, there are complicated organizational politics and networks, organizational rules are not clear and even quite confusing, and if people don't know the networks and hidden rules inside the organizations, they can easily say or do something wrong and thus managers need to spend much time understanding the organizational politics and networks. For example, a manager described the differences in management between a foreign company and a state-owned company:

> *Many people told me that I need try to figure out what people are thinking. I have a friend, who works for a large-scale stated-owned enterprise. We often talked with each other. He told me that, of the seven days in a week, he spent five days studying people: being close to this person would upset that person, or being close to that person would upset this person... My spare time is quite private. I'm more like a Westerner in this aspect. I build very good relationships with my clients. I don't have extra energy to intentionally build relationships with some people inside my company... I'm a bit like Tang Jun ... Drawing a circle, I'm in the middle, and I have the same distance to everybody. This is a lifestyle. This is a management style... We have family days. We often invite the staff's families to join these activities. In the weekends, we invite people and their families to come to the garden, and teach them how to taste wine... Private communication is not much... In our company, people have simple relationships... You can tell all kinds of jokes. Nobody will mind. It's very free... (Interview record, April 16, 2009)*

From the above interview records, we can see that different organizational environments have different requirements on the work of middle managers. In state-owned enterprises, private enterprises and foreign invested enterprises, middle managers need to adopt different approaches to coping with their environments. We can't tell which is good or bad, right or wrong. What's important is whether the approach fits with the environment. Therefore, to a middle manager, being able to correctly interpret the environment is more valuable than some management skills. As Henry Mintzberg (1975) addressed, "The manager's effectiveness is significantly influenced by his insight into his own work. His performance depends on how well he understands and responds to the pressures and dilemmas of the job" (p. 60).

Not only the evolution of the roles of middle managers in the Western context but also the different requirements on middle managers in Chinese enterprises of different ownership, show us the interactions between managers and organizational environments, and also provide us with a perspective from which to study middle managers' ways of surviving in the current Chinese organizational environment. Under the planned economy, enterprises were totally controlled by the state's economic commands. Even high level managers had to listen to the commands of the government, not to mention middle managers. Since reform and opening-up, the external environment faced by enterprises has largely changed and their internal eco-environments have also correspondingly changed a lot. The general trend is that the internal eco-environments of enterprises have become more and more complicated and diverse. I will discuss the features of the organizational environments faced by middle managers in the following section.

7.2 The Working Environment of Chinese Middle Managers

From the Westernization Movement till now, the real Chinese enterprises have passed through about 100 years. Since the day they were born, they have been influenced by both Eastern and Western forces. On the one side, the Western enterprise management experience was imitated by many Chinese enterprises; on the other side, China's unique culture, politics, economy and other factors shaped the uniqueness of Chinese enterprise management. Up until today, Chinese enterprises are still groping their way forward through the clash of tradition and modernization, and constantly grappling with the environments. Even though middle managers are not like top managers who stand at the crest of the wave and give orders, they also experience the ups and downs of enterprises. Since middle managers are the implementers of business strategies and the practitioners of development plans, the internal eco-environment of an enterprise directly affects middle managers' behavioral modes and the effectiveness of their actions. In the following, I will introduce the features of the organizational environments faced by, and their requirements on, middle managers.

7.2.1 Guanxi *Orientation*

It has been known that Chinese people think highly of *guanxi*. This is actually closely related to the social structure of China. The basic structure of Chinese society is a "diversity-orderly structure". It is a network consisting of many personal relationships. In this network, individual behavioral standards are based on personal relationships. There is no community standard or value that overrides personal relationships. As a matter of fact, "China's morals and laws all stretch to a certain extent, depending on how close the relationship is between the enforcing target and 'oneself' . . . all the normative standards don't really work. People have to make clear who the targets are and what the relationship is like, and then decide the standards" (Fei 2004/1947, p. 49). To make a judgment on a certain kind of issue, people will use different standards, depending on the *guanxi* between the related parties and themselves, and not feel it is dissonant. In the current Chinese organizations, this feature still exists. In the interviews, several managers indicated the functions of *guanxi* in their organizations. For example, an interviewee from a private enterprise described it like this:

> *In a company, you can't possibly finish all the work within your own department. You often need assistance from other departments. For example, if I need a battery cart right now, I make a request and they [the other department] will bring it to me immediately, because we are pretty close in private. But if we don't have this guanxi, they would say, "use something else", or refuse to lend the cart to me. If they use a reasonable excuse and do not lend the cart to me, I can do nothing. If I can't finish my work, then that's my problem. . . It has nothing to do with them. . . (Interview record, March 26, 2009)*

In Western society, there is also norm of reciprocity (namely, one side does a favor to the other side, and then the other side feels obligated to pay back). Under this norm, people set up a special relationship during interactions, and this special relationship will influence their next moves (e.g., helping people who have helped them). However, in China, *guanxi* plays a much more central role in the society. "China has this 'friendship culture'. People seal more deals in restaurants than in law firms. The reason people solve their issues in a restaurant or a public bathhouse is to escape the rules, for flexibility… Chinese people mix personal spaces with public spaces. The boundaries between people are blurred. Thus, in China, the management systems in most enterprises have very fragile controlling power, but the affective factor plays an important role, except the manufacturing industry, which has clear production flows" (Feng 2007, pp. 83–84). The dependence on *guanxi* and the neglect of rules increase the complexity and ambiguity of organizations. For the people who work in organizations, their jobs become harder. On the one hand, people need to spend much energy building relationships to get their work done or to avoid uncooperative actions by other people; on the other hand, the development of personal relationships may destroy the organizational systems, and may further exacerbate the complexity and ambiguity of the organizational environment.

Furthermore, in Chinese organizations, *guanxi* not only refers to the interpersonal connections built under the norm of reciprocity, but also includes an attachment relationship between superior and subordinate. People use this attachment relationship to maintain the order of the organization. If this attachment relationship is broken, members of the organization may lose their sense of security, and the whole organization may fall apart. This is largely because of the low professionalism of the members. During the interviews, a manager from a large-scale state-owned enterprise described the influence of the attachment relationship in an organization by using a metaphor:

> *This attachment relationship is rooted in the culture. The attachment relationship is actually looking for superiors to depend on. If there are no dependable superiors, the organization will be a mess. For a group of people, when the big brother is here, they all behave appropriately; but they will get into a mess when the big brother is absent. Let's use the metaphor of playing poker. In the United States, if people think the game rule is not reasonable, they will discuss it, work out a better rule, and keep playing. But in China, people will just stop playing. Then the situation will fall into chaos… In Chinese culture, people tend to pull the rug from under each other's feet. The Americans seem selfish, and the Chinese seem full of collective spirit. Actually, this is not the case. As a person who has professional spirit and professional ethics, if I'm sitting here today to play poker, first, I will play. If the rule doesn't seem reasonable, let's talk about it and work it out. Chinese people are not like this. When they get irritated, they forget they are here to play poker… Then the discussion became aimless… (Interview record, April 15, 2009)*

The attachment relationship isn't exclusive to superiors and subordinates who report directly to them. It can also be between the basic level staff and top management, or between different departments. The interweaving attachment relationships certainly increase the complexity of the power relations in an organization. For middle managers, on the one hand, if they don't clearly know about the power structure in their organization, they may easily say or do wrong things and this will influence their own work; on the other hand, when they execute their positional authority, there may be obstacles. For example, when his/her subordinate has a superior to depend on at the top level, it could happen that this subordinate doesn't follow the middle manager's command and the middle manager can't do anything about it. To some degree, the complicated power relations have destroyed the control of middle managers over their subordinates, making their work even harder.

In addition, the attachment relationship is a mutually dependent relationship. Besides subordinates relying on superiors, superiors also need the support of subordinates. To middle managers, the attachment relationship is even more complicated. They need to look "up" and "down", as well as "left and right". Otherwise, they may make mistakes. This is like the "lifting coffin performance" in Hunan and Jiangxi area (in Chinese language, 'coffin' is pronounced the same as 'official'). In order to lift the coffin up to the cliff, "there need to be people pulling the strings on the cliff, people lifting under the coffin, and some others pushing at the side..." (Interview record, Dec. 15, 2009)

7.2.2 Harmony Orientation

In the Confucian society, there is no "forced self" (that is, someone is forced to accept some role norm). Instead, it is a mutually dependent "interpersonal self" (e.g. "loving father, faithful son", "to show love and respect as good brothers should", "people in the same boat help each other out"). People achieve their instrumental objectives through these interpersonal complementary roles. In a value system like this, maintaining harmony is a crucial norm in interpersonal interactions. It includes not being selfish, not doing anything inappropriate, protecting others' face, tolerance, and not directly expressing negative feelings toward others. Harmony will be ruined if this norm is breached, which can leave the other person feeling uncomfortable and may even cause a negative response. Therefore, people speak and act carefully in interpersonal communications to avoid "offending" other people. To middle managers, the situation is even more complicated. They need to maintain the harmony between themselves and other organization members, as well as the harmony between other organization members (between subordinates, between superiors, or between superiors and subordinates etc.). In addition, they also need to find the "truth" behind the "excuses" people make to maintain harmony, so as to maintain the harmony of the whole group. During the interviews, a manager told me one of her experiences:

> *I sent a male manager and three female staff to Guangzhou to do a project. They finished the project and returned. Upon their return, they all seemed happy about the trip, and no one said anything problematic about the project. But later, I found out their working papers were all printed very late at night, 2:00 am or 3:00 am... However, they didn't claim any overtime. In addition, when I assigned these staff to a new project, they indirectly said to me*

that they wanted to work on another project... Later, I found out that this male project manager was very careless about something... He always checked working papers very late at night... so these girls could not go to sleep early, just in case their boss asked them to revise working papers, which made them very tired. The male manager himself did not realize the problem... and those girls came to me and said to me that they wanted to switch teams. But none of them mentioned the problem of that male project manager... (Interview record, April 13, 2009)

In the above case, this manager, our interviewee, thought she couldn't directly approach the issue with the project manager because that might hurt him, but neither could she ignore the problem. She also needed to prevent the cohesion of the whole department from being damaged. It is really difficult to handle this issue.

Compared with private enterprises and foreign enterprises, the harmony orientation in state-owned enterprises has a more obvious influence on middle managers. The main reasons are: ① Besides economic targets, enterprise managers also carry the political responsibility of maintaining the "stability of the masses", and ensuring social order; ② In the employees' opinion, work is a right, not an opportunity. If managers enforce punishments or are tough in using their authority, employees may feel their rights are being violated; ③ Task management and personnel management are separate. Employees' direct bosses have very limited authority to control their salaries, benefits, promotions and other things which are directly related to employees' personal interests. In particular, if an employee performs badly at his/her work, his/her direct boss doesn't really have the authority to fire him/her, or transfer him/her to a different post. In such an environment, maintaining harmony is not only a norm of interpersonal interaction, but also becomes one of the goals of the managers. This is highly likely to leave managers in dilemmas. In the interview, a manager who worked for a state-owned enterprise described his situation like this:

I have limited authority over my subordinates, but they have unlimited power over me. They can freely use their power, such as mass appraisal. Mass appraisal is very important in a state-owned enterprise. It is nearly impossible to remove someone from their posts. If one subordinate doesn't do his work, I have to do it by myself because if I ask other people to do his work, they would feel that's unfair. In addition, if my staff didn't do their work well... my boss wouldn't blame them but me. That puts me in a difficult situation. And I can't transfer the blame to the subordinates, because people have different needs, and I want my boss to give me a good evaluation, but they may not need me to give them good evaluations... Employees of state-owned enterprises all have this thought, "I am the owner of the enterprise, and you have no right to fire me. This enterprise is not yours. It belongs to the communist party."... If I want to fire somebody due to bad performance, first of all, I don't really have this authority... secondly, my boss and others would say, "How come is your interpersonal skill so incompetent?" It may also affect the work efficiency, and the harmony and stability of the environment. If the harmony and stability are broken, then the problem becomes serious... (Interview record, Dec. 12, 2009)

In private enterprises, the harmony principle also affects a manager's work. However, maintaining harmony is not the core work of a manager. High levels pay more attention to the capacity and loyalty of middle managers. In addition, managers' positional authority has substantial functions. It is easier to "force" subordinates to accept a manager's authority, and the harmony principle is not so prevalent here.

Similarly, in foreign-invested companies, maintaining harmony is not the core work goal of managers. Performance almost decides all. Moreover, the power based on a middle manager's position plays a decisive role in the interactions with subordinates.

7.2.3 High-Context Communication

Chinese are characterized by high-context communication. Namely, people tend to use an implicit or indirect way to communicate, because either much information is hidden in the context or the communicators assume the other party already knows or can understand. In this situation, people need to pay attention to the hidden information in the context, and combine the hidden information with the apparent information to understand the true intention of the other side. As one manager said:

> *When you are listening, you need to listen to what he is saying, and meanwhile, to figure out what he is implying. Your solution should be based on both what you heard and what you did not hear (i.e., what you understood indirectly). (Interview record, April 15, 2009)*

In an organization, the higher the level of the leaders, the more "abstractly" they express their ideas. This is mainly because: ① Apparent and direct expressions may cause negative influences on themselves and the organization, such as jeopardizing organization justice, making themselves take unnecessary responsibilities, destroying their own images and authority etc. On the contrary, vague and indirect expressions can leave them space to maneuver. ② They may not be sure or only have a vague idea of what is exactly required and they may want their subordinates to do the task based on their own understandings first. In this way, they can protect their authority and give themselves an opportunity to adjust their decisions based on what the subordinates have done. ③ They may think their subordinates should have tacit understandings of them, so they assume their subordinates should understand what they mean, and use this to test the subordinates' capability.

In these situations, middle managers who are responsible for decision execution really need to make some effort to figure out the true intentions of their bosses. During the interview, a manager described his feelings as follows:

> *The puzzling thing is sometimes my boss doesn't recognize my work. I thought I was doing well. I thought I understood him pretty well... But, it turned out that I didn't accurately understand his intention. What are the leaders' intentions, strategies or ideas? Maybe sometimes I over-focused on the execution level, over-focused on the details, and didn't look one step further... Leaders might want to use the things that you are asked to do to achieve a deeper and further intention... Sometimes the leaders are using decoy tactics; sometimes it is just a trial because they are not even sure about their ideas... Sometimes we don't see the leaders' true intentions. What we think is important might be not important in the leaders' eyes... but, for some reason, they don't express their opinions explicitly ... (Interview record, Dec. 15, 2009)*

7.2.4 Economy Is Subordinate to Politics

"Economy" here refers to the business goals, management systems and management approaches of the enterprises. "Politics" has different meanings in enterprises of different ownership. This is mainly because, besides the organizational politics, state-owned enterprises also carry part of the social-political responsibilities, such as maintaining harmony and stability of the society. The "politics" in private and foreign-invested enterprises mainly refers to internal politics.

7.2.4.1 Economy and Politics in State-Owned Enterprises

In state-owned enterprises, "politics" includes both the political responsibility that the government requires state-owned enterprises to carry and the politics inside the organization. Since reform and opening-up, the government has taken a series of actions to enhance the vitality of the country. State-owned enterprises started to participate in market competition; private business, foreign-invested business and other new business forms appeared; complex relations came into being between different enterprises, such as joint stock-holdings. Some enterprises began to establish scientific management systems in order to increase operational efficiency. However, even though the government emphasized "separating enterprises from government management", it still directly or indirectly intervened in the internal affairs of enterprises via its administration power. As a matter of fact, managers of enterprises have double identities. Their primary role is government official and their secondary role is manager in an enterprise. Although with the progress of enterprise reform, their management role becomes increasingly important, the government official role still plays a decisive function. This is especially salient among the top managers of enterprises.

During the interviews, middle managers who are working or worked in state-owned enterprises all mentioned the influence of the political ecology on their work. For example, some managers mentioned that, in the management of state-owned enterprises, political hidden rules played a big role; some decisions of top managers were not as people normally would understand and actually the top managers had other intentions, such as using external forces to unify internal thoughts.

Political ecology influences middle managers mainly in two aspects. First, there are differences in objectives between top managers and middle managers. Specifically, the objectives of top managers often have a strong political color. To them, normally, politics is top priority, and economy is second. They put organization harmony and stability at the first place. However, middle managers, who are directly hands-on in the work, normally put the economy first. Their priority is work efficiency and effectiveness. The differences in objectives often make middle managers misunderstand top managers' intentions, making the work even harder for middle managers. For example, when selecting people for promotion, even though the top managers already have someone in mind, in order to show fairness and maintain stability, they still go through the public selection process to select the person they want by using other people's voice. However, from the perspective of execution, this is a quite inefficient way. In order to pick the person preferred by top managers and simultaneously show procedural fairness to everybody, a lot of extra work should be done in the selecting process. And, if things don't go as expected, no one is happy.

Second, middle managers also need to include "politics" in their work. Good performance is not enough to achieve a good career development. A very important job is to maintain good relationships with superiors, subordinates and peers. Just like the "lifting coffin performance" I mentioned earlier, "there need to be people pulling the strings on the cliff, people lifting under the coffin, and some others pushing at the side".

The second kind of "politics" in state-owned enterprises is politics inside the organization. It refers to using one's power within an organization to obtain advantages beyond one's legitimate authority. In nature, politics in state-owned enterprises is not that different from politics in private and foreign-invested enterprises. However, due to the attachment relationship, top managers' attention to political goals, and overstaffing, politics in state-owned enterprises is even more complicated and has a stronger impact on middle managers. For example, a manager who used to work in a state-owned enterprise said that she had been focusing on her own work without paying any attention to the organization politics and, as a result, she was isolated and had to leave the company in the end.

7.2.4.2 Economy and Politics in Private Enterprises

In private enterprises, "politics" refers to the politics inside the organization, which is primarily from power struggle and disagreements over business strategies among top managers. The early development of private enterprises was largely influenced by traditional Chinese culture, under which the running of organizations was based on affection and traditional ethics, and the formalization was very low. At that time, power distribution allocation was just a psychological concept; role division in an organization was spontaneous and their titles didn't really mean anything. However, as the enterprises developed, "the platform is bigger, there are more resources, and the ranking of positions becomes increasingly sensitive" (Feng 2007, p. 28). People started to fight over power. In addition, at the early stage of development, the business was relatively simple and concentrated, and it was easy for top managers to reach consensus. But, along with the growth of the organizations, the complexity of their business kept increasing and the external environments were also becoming more complex. Top managers then easily came into conflict over business opinions, such as development directions and management philosophies. They may fight for control power to realize their ideas.

The battle for power and the disagreements between high level managers may lead the whole organization to be involved in factionalism. The factionalism can affect lower level staff, especially middle managers, because they need the coordination and support of each faction. In the interview, one manager described such experience:

> *I used to think I didn't need to think about office politics in such a big company. But now I know, for managers working at middle level or above in big companies, politics is a very important part of work... It is one test you have to pass. The politics here means the relationships between departments at the upper level. You have your own responsibility at your position, but as long as you are at your position, you cannot just close your eyes and ears and ignore anything outside your responsibility. You have to know about the business and structure of the whole company. You have to know the power structure and the business structure of the whole company well, and maintain good communication with each department... Otherwise, your department will be at disadvantageous status in this company... (Interview record, March 16, 2009)*

Another middle manager expressed his feelings about organization politics and presented his coping strategies:

> *There are politics in companies, especially in Chinese companies. Maybe outsiders don't really know, but each company has its own situation. It has internal politics, or you could say factions... Thus, to your own boss... there is the issue of loyalty. In ancient times, if you served a king, you had to be loyal to this king. It makes sense. Generally speaking, most of the work arranged by leaders is based on the interests of the company... In my company, the interests of leaders are actually the same as the company's interests... But high level leaders may have different opinions... In this situation, if you need to interact with these two leaders at the same time, you'd better be tactful. For example, when you need to report to two leaders and they have different opinions about what you are doing, what do you do? Do you tell both of them about the different opinion of the other one? Or you deal with this situation through other ways? If you say things directly, it may cause unnecessary conflict between these leaders. So, you need to adopt other approaches, to deal with it in a more artful way, and then the result will be better... (Interview record, March 24, 2009)*

It is also found that some middle managers became the victims of political struggle, and had to leave the companies; some managers were aware of the threat of the political struggle to their careers, and chose to leave.

7.2.4.3 Economy and Politics in Foreign-Invested Enterprises

Although the formalization of most foreign-invested companies is relatively high and people are used to acting according to professional standards, organizational politics still has influences on the managers' work, as depicted in the fiction "Go Lala Go". In fact, in the interviews, managers who worked in foreign companies also indicated there was also politics in their enterprises, and the higher the management level, the more politics there was; and politics also impacted managers' work. However, compared with state-owned enterprises, in foreign-invested enterprises, economic interests are always put first and employees focus most of their energy on working. Compared with private enterprises, foreign enterprises' organizational system is relatively mature and employees know more clearly about their responsibilities and authorities. In general, there is less politics in foreign-invested companies, and its influence is lower, as stated by a manager who has worked in foreign companies for many years:

> *There is really very little office politics and it has a very small influence. Most people just do their own jobs. Their work has nothing to do with office politics. Office politics does exist, but it is very small in proportion and it has very limited influence on your work... (Interview record, March 20, 2009)*

7.2.5 A Changing World

During the past 30 years of reform and opening-up, China has experienced dramatic change. The country is "groping for stones to cross the river". Likewise, enterprises are also "groping for stones to cross the river". In order to increase the adaptability of organizations, top managers have constantly adjusted their strategies. In China, "change" has almost become a normal status for enterprises. All of the interviewed managers have experienced some organizational change, including restructuring, business adjustment, process reengineering, adopting new management approaches and so on. During the organizational reform, middle managers were both the receivers and the immediate implementers, and even initiators. No matter what roles they played, they needed to achieve reform, development and stability simultaneously, so as to be recognized by their superiors.

To sum up, middle managers currently live in an ambiguous, complex and changing environment. Since they hold limited resources and authority, it is a big challenge to survive in such an environment. So, how did those successful middle managers cope with the current organizational eco-environment? What can we learn from them? In the next section, I will explore the survival wisdom of successful middle managers.

7.3 Survival Wisdom of Middle Managers

> *Now I say to my staff: I don't worry you won't be able to do a good job. What I'm worried about is you don't know what you are doing. This is my philosophy, the only one philosophy; I don't care about other things. I don't worry you make mistakes, or your sales performance is not good, or you lose clients. I'm just worried that you don't know what you are doing. This is easy to listen to, but hard to understand... (Interview record, April 16, 2009)*

These words came from Mr. Li, who was already working at a high level position. He was talking about his expectations on his subordinates. Mr. Li's statement made me wonder: In Chinese organizational eco-environment, what kinds of middle managers can successfully adapt to the environment? How do we interpret "know what you are doing"? In fact, during the interviews, many interviewees mentioned the importance of "know who you are" and "know what you are doing" for middle managers to do a good job. With the above questions, I analyzed the interviews from the 52 managers, and found that the managers who "know what they are doing" show high mindfulness. Mindfulness reflects managers' ability to read and interpret their roles and the environments. In Chinese organizational eco-environment which is characterized by ambiguity, complexity and change, mindfulness is a core ability to distinguish successful managers and unsuccessful managers.

Mindfulness refers to a cognitive ability in paying attention to the present and having active consciousness of the current events. Managers with high mindfulness can accurately read the information in the roles and environments, have clear understandings of their roles and the environments in which they are involved, and they tend to be attentive to the present instead of the past or the future when they are confronted with problems. Specifically, they are not preoccupied with the past or the future and do not make automatic responses to the present situations. What they do is to integrate the past and the future into their cognitive systems, so as to help them make judgments and decisions on the current situations. Meanwhile, they maintain an open and active mind. They tend to actively seek and process problem-relevant information, view the problem from multiple perspectives, and continuously revise their understandings. They can find the "true problem", and make clear the relations among all kinds of information. In other words, they have clear understandings and awareness of what they are doing.

The interviewed managers often used terms as "mindful", "deliberate", "thoughtful", "heedful", "be conscious and sensitive", "do not treat everything the same", "pay attention to the context", "observe more and seek more information", "adjust thinking inertia", "look at things comprehensively and in the long run", "accept and reconcile contradictory information" to describe mindfulness. The results of analyzing the critical events provided by the interviewees indicate that mindfulness has five cognitive and behavioral manifestations: ① not making judgments by appearance; ② being sensitive to the context; ③ being attentive to related information; ④ multiple-perspective thinking; ⑤ continuously revising understandings. These five manifestations reflect a process of reading and understanding problems. Herein, "not making judgments by appearance" reflects the preliminary understanding of the problem; "being sensitive to the context", "being attentive to related information", and "multiple-perspective thinking" all reflect the process of collecting and processing information; and "continuously revising understandings" reflects the further understanding of the problem. In the following, I will explain these five manifestations based on the interviews in detail.

7.3.1 Probing into the True Problem

"Not making judgments by appearance" and "continuously revising understandings" both reflect managers' perceptions of problems. In realistic problem solving, these two aspects are closely related. Therefore, I combined these two aspects and named it "probing into the true problem".

"Probing into the true problem" means that when managers encounter problems, they don't make "automatic" or "emotional" reactions just based on surface information; they tend to avoid the trap set by previous experience and do not rush to any conclusions; they see problems with open mind and try to find the essence of the problems. They have clear understandings of their goals and then use these understandings to guide the problem solving. For example, in the interviews, a manager told the following story:

Our company invested in a project and I was asked to act as the manager. In the second month, the workers went on strike… With that project, our company was responsible for sales and our partner was responsible for daily production and management… Because that project was new and our techniques were not advanced enough, we invited a third party, which was a technical team, to train our workers… The technical team cooperated with our partner, and they managed the workers together… There were some conflicts, not big, but many small conflicts, which, put together, became big conflicts. In the end, the workers complained that the technical team was not fair–they only taught some of the workers and left out the rest… Some of the workers were punished, and they felt that was unfair, so they went on strike. The project was in another city, so I was working there for a week, and working here for a week. The strike happened in the week when I was not there…

Actually, the workers were quite vulnerable at that time. They chose to strike, probably because they had no other options. They didn't have other solutions to solving the problems, and they were too angry to keep working. The fact that they did it collectively meant there must be problems in the management. But the technical team and the management party wanted to punish or fire those workers. It is a spontaneous behavior. However, I thought, by this way, the problem was only solved on the surface and the underlying problem was ignored. And this way may cause trouble for the future work. So I investigated the situation first, and then communicated with the shareholder—our partner. I said to them, "Your approach is acceptable. However, we work for our goals. We all want to put this project on the right track as soon as possible and start making money. Then you will get benefits, so will our company. Our objective is not to punish people. Think about it, we have been spending time and money training those workers. Now if we fire them, it has nothing good for us. We may build our authority by this way. But actually I think there must be something wrong with the management… If we use force to suppress the workers, we can't solve the problem fundamentally."

I also talked to the technical team. They also wanted to put the project in good shape as soon as possible. If the conflicts get bigger, there's no good for them either. It is our company that invited the technical team to join the project. We had been considering giving them some shares at a later stage, but this certainly was based on the progress of the project. We understood that they had been unhappy that we never mentioned anything about giving them those shares, or what would happen when the project was done… By this way, the problem is clear… (Interview record, March 15, 2009)

In addition, "probing into the true problem" also means when defining a problem, managers are creative or choose the middle way based on the context (namely, not choosing between right or wrong). For example, an interviewee described such an experience:

My boss and the boss of another department have mixed responsibilities. As subordinates, we are confused. So, it becomes very difficult to decide whether some tasks should be done or not, and to what extent… Furthermore, the boss of another department always *challenged our work. If we got something done, like, when we finished an advertisement design, he said: "I want to know what you did, show me that ad in English." He is a foreigner, but our ad is in Chinese. We were pretty sure if he saw the ad, he would say that the ad was not good, and it didn't match our company's strategy etc. So what should we do? Do we translate the ad for him or not? If we do translate, there will be a lot of trouble. If we don't translate for him, he will keep asking for it. It is hard to make the decision. . .It is a tough thing. My boss also knew about it, and he told us not to translate it for him. But the problem was that the foreign boss directly came to me. What should I do? Whatever I do represents my own position. . . If I don't do it, it is me that offend him, not my boss. . . So I translated for him, and told him clearly that it was just a draft. I didn't translate word by word, because some Chinese is hard to be accurately expressed in English. Actually, I did it according to his strategy, not exactly matching with our ad. Then I told my boss, "He had been pushing, so I randomly gave him something. I think he'd be OK with it." My boss said: "Ok, whatever." Office politics can be complicated. You cannot see the things above you. . . I think you have to transform a little in the cracks, and find a compromising way. This is quite common. In this circumstance, if you say 'I'm an honest person. I must follow the procedures exactly', then you will be in trouble. . . (Interview record, March 20, 2009)*

7.3.2 Being Sensitive to the Context

"Being sensitive to the context" means when a problem happens in the workplace, managers are alert to the context and try to define the problem within the specific context, instead of seeing the problem as isolated. In the eyes of this kind of manager, problems which look similar in appearance may be different or need to be dealt with as different problems when they happen in different contexts. These managers will not be constrained in their thinking by past experiences or existing systems and procedures, and they will not just automatically say "I always do it this way" or "other people all do it like this". In addition, they are usually very sensitive to the big picture of the company and are not limited to the details of work. For example, an interviewee addressed the following experience:

Overtime working is a quite complicated thing in enterprises. Normally, if the company arranges employees to work overtime, it should pay an overtime subsidy to employees. . . This is reasonable and is in accordance with the labor law. But, in fact, in my industry, it's not like that. . . I found that overtime for R&D staff is different from regular overtime. There are lots of things to consider. So far as I know, some companies pay an overtime subsidy, and some do not . . . There are all kinds of situations. Then this is complicated. . . I can say, in this industry, if any R&D employee doesn't work overtime, then he is abnormal. He has to work overtime. If he doesn't, he can't finish the tasks, and he also cannot guarantee that the team can finish the tasks. Working overtime is very common. For example, in my company, in over 200 working days, less than 10 days can we get off work on time. Most of the time, we get home around 8:00 pm or 9:00 pm. There is tons of work. I made a calculation. If we add up all the subsidies for overtime, these employees' overtime subsidies are several times as much as their salaries. Later, we claimed that we didn't have overtime working. That's the only point we can claim. . . In accordance with this point of view, I did several things. First of all, what's the definition of overtime working? If it is based on the needs of work and arranged by superiors, and follows certain procedures, then it is overtime working. Secondly, we further reinforced KPI evaluation. We divided annual evaluations into quarterly evaluations, and gave quarterly bonuses. Administrative *departments don't have quarterly bonuses, but the R&D department has. Thirdly, we provided R&D staff with two promotion opportunities per year – if somebody gets promoted to a higher position, his or her salary is also increased. Administrative departments only have one promotion opportunity per year. Combining these approaches together, we basically solved the problems. Because KPI evaluation is result-based, employees can get bonuses if the tasks are accomplished, and bonuses supplement for part of the overtime subsidy. So, if you get off work and I'm still working, assuming we are equally smart, I would do a better job than you and thus I might get a bonus or I get more bonus than you. In this way, people can feel that their effort is rewarded... We focus more on this kind of visible overtime working or increasing workload. And the results reflect the benefits of overtime working, including more promotion opportunities and better compensation... By using other ways to address the overtime working issue, we better solved the problem... (Interview record, March 30, 2009)*

7.3.3 Being Attentive to Related Information

"Being attentive to related information" means when managers encounter a problem, they will actively seek problem-relevant information and be open to new information. They usually approach the involved personnel actively, and search related information through various channels. For instance, an interviewee described such an event that happened to her (Interview record, April 23, 2009). At that time, her company and another company co-invested in a new company. She was responsible for the culture integration project of the new company. Her company had a very different culture from the other company. Her company's culture was procedure-oriented, and the other company's culture was outcome-oriented. In the beginning, the working methods of the other company really made her feel uncomfortable. But, in order to accomplish this project, she spent a lot of time getting to know the other company. She read articles about that company, learned about the background of the representatives of that company, visited that company and organized seminars to learn about what everybody thought. She described her thoughts back then, "I must be the effective lubricant and bridge between the two companies. I must use their language and their culture to do things. Otherwise, I can't get their recognition and support." Finally, she successfully accomplished the project within the budget and fulfilled the requirements of the high level managers.

Being attentive to related information also shows as actively observing. For example, most interviewed managers mentioned that they tried to observe their leaders' countenance when they reported to them, and in this way they learned if the leaders were satisfied with the reports and what the leaders truly wanted. After three or four times, they could accurately figure out the leaders' thoughts. In addition, when other managers were reporting their work, they also paid special attention to what their leaders said and what questions the leaders raised. In this way, they got to know the leaders' personalities, working styles and preferences. Then, when they made reports in the future, they could prepare the reports according to the leaders' needs and even beyond the leaders' expectations.

7.3.4 Multiple-Perspective Thinking

"Multiple-perspective thinking" means when managers encounter a problem, they don't think about the problem from single perspective but think about it from multiple stakeholders' perspectives. In this way, on the one hand, they can have a comprehensive understanding of the problem; on the other hand, they can integrate all the perspectives to guide the formulation of solutions. As one manager said, he kept a neutral position and he needed to think about things from different levels, "when facing the boss, I need to think about the interests of employees, and try to balance the company's policies with the employees' needs; when facing employees, I need to think at the company level, such as the relations between resources and corporate culture." He used an example at work to demonstrate this point:

> *As a middle manager, I need to learn about multiple sides' information. I need to consider the needs of each organizational level. I need to correct some decisions with my expertise. For example, one work team would be restructured in my company. From the perspective of top management, they hoped to see a timeline, and even, the sooner the better to "get rid of" these people. If you don't think much... the simplest way is to fire these employees, talking to them, giving them some compensation and letting them go. This is a usual way. But I said we should not do it that way, because it would lead to bad effects, especially in this sensitive situation. People would think something was wrong with our company. You say your company is good, but they would say the corporate culture is too bad – you get rid of people as soon as they get their jobs done. It would also negatively affect people who still worked in the company. Then I made a plan together with my subordinates. First, we negotiated with the top managers. Second, we went through all the labor contracts. Many of them would expire in three months. We suggested that these people could finish their contracts first; if three months later, we still did not need these people, and then we would terminate the contracts. Since the contracts were already finished, termination was reasonable and wouldn't hurt anyone... In addition, we went through these employees' CVs, seniority, and performance appraisal results. We also learned about the recruitment needs of the company. Some of these employees were qualified for some of these jobs. In this case, we closed the public recruitment advertisements and posted some internal recruitment information. Then these people could apply these positions internally. Some other people had very good performance evaluations, strong abilities and good attitudes. For them, we made some special arrangements. We organized some training. They might think they were not qualified for these positions, but with our recommendations and training, they could also apply for some of these positions. For those with bad evaluations, we gave them some compensation and let them go... Everybody thought this solution was good and acceptable... (Interview record, March 30, 2009)*

Additionally, managers who are able to think from multiple perspectives are usually good at perspective-taking. For example, many managers indicated that they often prepared several solutions, listed all the pros and cons of each solution, and presented them to their bosses to choose. They particularly emphasized that they never made decisions for their bosses. They tried not to outshine their bosses. They got this "magic" from perspective-taking.

> *If you think about this from the perspective of a boss, it becomes much easier to understand. When you face your subordinates, you are very sensitive inside. You hope your*

subordinates can do things right and meanwhile let you make decisions... (Interview record, March 16 2009)

In Sect. 7.2—"The working environment of Chinese middle managers", we got to know that the environment in which Chinese middle managers work was characterized by "*guanxi* orientation", "harmony orientation", "high-context communication", "economy is subordinate to politics" and "a changing world". In such an environment full of interactive forces, ambiguous and changeable behavioral standards, and unclear information, mindfulness is helpful for middle managers to see clearly the surrounding people and issues, and to better handle the rules of interacting with people and doing things, so as to adapt to the environment and actualize their own value.

In the end, it is noteworthy that, even though personalities may affect middle managers' ability to read their own roles and the surrounding environments, the level of mindfulness can be increased through practices. Most managers are growing through trial and error, becoming mature through constant reflective thinking, and cultivating the ability for "understanding worldly wisdom and grasping mundane affaires" during the interactions with their surrounding environments.

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Chapter 8
Employee Characteristics and Management

Li Ma

In April 2006, a true story about "the toughest female secretary ever" was circulated extensively in China.

One night, a senior manager who was sent to Beijing as the chief executive for the Greater China region of an American enterprise went back to his office but discovered that he had forgotten to bring his keys. His personal secretary, whose English name was Rebecca, was off duty and couldn't be reached by phone. After waiting several hours and having failed to work through his anger, the chief executive wrote a hard-hitting email to his secretary, the content of which is roughly as follows:

> *I just told you not to assume or take things for granted and you locked me out of my office this evening when all my things were all still in the office because you assumed I had my office key on my person. With immediate effect, you do not leave the office until you have checked with all the managers you support – this is for the lunch hour as well as at the end of day, OK?*

This email was copied to other senior corporate executives. However, this secretary named Rebecca did not demonstrate any weakness, but wrote back an email, in Chinese, after 2 days:

First, I was completely correct in how I handled this matter. I locked the door based upon security consideration. I will not be held responsible if something should be lost.

Second, you have your own keys. You forgot to bring them, but you still want to say it's someone else's fault. You were the primary cause of this affair, so you should not blame your mistake on someone else.

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Thirdly, you have no right to interfere with or control my personal time. I work eight hours a day. Please remember that my lunch and my evening after-work hours are my personal time.

Fourthly, from the first day at EMC to now, I have fulfilled my duties. I have worked overtime many times and I have never complained. If you want me to work overtime for matters unrelated to work, I will not oblige.

Fifth, even though I'm your subordinate, please pay attention to politeness when you speak. This is the most basic human courtesy.

Sixthly, I want to emphasize that I did not guess or suppose anything, because I don't have the time and I don't need to.

Rebecca didn't just send her reply to the chief executive but also copied it to all employees in the branches in Beijing, Chengdu, Guangzhou and Shanghai. Very soon, the email was circulated widely. The secretary was given the title of "the toughest female secretary ever" by the internet users.

After the incident, Rebecca quit her job at the American company. Soon, the chief executive left the company for other reasons.

Over a period of time, a heated discussion on "the toughest female secretary ever" developed and attracted the attention of the public. Although some people were only following the debate for fun, others began to reflect seriously on this issue. In the "old" days in China, people were told that "organizational matters, however minor, are important; personal matters, however important, are minor". So, how could an employee today have such a strong reaction to the requirements of a superior? People always believe Chinese employees are gentle and obedient in front of their superiors. How could we find this secretary with the guts to rebel?

Between April 25 and May 2, 2006, A Chinese network (Netease) conducted a poll of internet users (in Chinese term, netizens) by asking them: "Who do you support?" Among the more than 30,000 answers, 48 % supported the secretary, 10 % supported the chief executive, and 42 % supported neither. Two relevant propositions were also put forward and the responses were interesting. One was: "This is not the secretary's fault but the chief executive's. The chief executive should not impose his personal will on others. He lacks basic politeness. Other companies that had rejected the secretary's job application don't care about their employees." The proposition was supported by 1,119 people, no one voted against it. The other proposition was: "Obviously, the chief executive extended his anger to his secretary. It is a basic principle to respect others. The chief executive was not polite, the secretary's argument was reasonable. Although she lost her job, she deserves respect." Many (595) people supported this proposition and no one disagreed.

As a matter of fact, if we understand the emerging Chinese social values and characteristics of the new generations of employees, the secretary's action tends not to seem so strange. Rebecca represents changes in employee characteristics in various aspects, such as values and behavior. Achievements by Chinese enterprises in the past 30 years, to a large extent, can be attributed to the work of mass employees. The characteristics of these employees have also affected the outcome of enterprise management during the process of economic and social development, as well as the growth of the enterprises. In this chapter, I will focus on the characteristics of employees in modern Chinese business organizations, and introduce some effective measures to manage enterprises.

8.1 Changes in Employees' living and working environment

People's behavior is significantly influenced by their values. Their values, in turn, are influenced by their living environment during childhood and the working environment during adulthood. In childhood, material and spiritual elements needed for "survival" can inspire one's pursuits and change one's values. In the working environment, an organization's rules and regulations can further influence one's understanding of right or wrong, should or shouldn't.

As a proximal environment in which employees work daily, an organization can have a larger influence on employees' values in terms of attitude and behavior than the societal environment in general. After all, society is a distal environment, whereas the workplace is the proximal environment. Behaviors expected by the organization, the organization's work allocations, and reward and punishment policies exercised in daily work substantially affect employee behavior. As time goes by, these influences can become deeply rooted on the level of worker values.

8.1.1 Broad Context: Dramatic Changes in the Chinese Society

In the past few decades, every aspect of Chinese society has undergone major changes. The mainstream social development has been the transformation from a farming society to an industrialized, informational society, and from a closed society to an open society. Accordingly, peoples' values have been influenced by the social mainstream mindset, popular culture, and way of living. As a result, Western and Eastern mindsets become popular in ebbs and flows, traditional and modern ways of life co-exist, the standards measuring nobility versus contemptibility change over time, and the "mainstream" mindsets has been constantly changing.

From slogans in different periods, we can have a taste of social thoughts, and observe the generational changes of values orientation. Before the Cultural Revolution, what employees heard were: "If you feel this is tough, think of the Red Army's Long March; if you feel it exhausting, think of the revolutionary predecessors; if you feel it difficult, think of the hard days in Jinggang Mountain" (in Chinese, these sentences are in fairly good rhythms), "We shall accomplish building the great oil field even at the cost of 20 years' life", "A revolutionary soldier is like a piece of brick, which shall be placed wherever it is needed".

All these slogans promoted the selfless and aggressive spirit of ignoring the individual's interest and sacrificing for the group. After the Cultural Revolution, everything needed to be done, and slogans such as "Respect Knowledge and Intellectuals", "Practice is the sole criterion for testing truth", Liberate our minds, seek truth from facts, and unite as one and look to the future", "To be the new generation of socialist constructers with ideals, morality, culture, and discipline", "Unite to revitalize China" blew the horn for liberating Chinese minds and working hard to construct the motherland. When Reform and Opening Up entered the next phase, slogans such as "Time is money, efficiency is life", "Save enough for the country and the community, all the rest are mine", "Allow a proportion of the people become wealthy first", "Poverty is not socialism", "Material and spiritual progress are of the same importance" reflected the government's and people's endeavor to protect the purity of the spiritual realm while focusing on economic development. From the late 1980s to 1990s, slogans such as "Stability is the first priority", "Development is the absolute principle", "Science and technology are the primary productive forces", "Gear to international conventions", "China can say no" reflected the resolution of the emerging conflicts during the process of developing the country. Entering the twenty-first century, "Harmonious society" and "One world, one dream" reflected China's aspiration to participate in with the international community and to build an even better country.

Changes in the composition of the population also brought on a transformation of values in various aspects. For example, the generation born after 1980, the population group around or younger than 30 years old now, is mostly made up of people who are the only child in their families. Associated with the rapid social and economic growth, the material conditions of families could better meet the needs of their children. Without needing to share or fight for resources with their siblings, this generation to some extent attracted a stereotype of being "irresponsible", "selfish", "spoiled", etc. The "Moonlight Group" (literally "Monthly Used-up Group", young people who spend almost all of their monthly salary by the end of the month) and the "Strawberry Group" (young people who are spoiled by a comfortable environment and cannot tolerate any difficulty – just like strawberries) are the labels which have been applied to this generation. Of course, like all stereotypes, these labels are not absolutely appropriate. It is only the opinions some people have of the young generation; however, the stereotypes surely can affect the behaviors and attitudes of the beholders towards the young generation.

8.1.2 Micro environment: weakening of the business organization "work unit"

During Reform and Opening Up, working organizations, or the Chinese term, "work units", have undergone dramatic changes. The most obvious one is the weakening of the control imposed on individuals by the organization. In the past era of work units, almost every aspect of an employee's life depended on the organization, because everything in his or her life was connected to the organization. As Jack Perkowski, an American businessman who established a successful business in China, wrote:

> *The "work unit" played a unique role in post-1949 China. A person's job in a factory—or in some other type of work unit, such as a hospital or a university—was the way he or she was defined. The work unit was the person's entire universe. In addition to providing jobs to both husband and wife, the work unit provided housing, schooling and medical and retirement benefits. In essence, the entire welfare system in China had devolved to work units (Perkowski 2008, p. 133).*

In sharp comparison with the past, the reform has transformed working organizations from "the entire universe" into entities with which employees trade their skills and labor for income and welfare. In some state-owned enterprises, government departments and public institutions, this transformation is taking place at a slower pace. Generally speaking, this transformation is not only affecting work relations for the old generation of employees and the society stability (see Chap. 9 of this book), but also influencing the attitudes and behaviors of the new generation of employees. Enterprises or other employers founded on the market economy have relationships with their employees that are increasingly closer to what is called the exchange relationship in Western theory. This includes the exchange of materials, as well as emotions, commitments and so on.

8.1.3 Paradoxical Chinese

In some ways, the change that has taken place in China in past decades equates to what has happened in other countries over centuries. The dramatically changing environment has left Chinese employees dealing with many contradictions. On the one hand, cultural and historic traditions are imprinted on everyone's genes; on the other, social and economic progress seemingly hijacked everyone in the rush to move forward, with no chance to assimilate the changes. Everyone has to change him or herself to adapt to the environment, because the society is changing too fast. Scholars are also trying to explain the contradiction and paradoxes between tradition and modernization. Opinions on "tradition" hold that a person's value is deeply rooted in history and culture. Our own research shows that, to judge a person to be good or bad, traditional Chinese concepts such as "repaying favors", "taking personal friendship seriously" and so on have been given the same importance by many managers. Opinions on "modernization" hold that practical life affects people most, especially in terms of work-related values. To quote Jack Perkowski again:

> *What happened in China in a thousand, a hundred, or ten years ago is important, but what's more important is what's happening today, on the ground. I personally enjoy learning about Chinese history, and I learn something about Chinese culture every time I read a book on the subject. But the simple fact is that knowing the ins and outs of China's many*

dynasties is interesting if you've got the time, but not terribly helpful in terms of figuring out how to do business today. (Perkowski 2008, p. 58)

Characteristics caused by both tradition and modernization probably can be found in every person. Recently, a compromise view has appeared in academic circles, which divides work-related values into two categories. The family-related values are determined by society and history, and evolve very slowly; on the contrary, the work-related values are determined by societal and organizational lives, and change quickly.

In this social background of dramatic change and co-existence of various ways of thinking, Chinese people's thinking becomes more diversified and inclusive. As a result, Chinese people can be very different from one another, and at the same time, Chinese people can be extremely adaptive. Characteristics that are seemingly contradictory can co-exist harmoniously in one person, and be seen in different circumstances. Therefore, employees growing up against such a background of dramatic changes and contradictions can demonstrate absolutely different behavior in different circumstances (Hong et al. 2000). The new generation of employees, in particular, can easily deal with the conflicts among different values. They have fewer restrictions in their minds, and can be very adaptive.

Because of the unique historic cultural environment and political economic climate, Chinese employees carry different characteristics from those described in many classic textbooks. When we consider the characteristics of Chinese employees, there has to be a reference object. The reference here is employees described in the textbooks of popular management courses or organizational behavior. These employees are actually mostly those who work in large companies in the West (especially in North America, or the United States). So, how can we summarize the characteristics of Chinese employees? Chinese employees dine with chopsticks, and American employees dine with fork and knife. This summary is basically accurate but no one would believe this summary could be of any help to organizational management. For this reason, my summary on characteristics of Chinese employees in this chapter is based on empirical research of the past several decades. Because of various restrictions, some very important points, though not thoroughly investigated empirically, are still to be discussed with their implications. I hope that my casual observation can serve as starting points for future research.

As my summary takes Chinese employees as a whole group, it runs the risk of being over-generalized. As a matter of fact, even inside China, employees from different areas, ages, education background and professions could be very different. Taking regional differences for example, some say "people in places a hundred miles apart could be different in customs, and a thousand miles apart could be different in traditions." Some even say "when you are three miles away from your hometown, you will see a totally different world." Employees from cities such as Beijing, Shanghai, Hong Kong and Chengdu could be more different than those of two different countries. Therefore, I am summarizing a combined character that has "a mouth from Zhejiang, a face from Shanxi and clothes from Beijing". But, generally, this can describe the characteristics of a typical Chinese employee.

The purpose of this chapter is to offer descriptions on employee characteristics that are likely different from classic textbooks based on Western societies. Summary of such characteristics helps pave the way for the review of Chinese experience of management.

8.2 Chinese people Influenced by the Traditions and Current Changes

This section will introduce some characteristics Chinese people might have today, some of which are reflected in workplace behaviors and have been recognized by managers, and against which management practices have been developed. Briefly speaking, being in the middle of time-honored tradition and dramatic changes, current Chinese people possess characteristics that are seemingly contradictory but magically coexist in a harmonious way.

8.2.1 Modest but Ambitious

Chinese traditional culture emphasizes introspection, taking the habit that "one should introspect three times a day" as a virtue. Therefore, Chinese people are modest. They don't want to be the victims of slogans such as "Birds flying first get shot", "The rafters standing out rot first", or "Bigger trees get stronger wind". In particular, Chinese people are more likely to respond to their own achievements by demonstrating their shortcomings so as to avoid jealousy from others. At these times, Chinese always deny or play down their contribution by saying "I did nothing", but give credit to other's work such as "good leadership" or "support from co-workers", or the external environment: "I was just lucky". A modest person like this usually receives more respect than those who always boast of their achievements (Bond et al. 1982). People who practice such self-judgment lower, to some extent, the evaluation of their capability and achievement, but raise the evaluation of their moral standard at the same time. Under the rule of modesty, people need to conceal their ambition and capability. Chinese people not only refuse to "march ahead of the team" and "start misfortune for others", but also refuse to "start good things for others". It is probably because of the macro environment described in the old sayings cited above.

The logic of the market economy, however, is the pursuit of efficiency, competition, and even seeking for survival in the society that "winner takes all". As a result, people's drive to pursue excellence is becoming more and more prevalent. With the background of radical and constantly changing social stratification, people have a strong desire to uplift their and their family's social economic status. Investigation shows the generation of Reform and Opening Up is more willing to achieve success, such as social status and prestige through hard work and capability (Egri and Ralston 2004). In highly competitive occupations, industries, and companies, people have become to enthusiastically seek for excellence, sometimes aggressively, to be successful. Being ambitious even becomes an important criteria for companies when recruiting new employees. Motivated by society and the organization, more and more Chinese have accepted the competitive reality, and are eager for life achievement.

8.2.2 Overall and Dialectical Thinking

Being modest and prudent means Chinese people are more likely to learn and admit their shortcomings in front of others. Compared to American employees, Chinese and Japanese employees are more willing to find out what they are doing below expectations (Bailey et al. 1997). At the same time, Chinese employees are trying to identify their own merits as well. Compared to Japanese employees, Chinese and American employees are more willing to find out what they are doing well from leaders and coworkers (Bailey et al. 1997). This shows Chinese employees are looking for a real ego when realizing their advantages and shortcomings in a balanced way. This characteristic largely can be traced back to the philosophy of Taoism, which decrees: "Things will develop in the opposite direction when they become extreme". This philosophy enables Chinese people to see things dialectically, including how they see themselves. If we only look at how people can evaluate themselves positively, we cannot discern the difference between Chinese and American people. However, Chinese people are more able to see and admit their weaknesses compared to Americans. This doesn't mean that Chinese people see themselves more objectively or critically. Psychologists have employed an implicit way to measure people's positive or negative self-esteem (by asking people to connect themselves to evaluative words) and found that Chinese people's opinions of themselves scored higher than Americans, both positively and negatively (Boucher et al. 2009). While looking at their merits, Chinese people also dare to admit their shortcomings. Under the guidance of dialectical thinking, Chinese people are able to seek harmony and consensus from contradictory matters, even accept arguments that are totally opposite (Peng and Nisbett 1999).

In relation to dialectical thinking, Chinese people also like to think in an overall way. When seeking to understand something, they always look at the whole picture first (Nisbett et al. 2001). Using the structure of the Chinese novel as an example, the following comments are insightful (Kong 2007):

> *The traditional Chinese chapter novels have a fairly fixed structure of following a time sequence and developing from large to small. From the difference between Chinese and Western novels, we can see the views on time and space are different. Chinese like to write novels from the big picture to small items. Even talking about a short story, the novel still starts with "in the Dynasty of SONG……", such as one day in the Song dynasty, in a village next to a city, a young man fell in love with a young lady. The story has nothing to do with the "Song dynasty", but Chinese people just love to write this way. It shows Chinese*

people's view on space and time. They are observing an issue from a universal perspective. Chinese people love to see the general picture, even when playing chess, fighting a war, talking about history and politics. To the extreme, a story in the Song dynasty may not begin with Song, but start with the Creation of the World by Pan Gu, or Nuwa Mending the sky, and then comes the story, "A Dream of the Red Mansion".

However, during the age of Reform and Opening Up, China is embracing unprecedented change. For example, hundreds of millions of people have moved away from the agricultural way of life. With all the economic and social change, people have even taken changes as the common sense. Closely related to accepting change, modern Chinese people are not conservative in their ideas. They have the courage to challenge the authority and existing social order in terms of values. The generation after Reform and Opening Up is more capable of accepting changes and avoiding conservative thinking than the generation of the "Cultural Revolution". The latter is more adaptive than the even earlier generation (Egri and Ralston 2004). Perhaps, one of the components of the dialectic lies in change, so Chinese people are really quick in accepting change.

8.2.3 Rapid Expansion of Material Desire but Shame in Talking About Benefit

Confucius once said: "The gentleman understands righteousness, the petty man understands profit." This doctrine educated generations of Chinese to be ashamed of talking about profit or interests, to ensure their words and behaviors were up to the standard of a "gentleman" (or gentle-woman). However, after centuries without enjoying a high standard of living, Chinese people cannot have a stronger desire for a good material life. In 1985, the Clivia miniata incident inspired tens of thousands of Chinese to dream of being wealthy but it evaded most of them. However, historic lessons were always hard to draw upon. In 2007, the price of Yunnan Pu'er tea experienced highs and lows due to speculation. Some made money and some lost. All this reminds us of the tulip frenzy in the Netherlands in the seventeenth century. In pursuit of material benefit, it seems Chinese people are not following Confucius's doctrine on being a superior person, but hope to possess more material resources so as not to be manipulated by material factors.

In 2005, a survey on Chinese people's desires found the most popular desire was "more money" (chosen by 73 % of respondents). Others included travelling abroad, driving a nice car, living in a villa, being a boss and winning a lottery (Ningxia Daily 2005). These desires are apparently reflected in employees. A survey in China conducted by the Gallup Organization in 1994 showed the work motive of more than two-thirds (68 %) of employees was "to be rich by working hard" (this percentage dropped to 53 % in 2004). In addition, the belief that "one should work for others, not for personal benefit", which has been promoted for years, was cited by only 4 % of the employees surveyed (McEwen et al. 2006).

The reason why current Chinese people focus on material benefit is multifolded. It is not only because the current policy "allows" people to do so, but also to a large extent because the practical pressures of living are high. The after-80s generation is facing all kinds of pressures, such as housing, marriage, competition, personal relations, supporting parents, personal health, and inadequate insurance and social security. These pressures are even bigger for those from working families in medium and small cities or rural families. Associated with a popular movie, some people low in socio-economic status are said to be working and living like “an ant”. For those people or others who try to avoid being like that, they have no choice other than trying to earn more money or seek material benefit.

In the past two decades, people have paid more attention to the economic well-being of an organization when choosing a work unit. As an important source of current employees, college students have a practical attitude to job hunting questions. According to a government survey, foreign invested companies are always the most popular potential employers. However, with increasing welfare benefits in other work organizations, this percentage is dropping. Meanwhile, the percentage choosing private companies is rising, and the percentage choosing government agencies, universities and colleges and state-owned enterprises have witnessed flows and ebbs: when these government sponsored organizations offered better overall compensation packages, more college students preferred applying jobs there; when the overall compensation packages declined, so did the percentage of college students interested. Sure, the reasons for this fluctuation may be complicated, but there is certainly a direct relationship to the change of welfare conditions in these organizations (Chart 8.1).

8.2.4 Strong but Declining Family Orientation

In traditional Chinese society, families are the cells of the society such that people have no connection with organizations outside the family. Chinese people’s family orientation is reflected in many aspects, such as family regeneration, family harmony, family wealth and family honor. In the face of family interest, personal interest is meaningless. Among the most important objectives listed in the classic literature, “Of Great Learning”, “governing a country” and “harmonizing the world” are tasks very few people have the opportunity to fulfill, but “being a good person” and “constructing a right family atmosphere” are practical requirements for everyone. Family logic, such as respect for elders and helping each other, not only are practices confined to families, but also extend to different aspects in society. For instance, Chinese people usually call their close elders “uncle” or “auntie”, which not only shows their respect for the other’s age and status, but also demonstrates their close relations. With the promotion of the government’s family planning policy and urbanization, however, families in the traditional sense are decreasing in percentage. More and more young generation people do not have siblings and family size in society as well as in people’s minds is decreasing fast. No matter how strong Chinese family orientation is, its impact on individuals is gradually decreasing.

Chart 8.1 Most wanted jobs among college graduates

	1992	1993	...	2002	2003	2004	2005	2006
Government agencies	19.2	13.7	...	12.7	13.9	14.8	19.7	20.9
College and scientific research institutes	22.8	17.8	...	16.3	24.1	25.6	27.3	25.2
State owned enterprises	11.4	8.2	...	10.7	9.6	10.7	12.5	15.1
Foreign invested enterprises	33.8	31.6	...	38.4	37.2	36.2	27.9	26.3
Private enterprises	1.4	6.3	...	10.4	6.4	8.8	9.1	8.8

Note: the survey agency could use different questions and options each year

Madoff's experiences can offer some implications. Bernard Madoff, an American investor on Wall Street was reported to the police by his two sons for deceiving investors. Such a thing would rarely happen in China, because Chinese follow the Confucian philosophy of "a father should shield a son, and a son should shield the father" (from "Analects"). According to Confucian logic, a son should not report his father for stealing a sheep and vice versa, because the moral obligation of "family members shielding each other" outweighs social justice and law. Several dynasties stipulated in law that there should not be severe punishment against "family cover-ups". China's legal system over the long term has created a national value: social justice and personal freedom are not as important as the interests and honor of the family. In February 2010, the director of a city housing administration bureau was reported for corruption by his ex-wife and son. The issue brought heated discussion and debates. Soon the director was removed from office, but his ex-wife and son then regretted their actions and became concerned that the punishments could be too much for the director. Maybe this outcome was against their original purpose of protecting the family. Sure, the two of them, especially the son, would face much pressure and critics from others (Xinmin Daily 2010).

But change is also taking place. With the implementation of the family planning policy, an increasing proportion of families in China have only one child. Nowadays, there are fewer big families, which are being replaced by small "nuclear" families. What's more, even among families with blood ties, the relationships are not as close as before.

More importantly, increasing numbers of people wish to escape the traditional confinements of the family and live their lives independently. As a result, lifestyles representing new, fashion, or rebelling values could prevail very fast. As October 2005, a female singer name Li Yuchun, who shone on Hunan TV's "Supergirl" talent show, was featured on the cover of the Asian version of Time Magazine as a manifestation of the theme of that edition – Asian Hero. The characteristics demonstrated by Li during the competition and in her subsequent career performances, such as confidence, individuality and spontaneity, are well accepted and followed by many people of her age. Chinese people are not necessarily living around traditional families for survival and socialization. In that sense, family offers a safe haven for hearts, but not the end of dreams.

8.2.5 Expecting Fairness in a Strong System of Hierarchy

Traditional Chinese culture strongly emphasize hierarchy. It holds that, only when everyone maintains their level and status, with "orderly distinction between the noble and the humble, the old and the young", can society maintain stability. In today's world, ordinary people always say "a rank higher can make big difference." Empirical research offers consistent evidence to this statement. A large sample survey conducted around 1990 (86 samples in 38 countries, 10,000 participants) found three samples from mainland China ranked top three in terms of sense of hierarchy. Taiwan and Hong Kong regions also occupied high rankings (within the top quartile) (Schwartz 1994).

Even so, modern Chinese have a very strong desire for getting out of the hierarchical constraints. People do not easily yield to authority, but hope to enjoy some autonomy at work. A recent popular workplace novel, "Du Lala's Promotion", provided an observation by a human resource manager that "70 % of employees considered changing their jobs because their boss was too involved in details, and half of them did change their job"

8.2.6 Rules Flexible for Personal Connections: Particularism

You are in a car being driven by your friend and the car hits a pedestrian. You know he was driving at a speed of at least 35 miles per hour; however, the maximum speed there limit is 20 miles per hour. There was no other witness except you. His lawyer tells you, if you testify under oath that your friend was driving at 20 miles per hour, you will save your friend from serious consequences. Do you believe your friend is entitled to receive your help? Are you willing to testify for your friend?

Facing such questions, some stick to the principle of honesty, some choose to protect the friend. After combining answers to both questions, this international survey found the proportion of Chinese people that would stick to the principle was fairly low (48 %), ranking China 5th from the bottom among 38 countries, above only South Korea, Venezuela, Russia and Indonesia (Trompenaars 1994).

The answers to these questions reflect the characteristic that Chinese people could ignore rules and care more for interpersonal connections. In such a dilemma, universalism directs that rules should apply equally to everyone, while particularism directs that one should consider all aspects of such a dilemma, such as how close is the friendship, how seriously the pedestrian was injured, what punishment his friend may face, and so on. In China, when rules and personal connections intersect, people can always find out a lot of excuses to break the rules, such as "only this time, it won't happen again" (but in reality the same excuse will come next time), "rules are important, but . . .." "Rules are not perfect, so . . .."

8.2.7 "Things Not said Are More Important": High Context Communication

In episode 17 of the TV series, "Republic", Emperor Guangxu chats with his master (teacher), Weng Tonghe, on a late fall afternoon. The emperor brings out a fan, which is a gift from Express Cixi, with his handwriting "Master Weng" and gives it to his master. Weng thanks the emperor for this gift, and gingerly asks the emperor: "It is getting cool, why does the empress give me this folding fan." Emperor Guangxi says "Take care" and leaves. Next day, Weng is removed from office.

This plot is obviously a dramatic representation of history, but vividly demonstrates how Chinese convey subtle messages in communication. The weather was getting cool, therefore a fan was no longer useful. By giving a fan to Weng in the fall, Empress Cixi and Emperor Gaungxu wanted him to understand that he was no longer useful to the cabinet anymore. Because Weng was the Emperor's master, this arrangement was made to allow him to prepare mentally and to give him "face".

This is the Chinese art of communication. It will hurt both sides' face if some things are said in a straightforward way. So an indirect way of communication is used by combining the content of the communication and the situation. In this way, the communication meaning is produced not simply by the words explicitly expressed. Scholars call this characteristic the "high context" communication. In China, when a person says "yes", it could mean "yes", "perhaps", "I don't know", or even "by saying yes unenthusiastically enough, I hope you can understand I was actually saying no" (Walker et al. 2003).

Chinese people are not straightforward in communication. This may be because Chinese people particularly like to save face. Face is personal reputation gained from others; it represents one's social image and status (Huang 1987). In Chinese society, people offer "face" to others by means of providing resources, approval or satisfying certain requirements, to show respect or acceptance to others. Therefore, Chinese people's attention to face is actually to others' evaluation and recognition of their social status and prestige.

8.3 Employees as Members of an Organization

In organizations, Chinese employees reflect those characteristics of the general people as well, and their characteristics lead to challenges for the management of an enterprise. In this section, I will introduce employees' characteristics that are closely related to management.

8.3.1 Emphasis Is on Teamwork, but It Is Hard to Collaborate

Traditional Chinese culture emphasizes obeying authority ahead of personal freedom. Compared with individuals in the West, Chinese people emphasize in their traditional values such as authority and affiliation, passivity and endurance as well as not taking the initiative. Words like “individualism”, “oneself” are even negative words in a Chinese context, containing meanings of selfishness (Yang 1991). In China’s management practices in recent decades, the mainstream has also emphasized the individual’s loyalty to the organization. For example, most companies advocate for factory workers to sacrifice private time to work overtime to achieve production goals. Of course, this is in sharp contrast to the story of “the toughest secretary ever” (Bachrach et al. 2007).

In an organization, emphasizing collective interests, especially collective responsibility in work, can motivate employees to work hard for the interests of the organization and reduce “free riding” behaviors. Meanwhile, as collective interest is more important than personal interest, employees in China often put aside their own work to help a co-worker as natural, even though their work may be totally unrelated. This places huge pressure on employees, as they have to bear responsibility for their co-workers to some extent.

The cultural context of so-called “collectivism” doesn’t mean Chinese employees are more cooperative. The saying that “One Chinese alone is a dragon, three Chinese together are like worms” is not just cynical critics, but does tell some truth. Chinese employees who highly regard (or are forced to bow to) collective interests have an even bigger problem cooperating. The reason is, Chinese people differentiate others into two categories, “insiders” and “outsiders”. In the work place, the co-worker with whom they should be working is usually not regarded as “insiders”; therefore, it is harder to cooperate, and get organized. This tendency is more obvious inland than in coastal areas (Koch and Koch 2007). A comparison between Chinese and Australian employees showed the cooperation among Chinese employees with a mainly collectivistic mindset was not as good as the cooperation among Australian employees with a mainly individualistic mindset. When working with foreigners, Chinese employees are even less cooperative. Australian employees, however, treat domestic and foreign co-workers equally (Chen and Li 2005).

8.3.2 Hard Working

Hard working is the characteristic of Chinese employees that has contributed most to the growth of Chinese enterprises. This trait was first witnessed in laborers. In many labor intensive workshops, young workers are repeatedly handling high workloads, every day, every week and every month. They work many more hours than the standard work requirement. These hard-working yet poorly paid workers created the increasing importance of “Made in China”.

With the gradual economic restructuring and development of the service sector in China, more and more white-collar workers have started to feel pressure at work. A survey by the International Labor Organization shows average work hours of Chinese employees is higher than almost every major country in the world. Death from overwork can be found among both white-collar and blue-collar workers. Concerns have been raised over employees’ health. Statistics show 60 % of white-collar workers have sub-standard health; their biological age is 10 years older than their actual age. There are also surveys that show the overlong working hours can be found most among people under 35 years old.

8.3.3 What Is Fair? A Controversial Debate

Distribution of salary or awards can be seen as fair or unfair, “in the eyes of the beholder”. This is relevant to the general way of thinking. Quite different from the Western way of thinking (which clearly defines a concept and analyses connections among different concepts using strict logic), the Chinese way of thinking features the overall view and dialectical principle, which provides plenty of room for explanation when exercising the rules. Taking the basis for fair distribution of a bonus as an example, there are many principles that can be applied, such as those based on contribution or performance, on each person’s needs, on equal distribution, on tenure or other rankings, and so on. When Chinese employees consider whether the principle for bonus distribution is a fair one, several principles may come to mind. As demonstrated in a popular Chinese talk show “Pinkeye,” the worker who failed to get his bonus thought, “even though I didn’t contribute, I worked hard; even though I didn’t work hard, I worked tired; even though I didn’t work tired, I believed my entitlements”. Hereby, elements such as performance (contribution), work dedication (hard work), personal sacrifice (tired work), and personal expectation (entitlements) are all included in the process of distribution, creating a huge challenge for the manager that executes the resource distribution.

A distribution plan for scarce resources, if seen as unfair, could invoke strong emotional reactions, especially for Chinese employees applying the overall view. The standard of judging fair or unfair is always subjective. A policy one believes is fair, may seem unfair to another person. Therefore, social rules play an important role when distributing resources. Traditional thinking prefers equal distribution, or “not equal is worse than not enough”. In the past 60 years, mainland China proclaimed “work one’s full capability, get paid by work performance”; in reality, however, what was practiced was an equal distribution system in traditional SOEs, namely “it makes no difference if you work more or less, well or poorly.”

A bonus is additional income on top of salary. The bonus does not have to provide for employee’s basic living standards. So how bonuses are distributed can reflect managers' views on fairness, depending on their different backgrounds. If you, as a manager, are given a bonus to distribute to your subordinates completely at your discretion or in a way you believe is fair, and these people have almost the same background situation, how will you distribute? These people differ in terms of their family needs (one or two family members are working, one or two children to support), personal work effectiveness (daily output), and their relationships with co-workers. In the 1990s, a number of management scientists used just such a scenario to map distribution strategies of managers in different countries.

The result indicated Chinese managers gave more bonuses to low-need, low-performance subordinates than American and Russian mangers, showing that Chinese people prefer equal distribution. Meanwhile, Chinese and American managers give fewer bonuses to high-need employees than Russian managers. This may indicate Chinese people had abandoned, to some degree, the previously prevalent distribution principle of taking care of the weak (equality) and accepted better than Russians the efficiency law (equity rule). American managers give more bonuses to high-performance employees than Russian managers, but the amount of bonus distributed by Russian managers is even higher than Chinese managers. Thus, although performance was still the most important for Chinese employees, it is not as important as for Russian and American managers' distribution rules (Giacobbe-Miller et al. 2003; Zhou and Martoccio 2001).

Since Reform and Opening Up, rapid social development has prompted people to start rethinking the issue of fairness, and criticize the equality rule. The result of such social thinking is complicated. Somehow, people started to accept unequal distribution step by step, such as distributing bonuses according to performance. Of course, we can see different levels of acceptance. We can still see people not paying attention to the role of performance in distributing bonuses; sometimes people have abandoned the principle of distributing resources according to need or equality even more radically than Westerners. Fairness is mostly determined by distributers. Among "insiders", equal distribution is preferred; among "outsiders", performance is the right principle to follow to Chinese as well.

Then, we may see the exact opposite situation: Chinese managers are more willing to adopt differentiated distribution plans based on performance. Such preference is not only adopted when distributing bonuses, but also when distributing "rewards of a social nature" such as honorary titles or dinners with high level executives (Chen 1995). Obviously, for these managers, the ongoing reform has much more influence on their distribution philosophy than Confucius's doctrines or the tradition of ancestors.

8.3.4 Fairness Is More Personal Than Procedural

Distribution is a onetime deal, no matter how important the resources are, but rules are permanent and this could affect everyone's long-term interest. So, procedural fairness is very important: only when the decision-making process is fair can the long-term satisfaction of every member of the organization be relatively guaranteed. Several standards are necessary to judge procedural fairness, including the universality of the decision-making standard so prejudice is avoided, accuracy of the information for decision-making, a correction mechanism to deal with wrong decisions, adherence to moral principles, communication of the standard to those affected, and so on.

In actual practice, what unique views do Chinese employees have towards procedural fairness? Because of the influence of thousands of years of sacred imperial power, Chinese people have an awe of their leaders and thus fear questioning leaders' decision-making process but rather believe their leaders' decisions are fair. As a result, people usually don't care whether a leader should explain the process to them. Unlike American employees, Chinese employees don't care about the explanation of how leaders conduct performance assessment. This is just not important enough for them.

However, Chinese employees care more than American employees about the respect and understanding they receive from their leaders, or so-called "equal treatment" (Tata et al. 2003). Traditionally, "the emperor treats ministers with respect; ministers treat the emperor with loyalty" (from "Analects"). Even a leader having as high status as the emperor should respect his subordinates (ministers). This could be relevant to Chinese people's overall way of thinking and preference for face-saving and hierarchy. Respect from the leader represents one's high position in the leader's mind, therefore it strongly implies this person is outstanding. If the leader treats the employees equally, the employees tend to believe everything from the organization is fair. An employee in one company once said: "If my boss treats me as a human, I will work as hard as a cow; if my boss treats me as an animal, I will defend my dignity as a human." As we can see, a leader's respect for employees can have a great influence on employees' working morale.

8.3.5 Difficulties Building Trust in an Organization

As the business environment has yet to be improved, successful cooperation relies on trust, which needs more time and effort to nurture. In contrast to the relatively sound business environment and institutionalized system in the developed countries, gaining trust in China is based on in-depth understanding between both sides. To establish mutual trust, the parties need to fully understand each other's background, develop a fondness for each other and pay full attention to each other's wishes. The basis of work place trust is not only related to work, it is also related to personal relations outside the workplace. People prefer to trust co-workers and leaders with whom they have a close personal friendship. One of the standards by which co-workers judge each other's trust is: "do they ask me to have lunch?"

In China, the establishment of trust is difficult. Once established, it will last long and work well. As mentioned in previous chapters, "particularism" works here. People need to develop their relationships with the focal people to gradually become "insiders" to be trusted, but not remain as "outsiders". Insiders such as close friends can be second only to family in terms of importance and intimacy in one's mind. In this way, those who are trusted can escape the restriction of rules and gain benefits, such as access to important information or receiving unauthorized favors.

8.3.6 Pursuing Harmony but Getting Paradoxical Outcomes

Seeking for harmony is the key to explain many Chinese people's behaviors, but the harmony seeking behaviors are demonstrated in many paradoxical manners. As discussed in the last section, Chinese people tend to be modest. Modesty is helpful to maintaining harmonious interpersonal relationships: to make others look good and to prevent a person without achievements from being embarrassed in front of others. One way of making others look good is to devaluate self. Thus, Chinese employees like to ask their co-workers and leaders to point out what they didn't do well. Asking for opinions from leaders and co-workers on one's work is a very important behavior at work. Research among Chinese, Japanese and American workers shows Chinese and Japanese workers try harder than American workers to collect negative feedback on their work, and seek advice from leaders and co-workers. "May I ask what you think I should do to improve my work?" (Bailey et al. 1997) This way, employees can find out their weak points and improve their future work. Of course, modesty is not only for such "practical" purposes. More importantly, when good performers do that, they make their inferior performing peers to feel better. Being modest can be a sign of maturity, an indication that one has had the experience of "arrogance brings damage, modesty brings benefit" when interacting with other people. In this regard, modesty is not spontaneous behavior by Chinese people, but an "impression management" strategy, which helps to leave a good impression on others.

In the workplace, measures for harmony can resolve contradictions, such as avoiding unnecessary disputes. However, avoiding disputes may undermine corporate performance. Taking the "borrow money to buy shoes" hypothetical mentioned in Chap. 11 as an example (please read that chapter for details), researchers asked two follow-up questions about this co-worker who forgot to pay back money he or she borrowed: "Now the company is setting up working teams. Given your professional backgrounds, it is suitable to put you and the co-worker (who borrowed your money but failed to repay you) in one team. Success of such a team will surely benefit your coworker, your company, and yourself. Are you willing to be in the same team with him or her?" and "The co-worker needs your help on a task. Are you willing to help him or her?" The result was that those who didn't ask money back were less willing to be in the same team, and less willing to help with the task than those who asked the co-worker to repay the money. Refer to the fact that the reasons of not asking money back was to keep harmony. Paradoxically, "harmony" played the role of peacemaker and temporarily eased the tension, but left a hidden danger. Scholars call this apparent peace “fake harmony”.

8.3.7 Promoting the Self and Hard to Develop Organizational Loyalty

Different from their ancestors, the current Chinese people wish to live their own lives. Sometimes, this means that they may have to escape the life of the organization, even if it means losing income. The Chinese people, whose individuality has been depressed for thousands of years, have started to regain self-awareness. In the past, personal obedience to the group was emphasized in the extreme. Nowadays, personal interests are protected. Individuals can live, even work, in their own way. Gallup’s survey of employee work attitudes also proves this point. From 1994 to 2004, in terms of work purpose, the percentage who wanted to “get rich through hard work” dropped by 15 %, while the percentage who responded, “I don’t care about fame and money, but want to live a life that meets my taste” rose by 16 % (McEwen et al. 2006). The new generation of employees holds a stronger sense of individual value than the old generation, but a weaker sense of collective and traditional Confucian values (Ralston et al. 1999). The new generation of employees creates many challenges for managers.

One of the consequences of the pursuit for individuality and self value is the prevalence of the “fire your boss” attitude. A survey of young and highly educated white collar Chinese shows 26 % of them job-hopped once, 15 % job-hopped twice, 13 % job-hopped three times, 5 % job-hopped four times, and 4 % job-hopped five times and more. Only 36 % of them never changed jobs (Zhang 2004).

8.4 Chinese Managers’ Practices

Since Reform and Opening Up, Chinese enterprises have learned much about management experience from Western textbooks, and even introduced their own innovations. In accordance with Chinese employee characteristics, the following management approaches generally fit the characteristics of Chinese employees and China’s unique economic development environment (see Chart 8.2).

8.4.1 Respect to Subordinates

As mentioned before, Chinese employees’ understanding of corporate fairness is based heavily on whether the leader respects them, which is usually more important

Chart 8.2 From individual characteristics to effective management

General characteristics of Chinese people	Representations as members of organization	Effective reaction from managers
(Section 2)	(Section 3)	(Section 4)
Pursuing excellence while being modest	Hard working	Timely reward
Benefit seeking	Loyal to oneself but not to the organization	Career development
Overall thinking mode	Multiple standards of fairness	Full empowerment
Particularism	(fake) Harmony orientation	Professionalism, avoidance of nepotism
Seeking equality under rules of hierarchy	Valuing leaders' respect	Respect for subordinates
Living one's own life	Emphasizing collective interest but finding it hard to cooperate	Respect for difference
High context communication		Clear communication

than proper explanation of the rules. Respecting their subordinates is the secret to many managers winning employees' cooperation and goodwill.

In order to promote equality among employees and thus enhance communication and trust among departments and staff members, Lenovo launched a "No title" campaign from 1999 to 2000. At that time, there were three to four levels of management titles and more than 200 title bearers in the company. When an employee asked for "General Manager Zhang", usually several managers with the same family name did not know which Zhang shall respond. Yang Yuanqing promoted this campaign himself, by wearing a pin carving "Please call me Yuanqing". With his encouragement, his secretary started calling him Yuanqing first. In the beginning, people were not quite used to it but, as more and more people followed the initiative, it became very natural. In this way, the strict sense of hierarchy between employees and their superiors was removed. The atmosphere featuring mutual respect, equality, casualness, inclusiveness and democracy gradually took shape, which was a huge encouragement to all employees.

It is because of the Chinese tradition of accepting leaders' authority and clear distinction of hierarchy that superiors' respect seems to be more valuable. Respected by their leaders, subordinates often reciprocate by behaviors captured by sayings that "One would rather die for a bosom friend" and "spare no effort in the performance of one's duty". Relevant to particularism, Chinese employees' attitudes and behaviors are determined by personal elements in the environment. In other words, the organization is personalized in their eyes. Employees who have better relations with direct superiors always demonstrate a higher level of loyalty and are more willing to help others and contribute voluntarily. Such behavior and attitude are usually related to employees' understanding of the organization (such as feeling how supportive the organization is), but not to superiors in the Western world (Hui et al. 2004). However, in China, the organization is represented its superiors, maybe this is the modern version of *rex et regnum*.

8.4.2 Straightforward Communication

In the workplace, speaking in an unclear way and leaving others to "guess" is some leaders' way of maintaining mystery and control. The result of such behavior could be unlimited exaggeration or misreading of the leader's will. For example, a private enterprise instituted enrollment regulation to avoid the personal approaches by leaders, independently executed by an enrollment commission. On one occasion, the boss forwarded a resume of a job applicant but there was no recruitment plan. During discussion, members of the enrollment commission had no idea of the boss's real purpose. While hesitating, they decided to give this person a chance to interview. The result of the interview was not satisfactory. Still the commission was not sure why the boss had sent the resume, so eventually they decided to hire this young man in order to save the boss's face. One day, the boss saw this incompetent young man and challenged the enrollment commission, saying: Do we have any recruitment plan this year? How could you recruit such an incompetent person? The entire enrollment commission was speechless and embarrassed.

To figure out what the boss really means is the agony of most employees, especially mid-level managers, one to which they need to give a lot of thought. As a matter of fact, because Chinese people tend to listen for subtle cues during a conversation, it is more important for managers to clearly convey their ideas to subordinates and clarify that "what I say is what I mean, I don't have other implications". Otherwise, too much "figuring out the leader's authentic will" likely lead to misunderstanding.

Some entrepreneurs call for an open and democratic management platform where people can frankly communicate. When talking to employees, managers have to speak the truth and be straightforward, instead of beating around the bush.

8.4.3 Accepting Differences

In traditional Chinese enterprises, managers hoped everyone could be working role-models, or strive for improvement as the Communist Party directs. They wished everyone could be at the same ideological level. Even if people differ in many aspects, they should target high and improve continuously. Nowadays, managers have to admit and accept differences between employees, on values, way of life, dress code, hobbies, and so on. Individuality is already the most important icon that differs from the old days.

For instance, Tencent group stresses inclusiveness and respect for employees' personal difference in corporate management. Some employees are quite slovenly, some have a strong personality, but the company encourages them to develop in their own ways and gives them full space to demonstrate their personality (Li and Jing 2010, p. 222).

With this new trend, it is desirable for managers to provide employees with multiple channels through which they can communicate with the corporation, fully understand personal differences and give motivation accordingly. Sometimes, even flexible work hours can be adopted for those highly independent workers.

8.4.4 Timely Reward

When employees are openly talking about money, managers should be more open and well prepared to talk about this issue. Today, most employees have strong individuality and sense of achievement, but less patience to wait for the company's long-term reward. Many employees have a simple and clear mind: how much money you will pay me, how much work I will do for you. I will do extra work when I wish to, but I am not obliged to make a free contribution. Hereby, we can see a time gap between paying and working. On this issue, it is the high level managers who need to adjust, not the employees. Therefore, timely rewards have become one of the most important measures for motivating employees.

Many Chinese companies use timely reward to motivate their employees. For example, in order to inspire staff enthusiasm, China Vanke established a trans-department innovation league, to encourage innovation proposals. Specific rules were drawn up, including that revenue-making innovation should be rewarded. A team in the innovation league once developed a new recipe for painting, which achieved energy saving goals and cut costs by 6.8 million Yuan. The company decided to give an immediate material reward to members of this team. Huawai once hired a chip development engineer on a yearly salary of 40,000 Yuan. Soon, the company found this engineer's work contributed much more than expected, therefore his annual salary was promptly raised to 500,000 Yuan (Zhang 2008, p. 143).

Apart from material rewards, spiritual rewards can also inspire staff enthusiasm. Haier combined performance bonuses and honor rewards to inspire its employees. There are more than 10 bonus models to connect salary and work performance. Innovations on production tools or production procedures are named after the inventor or innovator. In choosing employees to be promoted, Haier uses the competitive approaches (called "horse racing" in Chinese) instead of naming from the top (called "horse picking") to motivate employees. Employees with good performances can win all kinds of honorary titles, such as "Most Efficient", "Best Quality Team", "Best 100 Results in 100 Days" "Best Worker Over 100 days" (Yu 2008).

8.4.5 Career Management

Nowadays, a large number of employees do not commit highly to their enterprise, but work for their own career, for their personal achievement and a good retirement. In the time when employees are not blindly loyal to their organization, managers have to help employees see their growth in the enterprise and bright career prospects in the future, so they can really win their hearts. For employees with strong financial mobility, in particular, career is the real motivation.

In order to help employees establish successful careers, some companies constantly examine which position best fits each employee at the stage of recruiting and orientation. At Lenovo, if it is found during orientation that an employee would develop better outside the company, he or she will be given proper advice. At work, many enterprises provide employees with timely and detailed performance feedback, to help them do better in his or her position, or find a more suitable position or even a new company. Various career tracks are in place in many companies: management, technical, production etc. Huawei mapped out a qualification system for every level and career development path in the categories of technician and management, enabling employees to achieve a larger career development platform by working hard.

8.4.6 Professionalism

Given the tradition of family, particularism and other personal approaches, certain ideologies transplanted into the enterprise can help employees to build a sense of identity with the enterprise. Many enterprises highlight their "family" culture, hoping employees will treat them as homes. Famous national entrepreneur Lu Zuofu once pointed out: "The company solves employees' problems; the employees' solve the company's problems." However, the application of family logic in a company may not be a good thing. When there is a conflict of interest between family and outsiders, Chinese are more likely to protect the family interest by sacrificing outsiders' or organization's interest. On these occasions, the company is not as close as real family members. Therefore, we can see many cases and ways of satisfying personal interest by undermining corporate benefit.

The value of family first is mostly reflected in Chinese family enterprises. Usually, most or even all of the high level managers are members of the family. Some positions sometimes are given to close relatives or people who have served the family for a long time. In fact, whether a family business should use people according to their levels of closeness, or to the level of their capability, is still under debate. Fotile group in Ninbo is doing everything it can to keep relatives away from the company. But president of Chongqing Lifan group holds a totally different view because of bad memories. In comparing possible consequences of hiring unethical managers, he believed it is safer to keep stakes in family members' hands

(Yang and Ning 2003). Thus, a family-oriented and particularistic mindset makes internal control and coordination pointless. Employees may violate the rules using excuses such as relations, personal connections and so on, leaving the rules an empty shell. Of course, the problem comes from lack of rigorous management systems and lack of concerns for reputation in the professional market.

> Reflecting to these ideas, Feng Lun believes that "*to operate a company, you need to promote a stranger culture, but not an acquaintance culture. In a Chinese enterprise, the reason why orders cannot be followed is people are all acquaintances, resulting in the rules not being followed. In the Western world, such a problem doesn't exist, as everyone is following the rules, treating others as strangers*." (Feng 2007).

The most direct way to avoid nepotism and dysfunctional rules is to enhance professionalism. In the novel "Du Lala's Promotion", it is frequently described how multinational corporations seek to behave professionally, as well as training their employees to be professional. With professionalism, the interests and aspirations of different employees can be effectively coordinated so that employees can cease conflict and work better. Many Chinese enterprises have been improving their levels of professionalism in past years. Quoting the main actor's line in "Du Lala's Promotion 2", we can understand how to be professional during conversation and communication:

> *During meetings, the opening remarks should clearly indicate the topic of this meeting and ask everyone to keep to the topic in their discussions. This is the rule of the game. How long the meeting will last, what problem shall be solved, these need to be made clear in advance. . . . and then, the chairperson should propose how the meeting shall proceed, so as to push forward the agenda. . . . During discussion, the chairperson should repeatedly clarify and reaffirm opinions of all parties. . . .when the discussion becomes deadlocked or too many opinions are raised, the chairperson should push all parties to reach agreement. . . .finally, the chair person should summarize . . . what decision has been made during today's meeting? In this decision, what is everyone's task? How shall we follow up?*
>
> *When expressing an opinion, facts should be presented. Communication should be based on facts. For example, one should say "according to the plan, my task is to coordinate meeting venue and hotel accommodation, but the two colleagues in charge of confirming the guests list and air ticket issues gave me their tasks because of their other engagements, which meant I was unable to finish all the tasks", instead of saying "why should I take care of everything, I can't do it". In this way, personal conflict can be avoided. You should pay special attention when your counterpart has a strong personality and is not that nice.*

The novel is focused on an American company. In fact, Chinese enterprises have made significant progress in professionalism. China Netcom group emphasizes managing employees using a standardized institutional management system. Before entering the company, it provides new recruits with 1 month of dedicated training. After that, they will be given experiential training at work for half a year in the form of job rotation. Finally, the company will assess each employee's profession vocational orientation and finalize their position. In addition, China Netcom group highly regards the principles of communication with trust, pioneering spirit, down-to-earth manner and performance commitment. Through electronic communication channels and its e-magazine community, every employee can express their thoughts freely, so that conflicts can be resolved in a timely manner. As a result, the voluntary turnover rate of China Netcom remains the lowest in the business, and the company enjoys good economic returns.

With economic and social progress, the level of acceptance by employees of professionalism is getting higher. At the end of 1999, Li Yanhong, who was about to start his own business, invited Xu Yong to join him. The first time they met, Li brought out a contract of confidentiality for Xu Yong to sign. Though feeling it was a bit unexpected, Xu was not surprised about this at all. After signing the contract, the two started to discuss real business, which turned to be the giant Baidu today. Signing a contract of confidentiality was a professional way to remove distrust and clear the ground for both of them to concentrate on business development.

8.4.7 Trust and Empowerment

It is hard to nurture trust in China, but Chinese employees attach great importance to trust. A lot of employees aspire to earning trust from superiors. The motto, “Don’t use a person you don’t trust, don’t distrust a person if you start to use him”, not only makes employees pay close attention to whether they are trustworthy, but also provides a suggestion to mangers that they should fully trust and empower their subordinates.

From the very beginning, Baidu has focused on creating an atmosphere in which attention is paid to work outcomes and developing high-level talents. Two examples fully illustrate Baidu’s policy of trusting its employees and giving them development space. In 2004, a junior student at the Beijing Broadcasting Institute named LI Ming was working as an intern at Baidu. He made a department development proposal to improve Baidu’s community product by raising employees’ salary levels, specifying a work attendance system, improving administration and establishing a motivation mechanism. The then Baidu product director, Yu Jun, thought this was a good idea and forwarded it to the CEO. Soon the proposal was passed and implementation started. Li Ming didn’t expect his proposal to be approved in such a short time. Feeling he was trusted by the company, he gave up his postgraduate plan and stayed at Baidu. Li Ming became the first product manager of Baidu Tieba (online discussion forum hosted by Baidu) and has made an important contribution to Baidu’s community product development. In the other example, an intern participated in the development of a new product in a major engineering role. However, his work placed huge pressure on the server and caused the first release of a new product to fail. When analyzing the reason for such an outcome, everyone concentrated on why they couldn’t predict such a scenario and how to improve the procedure, but no one blamed him. Soon after, he was hired by Baidu (Cheng 2009, pp. 84–85, p. 247). Being tolerant of failure and trusting employees has given the employees great opportunities to move forward and brought success to the company.

8.4.8 Conclusion: Employees and the Chinese Way of Management

As the saying goes, "People are reflection of their environment." Chinese employees, in their unique historic and real environment, have different characteristics from Western employees. Facing the reality of these employees, thousands of managers have come up with effective management approaches, which are worth learning by new comers, and worth summarizing and theorizing by scholars. It is these Chinese employees and enterprises with the aforementioned characteristics who have enabled the achievements of the Chinese economy and will push forward overall progress in China in the future.

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Chapter 9
The Relationships Between Employees and Organizations

Yan Zhang

On July 24, 2009, after learning the merger of their company and Jianlong Heavy Industry Group would lead to their layoffs, about 1000 employees of Jilin Tonghua Steel Group started a riot, and it lasted for 10 hours. The general manager of the new corporation, who used to be the vice CEO of Jianlong Group, Chen Guojun, was beaten to death in Jianlong Group's offices while confronting a group of workers who were against the merger. That evening, Jilin Provincial State-owned Assets Supervision and Administration Commission announced that Jianlong Group would no longer be involved in the restructuring of Jilin Tonghua Steel Group. Herein, an attempt at restructuring in the steel industry ended tragically, and the result was "people went forward, the state compromised".

Some commentators deem that, during this incident, it was the Jilin Provincial State-owned Assets Supervision and Administration Commission which had been negotiating with Jianlong Group on behalf of Jilin Tonghua Steel Group, and the interests of the employees, the main body of the enterprise, had been ignored. The "setting up" was a non-market behavior and, together with the insurmountable barrier created by the types of ownership involved, was the reason for the workers being angry with Jianlong Group (Xinhua News 2009*).*

This incident totally reflects the complexity and the fraught situation of the relationship between enterprises and employees in China today. Properly dealing with the relationship between an enterprise and its employees is the precondition for effective people management. During the 30 years of Reform and Opening-up, changes in the ownership of enterprises and the role of governments have made the relationship between enterprises and employees complex and variable. This chapter investigates the evolution and the dilemma of organization-employee relationships, and some Chinese enterprises' preliminary explorations into improving labor relations.

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9.1 The Evolution of Labor Relations Between Enterprises and Employees

In law, labor relations are defined as the social economic relationships between employees and employers (including all kinds of enterprises, private business owners, institutes etc.) during their working processes. Generally speaking, any social relations caused by engaging in labor between any employees and any kinds of employers belong to labor relations (Lwas and Regulation Publishing Centre 2008).

There are substantial differences between China and Western countries in terms of political system and economic structure; however, certain similarities exist in terms of economic marketization, industrialization and the process of urbanization. Thus, on some level, the evolution of labor relations in Western countries is worth considering. Western countries have developed different kinds of labor relations during the interactions between labor and management (Millward 2005); different kinds that reflect different tendencies from the point of view that labor and management are fundamentally contradicted.

If the conclusion is that the interests of labor and management are consistent, then labor relations can be viewed from the unitarist perspective. In unitarism, the organization is perceived as an integrated and harmonious whole with the ideal of “one happy family”, where management and other members of the staff all share a common purpose, emphasizing mutual cooperation. Furthermore, unitarism has a paternalistic approach which demands the loyalty of all employees.

The neo-unitarist philosophy of labor relations is the new derivative of unitarism. It is a market-oriented philosophy where the whole organization is geared to success in the marketplace, with commitment to customer satisfaction and high standards of quality. It emphasizes the importance of the development and maintenance of an organizational culture that seeks to develop everyone to their full potential and hence secure their full and enthusiastic commitment to the aims of the organization. A key component of neo-unitarism is the importance given to human resources management. It focuses strongly on the training of individuals, providing them with a career development plan, opportunities for promotion and performance-related pay.

Labor relations can also be viewed from the conflict or radical perspective if capital and labor are fundamentally inconsistent and in interest and are impossible to reconcile. There is a fundamental division of interest between capital and labor, and therefore conflict is unavoidable and trade unions are a natural response of workers to the conflict. The two parties engage in the game based on self-interests. Organizations can development only through the balance between the owners’ and labor’s interest.

The pluralist perspective holds that if conflict between capital and labor is inconsistent but can reconcile. Different from the conflict perspective, pluralist perspective believe conflict can be resolved peacefully in a better way. Organizations should seek to resolve any conflicts by reaching a workable compromise acceptable to all stakeholders, hence collective bargaining and union play an important role. Each group within the stakeholders can maintain balance in order to gain self-interest.

The evolution of labor relations in China has been full of complexity. It went through two typical phases: the first phase was the unified labor regime from 1949 to 1978; the representative of this period is the labor relations of state-owned enterprises. The second phase is the fragmented labor regime which formed after 1978; various kinds of labor relations existed during this period. Due to the differences in the macro economy and policy environments, as well as the inertia of path dependence, the labor relations modes of state-owned enterprises, private enterprises and foreign-invested enterprises experienced three different evolutionary paths, and formed different labor relations with their own features.

9.1.1 The Evolution of the Labor Relations of State-Owned Enterprises: From Completely Attached to Differentially Attached

State-owned enterprises (including state-run enterprises in early times) are an economic form under public ownership. It doesn't have the characteristics of capital; conflicts borne from capital hiring labor (as described by Karl Marx) traditionally do not exist in this regard.

State-owned enterprises in early times mostly adopted the patriarchal management method, namely enterprises (and management) have all kinds of unlimited power, while also having the responsibility to take care of the employees like parents taking care of their children. Enterprises were a paternalistic asylum for employees (Walder 1996), providing employees with different kinds of social and public welfare, while expecting and requesting employees to show unconditional dedication and loyalty. The feature of the labor relations model during this period of time is a vertical relationship with high attachment. At this phase, the labor relations of state-owned enterprises have the characteristics of the unitarist perspective.

Since the 1980s, the reforms of state-owned enterprises and collective-owned enterprises, the marketization of labor relations and compensation systems, the socialization and marketization of social security systems, as well as the revocation of the welfare systems, progressively broke the identity-based and unit-based labor relations which had high attachment to the old planned economy period. In the 1990s, enterprises enforced full reforms and entered marketization. The workers in state-owned enterprises gradually became common employees in the labor market. Some of them were employed in the labor market, and others became unemployed due to the "downsize staff and improve efficiency" policy enacted during the reform of state-owned enterprises. Enterprises and employees formed a market-oriented labor exchange relationship. After the reforms, the management of enterprises accrued significant power, including recruitment, planning of compensation and personnel management. The pursuit of economic targets had the potential to cause interest conflicts between management and workers. Meanwhile, the labor relations model of the planned economy period could also affect the establishment of labor relations at this stage. In addition, administrative power still played a certain role, as did the function of the market. Under these multiple influences, the labor relations of state-owned enterprises divided into three different forms around the year 2000 (Tong 2008).

The first form basically extended the paternalistic style of state-run enterprises. After restructuring, incomes remained equal and homogeneous inside the enterprises (Wang et al. 1992); the internal management method also stayed human interest-oriented. The socialization and marketization of the welfare security system didn't really reduce employees' welfare and remunerations. Workers still had quite strong dependency feelings. This type of labor relations typically exists in large-scale monopolized state-owned enterprises which have good economic efficiencies, such as large-scale energy enterprises, petrol corporations, and electric power corporations.

The second type of labor relations shows as a despotic management from top management. Due to the fact that the supervision and control by the government of state-owned enterprises are quite weak; many enterprises are fully controlled by their top management (Chang and Qiao 2009). Meanwhile, the adoption of scientific management methods and the promotion of marketization have eliminated the dependency relations between workers and enterprises. Part of this type of labor relationship reflects the pluralist perspective. Some state-owned enterprises which have gone public at deeper marketization level are the representatives of this labor relations type.

> *When Liu Chuanzhi was responding to the article "Company is not home", written by employees of Lenovo, he said: We cannot see a company as a real family. In a family, children are allowed to have different kinds of faults, make different kinds of mistakes, and parents are always tolerant; but in a company, it can't be like that.*
>
> *In the article "Company is not home", it mentioned the issue that leaders made mistakes in strategic adjustment, but regular employees were held responsible for it. When I looked at this point, I stopped and did some deep thinking. I think he was right. This time, the lay-off of some staff is the result of the mistakes made in decision-making by some leaders; it is also caused by mistakes in the strategic planning. This is a very painful thing. So, we should sincerely say "sorry" to those who got laid off. However, as the chairman of the board, I will always be developmental oriented (China Youth Daily 2004).*

The third type of labor relations presents as a conflict type. Some state-owned enterprises employ large amounts of unofficial labor, such as migrant workers. This group of workers does the same work as official workers, but receives lower incomes and entitlements, which becomes an effective way for enterprises to reduce their labor costs. This unequal relationship, in which one party occupies the major advantage, is specific to a special group of the population. It exists in large-scale state-owned industrial manufacturing enterprises, shipyards etc.

The ownership reform of enterprises is one important part of China's economic reform; the change in ownership leads to changes in the roles and status of enterprises and workers. The nature of the labor relations of foreign-invested companies and private enterprises has reflected the principle of "capital hires labor".

9.1.2 Foreign-Invested Enterprises: Co-existence of Conflicts and Harmony

Foreign-invested enterprises became a very important economic force after they came to China. The labor relations of foreign-invested enterprises can be divided into two models (Tong 2005).

The first type is a conflicting labor relationship. In this relationship, the capital side reduces employees' incomes and welfare or deliberately increases working hours to gain more residual value; and employees become unhappy about it to the point where they protest against it. This type of labor relations mainly exists in foreign enterprises which engage in outsourcing of processing (including joint ventures), such as shoe making or garment enterprises etc.

The second type is neo-unitarist labor relations. This kind of labor relations is based on the principle that the long-term interests of both the capital side and the labor side are consistent. Enterprises use various human resource measures to include employees' benefits in their future development. This kind of enterprise provides employees with favorable welfare security, diverse training, development opportunities and career plans, as well as diversified job design. Enterprises try to use these measures to gain the loyalty and dedication of the employees. Prestigious transnational companies, especially American and European companies mainly belong to this type.

"What kind of company is Motorola? How are your wages and conditions? Do you provide housing?" These are the questions which Lin Caian. who was the vice CEO and the HR director for the Asia-pacific region of Motorola Company, encountered the most when he first came to China to conduct recruitment. When Lin Caian realized that "providing housing" was a big attraction to Chinese talents, he applied for a fund from the global CEO at that time and promoted the "EHOP" program in China, which was to build residential buildings for Motorola employees in China. The company also provided loans to employees to help them buy the houses. This successful move won Motorola many local great talents; it was also a successful move in achieving localization of Motorola.

In 1995, Motorola built a high-quality housing estate, "Motorola village", in a prime part of Tianjin city. Then it provided the employees with housing funds and long-term loans that were 2 % lower than those offered by banks, to help the employees purchase houses. Employees who worked with the company for longer than 10 years would have the ownership of the houses. In "Motorola village", there were shopping malls, kindergartens, home service centers and other supporting facilities (Zhou 2004).

9.1.3 *Private Enterprises: Centralized Representation of Market Despotism*

Chinese private enterprises are similar to private capital in a regular market economy, in that they hire labor and gain residual value. Employers not only have predominance in labor relations, but also control labor relations by controlling the production process. Even though the labor relations of some private enterprises show as neo-unitarist, due to the features of the industry and the concept of values of the entrepreneurs themselves, most private enterprises reflect the conflict nature of labor relations.

Private enterprises where the conflict-type labor relations extensively exist, as well as some foreign enterprises and a few state-owned enterprises, which also have this type of labor relations, are actually following the path of market despotism, where the market plays the decisive role in labor relations. Under this type of labor relations, the capital side takes the lead and control, workers receive unfair treatment. The main characteristics are: low income (in some enterprises, even the minimum wage standard is not met); severe delay of salary (according to an investigation by the All China Federation of Trade Unions in 2006, only 6 % of migrant workers received their monthly salaries on time); very low labor contracting level (there are no laws to secure the entitlements of workers); bad working conditions and intense labor (incidents caused by bad production conditions are frequent); long working hours (45 % of the manufacturing enterprises in the area of the Pearl River delta have shifts lasting 12–14 h a day); lack of social security (workers don't have some or any pension, unemployment, healthcare, working injury or maternity entitlements; they are basically uninsured); lack of basic occupational training (on one hand, workers don't have opportunities for self-development, on the other, it is the source of frequent industrial accidents).

> *Migrant worker Zhang Haichao from Xinmi in Henan Province suspected he had pneumoconiosis from working in a local factory, and many authoritative hospitals confirmed the diagnosis (pneumoconiosis is an occupational disease associated with breathing coal dust). However, in a designated health institute for diagnosing occupational diseases, the Zhengzhou City Occupational Disease Prevention Center, he was diagnosed as having pulmonary tuberculosis. After seeking help from many places but with no results, he took drastic action. On June 22, 2009, he went to Zhengzhou University First Hospital and had his chest opened by surgery. It was a desperate and radical move but it proved he had pneumoconiosis, not pulmonary tuberculosis (Li 2009).*
>
> *Up until July 26, 2009, the legal and public disturbance caused by Zhang Haichao's actions showed no sign of quieting down. Zhang Haichao claimed that, "if necessary, I would like to open my chest and test my lung for the second time". This incident attracted the close attention of the Ministry of Health. A few days ago, the Ministry of Health sent out an expert team to Henan province to supervise the settlement of this incident. The expert team made a special trip to Zhang Haichao's home for a group consultation (Wang 2009).*

These market despotism-type enterprises all have vivid features of the industry. Most of them belong to labor-intensive or capital-intensive enterprises. They mainly seek to accumulate profit through reducing costs, especially labor costs. We all know that cheap labor is the main support of China’s low-price manufacturing industry. Even though it wins a big amount of production orders, the profits are limited. There is a children’s toy on sale on the American market. The retail price for each toy is 100 US dollars. However, the manufacturer in China and the trade company together only receive ten dollars, which is only 10 % of the retail price of the product; and the labor cost is a big part of the total cost. Slender residual profits force enterprises to take measures to cut down the labor cost.

The forming of conflict-type labor relations mainly lies in the severe imbalance between capital and labor. From the perspective of market demand and supply, there is a big amount of excess labor of the same quality in the labor market. Since the 1980s, excess labor from the rural areas started to move to areas where the economy was better developed, and formed a “migrant worker wave”. Nowadays, the number of migrant workers exceeds 200 million. The situation where supply far exceeded demand in the labor market certainly led to the demand side obtaining qualified labor despite depressing the price. Low labor cost has helped the profit accumulation of enterprises, and also made a great contribution to China’s economic miracle.

However, we should also recognize that the labor relations decided by market demand and supply will change in line with changes in the labor market. In the spring of 2004, a “worker famine” started to appear in coastal areas and even in some inland areas; the supply of labor was insufficient. Some enterprises could only maintain minimum production. Even in 2008, when the economy had recovered, this situation didn’t change much. Let’s use Dongguan city as an example. The financial crisis in early 2009 caused the unemployment of 600,000 migrant workers and a million migrant workers left the city. In the second half of the year, purchasing orders recovered; however, 99 % of the enterprises had difficulty in hiring workers, causing them to turn away orders.

Many enterprises attracted workers by directly raising salaries. From the short-term point of view, the welfare policies of enterprises can attract employees, alleviate temporary shortages and reach a new balance between demand and supply.

In the Chiling industrial district of Hou Street, Dongguan city, there are more than 20 enterprises hanging out recruitment signs on the street every day, they even stop people on the street. In addition, the requirements for jobs on the recruiting board are also lower than before; “not limited to experienced workers, both male and female are eligible” are especially marked. Some enterprises even have cars waiting there. When interested people come along, they will immediately send them off to the company for free. An officer from a Hong Kong-invested shoe factory told our reporter that many purchase orders had been received recently, but they were suffering from a labor shortage.

In the face of the coming severe “worker famine”, enterprises in Dongguan city have used various methods to cope. Besides upgrading equipment and reducing numbers of workers on each post, they also use a human-based management model, keeping existing employees by improving their entitlements and enriching their lives.

Compared with other garment factories around, which are all having difficulty recruiting, one garment factory in Dongguan is full of people. The officer in charge of this factory said the basic way they kept workers was increasing their remuneration; besides increasing their salaries, human-based management was also needed, which *included improving workers' accommodation conditions, enriching their lifestyles, and setting some encouragement awards, such as an award for old employees introducing new employees, an award for a new employee reporting to duty etc. He also said that solving the "worker famine" was not only about dragging new people in, but investing more energy in keeping existing employees and discovering their value was more important (HongKong Takung Newspaper 2010).*

From this continuous 7-year "worker famine" (2004–2010), we can see that China's labor supply shortage is becoming the reality. According to the United Nations' forecast on population, the growth rate of Chinese labor age will start to decrease fast; the working age population will comparatively decrease or absolutely decrease. The internal structure of the population at labor age will also age. All these trends will eventually lead to the shortage of labor becoming entrenched (Cai 2006). The "demographic dividend" will also disappear.

In addition, from the 1980s to the early twenty-first century, in order to promote economic development, the government did not regulate or control, or make any intervention in labor relations by taking the position of not compulsorily intervening in the market, which is the external reason for the prevalence of market despotism and the forming of conflict labor relations.

9.1.4 Government's Role During the Evolution of Labor Relations: From Functioning, to "No Action", to Functioning Again

Government is the main influencing factor for the change of China's labor relations. Government's role changed from unified empire, to "government backwards, people forward", then to "government forwards, people backward" again, which created the historic change of functioning-no action-functioning. In detail, the state's influence on enterprises changed from being parents which took care of all to a walk-away shopkeeper, and then to a harmonious macro environment builder. The labor relations between Chinese enterprises and employees transformed during these different levels of government intervention.

Under the planned economy, the government showed an "all-round" feature. The state was the only "employer"; the government directly controlled all areas of the enterprises, and determined the model and content of labor relations; the management and workers in the enterprises were all an "employed group". From this perspective, labor relations were more like a kind of administrative relations. Under this kind of labor relations, enterprises have no real stakeholders. The difference between enterprises and employees is just a different social division of labor. Workers are fully attached to the enterprises and the government.

The role of the government changed after the reform of state-owned enterprises. It withdrew from enterprises' labor relations and the supply of social welfare; workers lost various kinds of rights and welfare. The government also increased the management power of the enterprise owners while withdrawing from the enterprises, which resulted in enterprises becoming independent economic entities. The management level of the enterprises had the power to decide on hiring, salary or other human resource matters. This put enterprises and employees on each side of the employment relationship. Traditional labor relations developed from an "administrative relationship" to a "contract-based relationship". The government fully withdrew from the labor relations arena and let the market take the lead; however, all the mechanisms in the labor market were not completed yet, which caused the labor relations between enterprises and employees to transform into a "non-organized market despotism" situation. The labor relations between enterprises and employees were getting worse by day; disputes happened frequently and even affected social stability.

In addition, governments were blindly, enthusiastically pursuing economic development so much so that they tended to ignore the rights of workers. In a worse case scenario, some local government officials and employers would support each other, with enterprises assisting government officials to achieve political performance, while government officials deliberately ignoring the rights of workers; these all fostered the growth of market despotism.

In 2003, the new central government proposed "use the power in the interests of people, empathize with the feelings of people, work for the wellbeing of people" and the concept of a "harmonious society". It started to pay attention to social justice and protect the interests of vulnerable groups. The government started to play its macro-control function, adjusting and guiding enterprises' labor relations through legislation and execution.

Under the guidance of the Chinese government's objective of establishing a "harmonious society", a new labor law was issued which encouraged the setting up of trade unions inside enterprises, together with the growing of the market economy. This entire external environment led Chinese enterprises' labor relations in both easing and intensifying directions. On one hand, for those enterprises who actively responded to the government's call and complied with the new labor law, their labor relations were going in a moderate and positive direction. Taking state-owned enterprises as an example: a state-owned enterprise has unique internal and external environments which other business entities don't, so it is most likely to develop a neo-unitarist type of labor relations. Currently, the stable employment relations and good welfare of state-owned enterprises have attracted many talented people to come back to work for them; it is also becoming the most attractive employer for new university graduates. On the other hand, for those enterprises that continued to enforce full control compulsorily in this big environment, employees have started to use legal means to protect their own interests, which has intensified labor relations. Legal cases involving labor relations shapely increase in recent years. The amount of labor disputes have increased from 135,000 cases in 2000 to 317,000 cases in 2006, and to 944,000 cases in 2008 (China Statistics Press 2001, 2007, 2009). From these figures, we can see that the government is getting involved in the relations between enterprises and employees, and playing an important adjusting and control function.

In August 2009, China HR.com posted "The seventh investigation report of the best employer to Chinese university students". It shows that 34.1 % of the students chose state-owned enterprises; followed by foreign-invested companies and joint venture corporations, the percentages for which were 23.0 % and 17.5 %, respectively.

According to the analysis of ChinaHR.com, the number of people who are choosing state-owned enterprises is growing year by year: from 17.9 % in 2007, to 23.1 % in 2008, then to this year's' 34.1 %; the percentage of students choosing state-owned enterprises has doubled. Conversely, the number of people who choose foreign-invested companies, joint venture corporations, and private business decreased each year. Since the best employer investigation 2002, "foreign-invested company", for the first time, fell behind "state-owned enterprise" and was listed as second most popular (HR Manager 2009).

9.2 The Dilemma of Business Owners in Labor Relations

The above mentioned current status of the labor relations of China's enterprises shows that two opposite opinions are formed by enterprise runners in labor relations: one is that the interests of enterprise and workers are consistent; the other one is that the interests of the two parties are contradicted. Looking at it from another angle, how enterprise runners define the role of workers, namely are workers the resources of or costs to an enterprise, decides the kind of labor relations model they choose to adopt. This is also the core issue of Western management theory and practice converting from traditional personnel management to modern human resources management. Enterprise runners face many contradictions and confusion in defining the role of workers, which makes it hard for them to solve labor relations effectively.

9.2.1 Survival or Charity?

We cannot deny that maximizing profits is the priority target for the development of an enterprise; it is also a necessary tool for an enterprise to survive in the market. Most of the enterprises with conflicting labor relations are facing cruel market competition and survival challenges. Firstly, there is competition from the international market: enterprises supplying to the international market are mostly labor-intensive enterprises with low technical levels, so only cheap labor can gain them comparative advantages. Therefore, cutting labor costs becomes their priority strategy. Secondly, enterprises in the same industry frequently use the low-price competition model, so, if an enterprise lifts its labor cost, there is a high possibility it might be replaced by other competitors in the market. Due to this pressure, enterprises have to adopt the low-price measure.

However, enterprise owners are not simply economic persons, they are humans with feelings. People are born innocent; nobody takes exploiting and oppressing people as a pleasure. For example, when a devastating earthquake struck Sichuan in

2008, private enterprises in Jiangsu province donated 1.2 billion Yuan to the disaster area; and 80 out of 100 people on the "2007 Hurun Rich list" made donations totaling 1.04 billion. This shows private entrepreneurs do have a heart. So, how come they cannot treat their own employees well?

In facing the choice between surviving in the market and treating employees well, there is no doubt that enterprises would choose the first one. Only after having secured their place in the market can enterprises spare the energy to start thinking about their employees. So, is survival in the market and treating employees well really contradicted?

9.2.2 Is Treating Employees Well a Waste of Money?

Many private business owners think that improving working conditions, raising salaries and other measures will add costs. The labor output cannot balance the added cost, so it's not good business.

Enterprise owners may have limited understandings on labor output. Labor output actually has multiple meanings. It most directly shows as the increasing of the quantity and quality of products, like in the garment or toy industries. In addition, labor output also has other forms, like the loyalty and satisfaction of employees to their enterprises. Research shows that employees who are loyal and happy with their employers will be fully dedicated to their work and are happy to take on extra work, which is beneficial to the enterprises and their colleagues. For example, there are enterprises which lost no employees during the "worker famine". This certainly will secure the long, stable development of those enterprises. Enterprises with a low operation rate due to a lack of labor will suffer bigger losses.

In 2004, when the "worker famine" happened, an electronic factory in Dongguan city, Guangdong province lost no employees. They even put up an advertisement to recruit 100 people and, as a result, 2000 people showed up to apply. The main reason is this factory treated its employees very well. Employees not only have access to an Internet bar, movie bar, coffee bar, gym, library and other facilities, their dorms and cafeteria are very clean and bright. In addition, they also receive a 12 Yuan meal subsidy per person per day. In such an environment, employees are always in a good mood; they get along well with the management, value their work opportunities, and their working efficiency is much higher than other enterprises. The owner of factory said: "I invested one billion in this factory; only 6 million was used to build entertainment facilities for employees. When employees recognize the company and feel like they are at home here, they work much harder." His conclusion is: "treat employees nicely, the return will be even better" (Yang 2005).

More importantly, the output from the workers' good working attitudes can be further transformed into benefits for the company. Companies can "plant joy, and grow profits", a point that has been proved by many research results. Hewitt Associates conducts a campaign called "Top 10 Chinese employers" every 2 years. It found, for every 3 % rise in employee dedication rate, the customer satisfaction rate rises 5 %; and, for companies with a dedication rate of more than 80 % among their employees, average profit growth was 20 % higher than other companies in the same industry (Global Sources 2008a). An investigation by Denison Consulting shows that, between 1996 and 2004, annual sales revenue only increased 0.1 % for those companies whose employees were not happy; but for companies where employees were happy, their sales revenue increased by 15.1 % in the same period. Management expert David Maister said that, if enterprises could raise the satisfaction rate of their employees by 20 %, their financial performance would increase 42 % (Global Sources 2008b).

To sum up, caring about employees does not run counter to a company's profitability. It is not like you can only have one or the other. The moods of employees can directly affect the growth of profit for a company.

9.2.3 Is Profit the Objective or the Tool of Enterprise Owners?

Even though profit is the core objective of the development of enterprises, what does profit really mean to those who operate the enterprises? Is it a driving force for the expansion and development of enterprises? And what is the purpose of the development? Gaining more profit? If profit is the ultimate target, then the significance for business owners would be the increasing of fortune. If development is the ultimate target, then what business owners want might be the honor of the successful development of their enterprises. However, these two aspects don't seem to be, or not entirely to be, the goals of business owners.

Maybe we should consider the initial goals of entrepreneurs in establishing their enterprises. Many excellent entrepreneurs have their own dreams; their enterprises exist to accomplish those dreams. The president of Shengda Interactive Entertainment Limited Chen Tianqiao once said his dream was to build up an entertainment empire. Ma Yun's dream for the past 10 years is "let there be no difficulties in doing business"; and in the future 10 years, "Alibaba's goal is to forge the new civilization for e-commerce. It hopes to build up an information platform for the existence and growth of the ten million middle- to small-sized enterprises in the world, and to build an electronic consumption platform for one billion people around the globe. It believes that the future 30 years will be a fast-developing period for e-commerce". To this type of entrepreneur, enterprises and profits are just tools for making their dreams come true, and employees are their allies along the way; unlike another opinion which deems that everything is for profit. As Ma Yun said: "I do not think money is the goal, money is an outcome. If a company only pursues money, it will never succeed."

9.2.4 Are an Enterprise's Economic Goals Contradictory to Law and Social Responsibility?

An enterprise is the economic entity in the market; it is also one of the important units which constitute society. It plays an important role in social activities. Both international and domestic experiences show that the running and development of an enterprise are certainly affected and restricted by social factors. All the behaviors (economic behaviors) of an enterprise need to be in compliance with social institutions, rules and laws, and social development. This double-character requires an enterprise to always seek a balance between economic interests, laws and regulations, and social responsibilities.

Some enterprises deem that laws and social responsibilities are obstacles to maximizing economic interests; they think complying with social responsibilities and labor-related laws adds extra costs, and that will hurt their economic benefits. Pollution, mine disasters, poisoned milk powder, poisoned silk noodles, TEFLON, Sudan red, Paraffin ... all these cases, which made headlines in China, are typical examples of enterprises' causing damage or having a bad influence on society while pursuing economic benefits.

Some enterprises have used different preventive and coping methods to avoid the potential extra cost of complying with the new Labor Contract Law. For example, Walmart's global purchasing center used a strategy of "dismissal with no conditions" as a method to reduce the possible increased labor cost which might be incurred as a result of the enforcement of the labor law.

> *At the end of 2007, part-time employees of Wal-Mart Stores, Inc. suddenly received notice they were being fired without reasons being given. China is the main disaster area of this lay-off. 100 people were dismissed, which is half of the total number being dismissed. A legal expert claimed that this action had violated the labor law, at least its procedural part* (Chen 2007).

The "most expensive cleaning lady in history" case is an example of how an enterprise took irresponsible action within the limits of the law. We cannot deny that there are many blank and weak areas in China's current legal system, and the execution of the law is also relatively weak; and this provides enterprises with opportunities for rent-seeking or position-seeking. It is worth making one point clear: the law is the bottom line that enterprises should never cross when performing their social economic activities. Complying with the law is part of an enterprise's social responsibility.

> *In August 2007, the case of "the most expensive cleaning lady" caused a big debate on the Internet. On May 21, 2007, Ms Xiao Ting (alias) received the news that the project team she was in was being dismissed. About 10 employees were going to be laid off, including her. The company was ending the contract with her on May 29 and she had just found out that she was pregnant. On July 30, the HR department of the company issued her a new contract with the same salary as before but a different position: "employee is responsible for cleaning male and female washrooms; she is also responsible for the cleaning and disinfecting of the floor, rubbish bins, toilets and basins." Even though her monthly salary*

was still 9,000 Yuan, Xiao Ting deemed this contract was a violation of her rights. Later, under the mediation of the city women's federation, the company and Xiao Ting signed an agreement that the company would provide certain compensation to Xiao Ting under the condition of maintaining the labor relations of both parties, and Xiao Ting would not work as a "cleaning lady" (Zhou 2008*).*

Nobel Prize-winning economist Milton Friedman had an article, "The social responsibility of business is to increase its profits", published in the New York Times in 1970. His point was basically that profits and the social responsibility of enterprises were of equal importance. The article has also become the mainstream point of view on this issue in American enterprise circles for the past 30 years. Since the start of the twenty-first century, scandals have constantly occurred in Wall Street companies, which has caused people to wonder whether their opinions on corporate social responsibility are too narrow. In 2005, John Mackey,[1] Milton Friedman and T.J. Rodgers[2] debated the meaning of social responsibility in the American magazine Reason. From their arguments, we can see that the conflicts between these people are the conflicts of values at a deeper level rather than the question of whether enterprises should perform social responsibility. With regard to the point that enterprises should perform their social responsibilities, they reached a consensus:

*……businesses were created by entrepreneurs with goals beyond maximizing profits, and that these goals are neither "hypocritical" nor "cloaking devices" but are aiming at benefiting for the society. John Mackey (*2007*)*

……I shall try to explain why my statement that "the social responsibility of business [is] to increase its profits" and Mackey's statement that "the enlightened corporation should try to create value for all of its constituencies" are equivalent……. Note first that I refer to social *responsibility, not financial, or accounting, or legal. It is social responsibility precisely includes the constituencies to which Mackey refers. Maximizing profits is an end from the private point of view; it is a means from the social point of view. A social mechanism based on private property and free markets is a sophisticated system of enabling people to cooperate in their economic activities without compulsion; it enables individual knowledge and social resources to combine together and play roles in the most efficient way.* (Friedman 2007)

*It is simply good business for a company to cater to its customers, train and retain its employees, build long-term positive relationships with its suppliers, and become a good citizen in its community, including performing some philanthropic activity. T.J. Rodgers (*2007*)*

Complying with laws and carrying social responsibility doesn't always directly lead to a reduction in profits. From a long-term perspective, the two sides can balance each other and promote each other. If an enterprise is responsible enough to carry social responsibility, both the consumers and clients will show more respect and recognition to it, which will build a good public image for the enterprise, and therefore, its competitiveness will be increased. For example, Vanke Group became aware of the importance of social responsibility earlier than other enterprises in the

[1] The founder and CEO of US Whole Food.

[2] The founder of Cypress Semiconductor.

industry. It made the effort to think about and practice its behaviors as a corporate citizen from three dimensions, which are environmental, operational and social. Vanke Group was named “The most respected employer in China” six times in a row. It was also selected in the “Top ten most respected enterprises in China” by The Wall Street Journal in 2008, which won it large social support, and the recognition and return of consumers.

The influence of corporate social responsibility on the performance of an enterprise has also attracted the attention of scholars. So far, there is no consensus on the conclusion of the relationship between these two. Some scholars (Griffin and Mahon 1997) discovered from reviewing a study from 1972 to 2006 that, among 60 papers analyzing the relations between the two, 40 of them concluded that the influence was positive, 21 were negative, and 11 of them did not find obvious influence. However, the certain research conclusion is that corporate social responsibility did not reduce the economic performances of enterprises (Robins 1997).

Economist Zhang Weiying has an even clearer point: profit is responsibility, profit comes from responsibility; an enterprise’s capacity to carry responsibility decides its capacity to gain profits.

9.2.5 Discrimination: An Enterprise’s Social Responsibility to Employees

One of enterprises’ social responsibilities is the responsibility to employees. This specifically includes being responsible for employees’ employment security, respecting employees’ civil and, health rights, and maintaining their legal rights, such as regular salary increases, social insurance, equal employment opportunity, occupational training, career development opportunities etc. However, there are many places in China where employees are mistreated; enterprises are not being responsible for employees.

According to investigations, the most serious discrimination in the Chinese labor market is identity discrimination; second is discrimination against women, followed by disability, age, health and body conditions (height, appearance, weight etc.). Among all the groups of people that suffer discrimination, people with HIV Aids, disabled people and migrant workers receive the worst treatment (Cai 2007).

> *On December 23, 2001, China People’s Bank Chengdu branch posted a notice, “China People’s Bank Chengdu branch recruitment notice”, in a newspaper after receiving the approval of the provincial human resources bureau. One of the conditions was “male, minimum height 1.68 m, female minimum height 1.55 m”. New graduate Jiang Tao from Sichuan University was excluded from the list only because he was not tall enough. Jiang Tao was very angry and sued the China People’s Bank Chengdu Branch. Jiang Tao’s attorney, Zhou Wei, a vice professor at Sichuan University Law School, called this case the “first case regarding constitutional equal rights accepted by a Chinese court”* (Gao and Zhang 2002).

Wu Wei, Zhao Qiang, Fang Juan (all alias) and another 22 employees used to work for the former Tai Jin Bao Electronic (Suzhou) Co., Ltd (below referred to as "Tai Jin Bao"). They were requested to quit their jobs because they were found to be hepatitis B carriers after undergoing health checks.

Later, they submitted a 300-page appeal to Wujiang Municipal People's Court of Jiangsu province, accusing Tai Jin Bao of discriminating against hepatitis B carriers. They requested cancellation of "The agreement on the annulment of labor contract" signed by both parties, fulfill labor contracts, and claimed 500,000 RMB as compensation for emotional damage…… (China Youth Daily 2007).

Even though the government has issued many new laws and regulations since 2007, for example, the Employment Promotion Act and employment service and employment management regulations, the problem of employment discrimination has not been solved at its roots, only changed from being obvious to invisible. For example, even though words like "male only" don't appear much in job advertisements, in reality, there are still more males hired than females; this is due to so-called invisible gender discrimination. Some people may say China has a large population, the labor force is excessive, and enterprises have the right to choose the people they want, so why do they have to hire women or disabled people? What's so wrong with them hiring young and beautiful people? This really is a dilemma faced by enterprises. Because of the Tai Jin Bao case and many other exposed discrimination cases, the social reputation and images of enterprises are damaged. As a result, enterprises will have difficulties in future recruitment, as well as cooperation with upper- and lower-stream enterprises, which is definitely harmful to their long-term development.

In addition, employees should be treated equally. For instance, maintaining an equal and fair principle in dealing with employees' short-term interests and long-term development opportunities is beneficial for building employees' trust and commitment to the enterprises. The failure embodied in the case of Zhengzhou Ya Xi Ya Group and successful modern management experiences tell us that matching proper people to proper positions is the fairest means of personnel allocation. A fair working environment can stimulate incentives for employees; by taking the opposite approach, employees' working enthusiasm will be reduced, and their determination to leave the job will be certain (Colquitt et al. 2001).

At the end of 1995, leaders of Ya Xi Ya Group recruited about 100 young people from Xi'an to staff Qian Villages department stores that were to open in Guangzhou and Shanghai. After short-term training, the president of the group appointed people based on their appearances and their oral skills. Ability and integrity was not taken into account. The store manager appointed to Kaifeng Ya Xi Ya was a young entertainment show host in a Zhengzhou city music and dance troupe who had zero experience in commercial work. Due to her zero knowledge of cost control and financial management, the store lost 70 million Yuan in two years. Kaifeng Ya Xi Ya had to close down eventually.

According to the source, a cousin of a Ya Xi Ya manager, who used to be a peasant from Laoyachen village in the suburb of Zhengzhou, was appointed as the general manager of a big store in Beijing; the two brothers of the wife of this manager, who were peasants from Shandong province, were also appointed to important positions; even the nanny at his home was appointed as the vice finance director of the logistics department of Ya Xi Ya Group.

9.3 The Frustration of Employees in Labor Relations

No matter whether business owners see employees as a cost or a resource, the production and running of an enterprise have to be accomplished by employees. As for business owners, employees also face many forced obligations and frustrations.

9.3.1 From the "Ownership Spirit" to "Contracted Worker Attitude"

In the short 60 years' history of Chinese enterprises, the character and status of employees have changed a lot. Under the planned economy, due to the economic nature of public ownership, theoretically all the assets of enterprises and the state belonged to the workers; workers were afforded the identity of an owner of the state in New China and their status was identified as the owner of the enterprise. To a large extent, employees could feel their own importance to the enterprises and the state, and tightly connected their own futures and fates to the fate of the country. This strong sense of responsibility and spiritual encouragement stimulated workers' passion and incentives to engage in labor. They were willing to bear the hardship of the labor without complaint; in life, they also restrained themselves with discipline. They composed a reform movement of hard work.

Shao Sen is 87 years old now. He was a famous model worker in Shanghai's textile manufacturing system back in the 1950s. In 1952, as one of the pioneer workers, he moved from shantytowns to the first workers' village in Shanghai- Cao Yang First Village, which is located in Shanghai Putuo district. "At that time, flowers were planted along both sides of the gate and in the courtyard. The road was paved with pebbles. On the day I moved in, I was wearing a red flower, standing on a Jiefang truck. There was a small car escorting in front of us, there were people beating drums and gongs on it. When I walked into my new home, I saw the walls were white as snow; window frames were green as jade, wooden floors were dark red. I didn't even want to drive nails on the wall to hang stuff. When I invited families and friends over, I felt much honored."

"The country's economy was still in hardship, but the government still spared money to build houses for us. We really appreciated it." Shao Sen described the workers at that time: firstly, they worked really hard, never knew what was tired, and they never claimed any overtime payments; secondly, they had a strong sense of being the owner of the enterprise, they thought themselves as "the big brother".

Shao Sen also mentioned that the salary of the frontline technical workers was even higher than the leaders of the enterprises. "At the beginning of the 1960s, I worked as a 'sketcher' in a garment factory under the Shanghai Textile Industry Bureau. My monthly salary was 80 Yuan. But the head of our factory and the director of my department were only paid 60 Yuan per month."

Shao Sen said: "At that time, the factory and the government treated the workers as a treasure. Every time, they raised the workers' salary before the leaders, and they always raised more money for the workers than for the leaders of the enterprises" (Ye and Chen 2009*).*

The "ownership spirit" was restrained by different factors during the process of reform. Firstly, the reform changed state-owned enterprises from being an administrative unit to a market entity; employees soon changed from the owners of the enterprise to hired workers; the previous identity system of the employees of state-owned enterprises crashed (Wu 2008a, b, c). Large-scale lay-offs and unemployment meant many employees even lost their identity as a "hired worker". Meanwhile, employees also lost benefits and rights in areas such as salary, welfare, pensions, unemployment and other aspects which they had during the planned economy period. Even though, in 2003, laws and social policies were issued to give new rights and benefits to workers on a macro level, these rights and benefits encountered many obstacles in reality and could not be enforced. Therefore, the "owner status" which these rights and benefits represented also disappeared. In terms of private enterprises and foreign enterprises, employees have come into enterprises bearing the identity of hired workers from the start. It is impossible for them to have the "ownership spirit" that was shaped in the planned economy period. Secondly, on some level, the scientific management system is incompatible with the "ownership spirit". At the beginning of Reform and Opening-up, when foreign enterprises first established in China, the standard management system and the employees' "ownership spirit" clashed. The "punishment for putting out fire" case vividly reflected the fact that the modern management system did not encourage and nurture the traditional "ownership spirit". In the end, a sense of self arose among employees. The protection of self-interests proposed by economic reform encourages employees to maximally pursue their own benefits, which is inconsistent with the core value of the "ownership spirit".

When a state-owned enterprise in Shanghai merged with a foreign-invested company, all the managers and workers from the previous state-owned enterprise suddenly changed their roles, the owners of the enterprise became the employed workers under the control of an American boss. Once, in the evening of the day before the American boss was due to visit, a tire warehouse caught on fire. Based on the principle of "fire is the demand", several middle level managers of the factory went to the warehouse to put out the fire and spent the whole night there without worrying about their own safety. At 9 o'clock in the morning the next day, they rushed into the meeting room to participate in the meeting with the American boss. When they showed up at the meeting, the meeting room was disturbed. After the American boss figured out what had been going on, he decided to have the meeting first, and then punish the managers, who were sloppily dressed. The punishment was to deduct one month's bonus for each person. This decision confused all the Chinese employees: these managers still had dust on their face from putting out the factory fire without worrying about themselves. They saw the factory as their own home, they were all the Huang Jiguang, Qiu Shaoyong (heroes) in the new time. They didn't really need flowers or prizes, but punishment? That was just unreasonable!

The explanations of the American boss are as below:

Firstly, each employee who participated in the fire fighting has a great sense of responsibility; however, the way they performed their responsibility was wrong. As a person who is not a professional fireman, what you should do is to trigger the fire alarm immediately and assist the police to evacuate people, but not put out the fire yourself.

Secondly, the company has bought insurance for all the assets of the enterprise, any loss will be compensated by the insurance company, there shouldn't be any guilt of watching *the assets being burned; to the contrary, the employees who participated in the fire fighting haven't purchased insurances for themselves, the company will have to be responsible for any loss of lives, which is something the company doesn't want.*

Thirdly, the life of professionally trained employees is worth a lot more than the assets in the warehouse. The company doesn't allow you to trade your life for the commodities. This is the company's principle of "human oriented".

Fourth, punishing the middle level managers who participated in the fire fighting aims at correcting the wrong notion of "commodities are worth more than people's lives", making clear the different responsibilities of "asset owner, enterprise runner, post executor", enabling the employees to achieve real "modernization" as soon as possible. This point is more important than the first three! (Meng 2008).

The change of identity inside the enterprise, the marketization of the relations between the enterprise and the workers, as well as the growing sense of self-interest has formed the working attitudes of most employees. "I work for you, you pay me salary; if I receive more money, I will work more; if I receive less money, I will work less; if there is no money, I won't work for you." "They become very selective about their work, they choose lighter work over heavier ones, they haggle over every penny they earn, they have very negative working attitudes, being non-responsible at all; they even play tricks at work, avoid difficult work, try to do less work; they worry a lot about their personal interests, and couldn't care less about the interests of the enterprise and the organization. . .. . ." – many employees hold this attitude, especially in private enterprises.

Employee's attitudes towards their employers and their jobs, and their own work values have changed along with the change in their identity from "owners" to "employees". Good or bad? Right or wrong? There is no way to judge. However, one thing for sure is that, if employees all have this kind of attitude, it can cause negative effects on the long-term development of enterprises, while the career development of employees themselves will also be negatively affected.

9.3.2 Maintaining Individual Rights, Passive Reaction or Active Action

While the traditional ownership spirit is disappearing and the hired worker attitude is forming, the sense of self-protection is maturing. During the planned economy period, employees fully attached themselves to enterprises due to the administrative nature of the enterprise; they did not know what "independence" was. The marketization of enterprises created conditions for employees to be independent, especially for new generation employees born after the 1980s. They engage in their personal interests, protect their own rights and dignity, they have strong self recognition, pursue personal development and achieve personal goals (Zhang 2007). There we see a group of independent employees which is rising.

Previously, due to the weak sense of self-protection, employees often sought passive ways to deal with conflicts in labor relations; for example, resignation, suicide, killing employers and other original ways; or spontaneous lay-offs and strikes; or even blocking a railway or national highway, and other drastic collective actions to get the government's attention. These passive ways not only jeopardized their own interests, they also jeopardized enterprises' interests, even harmed social order.

The increasing sense of individual rights protection has meant employees can balance the pros and cons in their labor relations, and look for a rational way to protect them. Individual workers do not have enough power to negotiate. Unified workers can form a stream of power which is strong enough to confront the owners of capital and seek more reasonable benefits through collective activities.

However, pre-conditions are needed for a collective negotiation or a strike. A legal organization is needed to present the labor side. If the labor side cannot find such an organization to present them and conduct spontaneously organized collective negotiation, there is the risk that the capital side will go after the leaders or the participators to settle accounts afterwards. In this case, the possibility for alignment and negotiation with the capital side will be smaller. In addition, there are still blank areas regarding strikes or alignment in law; the collective action of workers cannot be recognized as legal or be protected, which also causes disappointment for employees who have the will for self-protection but cannot act on it.

9.3.3 Strike: Either Die or Break Out in the Silence

However, even in circumstances where a trade union is not well established, blank areas exist in related laws, or worker's collective actions (strike, negotiation) cannot be well protected, strikes still happened constantly. This shows that contradictions were severe in some enterprises, and it had upgraded to confrontations and conflicts.

Strike is the last thing that employees have to do. It only happens because, if no action is taken, the civil rights of employees are threatened. "361 °C" is an example. In this company, workers work 12 h a day, 7 days a week, with low salary, delays to and deduction of salary, no social insurance and medical insurance, no legal holidays etc. If the workers go on strike, they could lose their jobs, it also could threaten their lives; but the strike might be successful, even though the chances are slim. Therefore, a strike becomes an option for the employees who are desperate. For example, in May 2009, employees of Baidu's southern China regional office felt the sales targets in the new performance appraisal plan had been increased so much, it was "a mission impossible", and salaries had been significantly decreased, so they went on strike to resist this plan.

> *On the evening of June 1, 2009, employees of 361 °C Company went on a collective strike due to the company delaying employees' salaries and reducing the salaries on purpose. A police car, a 120 car and a Mercedes were damaged. Even the armed police came last night fully equipped......*

Strikes can strengthen employees' "negotiation" capacity, and may help to achieve a compromise on benefits that improve the current situation. Yantian International Container Terminals (YICT) is an example. Compared with 1994, Yantian International's profits have increased 500 times. However, over the past 10 years, employees' wages almost never increased. Increased prices of commodities and housing had put a lot of pressure on employees' living standards and created a strong will to start a strike. The result of the strike was "firstly, all employees' monthly wages increased by 3 %; secondly, drivers of tower cranes and dragon cranes received a 500 Yuan subsidy per month for working high above the ground; thirdly, the labor and capital sides signed a collective negotiation agreement which included salary increases, establishing a trade union, strengthening communications and another seven articles."

Yantian International Container Terminals (YICT) is a joint stock port enterprise. Its annual international cargo handling capacity has experienced double digit growth. In 2006, its cargo capacity reached 8.865 million standard containers. It has become the biggest container port in the world. On the morning of April 7, 2007, 280 tower crane and dragon crane drivers of Yantian International started a strike over salary, working hours, the right to establish a trade union and other issues, which caused a shutdown of the port. Fourteen cargo boats were affected. This incident had a big international influence. Later, through the mediation of Shenzhen municipal government and under the strong guidance of the municipal general trade union, the strike was terminated on April 8, and the operation was recovered.

9.3.4 Trees Become Shorter as the Water Rises: Job Hunting Is Even More Difficult After Training

Workers can increase their market value through receiving training, and turn themselves from excess labor into scarce talent. Scarce talent in the labor market has certain advantages in labor relations. Therefore, upskilling has been popular with workers seeking to improve their position. Specifically, workers attend different kinds of training courses or go back to school to enrich their knowledge, improve their skills and build up their capacities. Compared with collective action, this is a more feasible way and with fewer risks, so more workers are seeking to improve their positions this way.

People always have some dissatisfaction at work, so, in order to change the circumstances, most of them choose to pursue further education. All workers expect to increase their own value through this method. However, after they have obtained their new qualifications and returned to the labor market, they can find themselves not as competitive as they anticipated. The collectivization of this behavior means workers find it difficult to stand out from the crowd.

We can have a look at the intake numbers for undergraduate and master degrees in China. The number undertaking undergraduate study at universities nationwide in 1990 was 608,900; in 2000, it was 2.2 million; and in 2008, it was 5.99 million. The number has risen tenfold in 20 years. In 1990, the number of those undertaking master degrees nationwide was 30,000; in 2000, it was 135,000; and in 2008, it reached 390,000, a 13-fold increase. This means that the educational level in the labor market has greatly increased; even people with high-level degrees are facing severe competition. An international trading PhD holder said that, when he first graduated from college, he had a hard time finding jobs. He thought it was because his educational level was too low. So he studied for a master degree and a PhD. When he was about to graduate from his PhD course, his high degree became a new obstacle to finding jobs. Now he is 30 something and still unemployed. In October 2006, a master degree student at Tsinghua University committed suicide by jumping off the building because of not being able to find a job, a tragic situation.

People are looking forward to their future; however, the future is becoming ever more competitive. This has become the misery of every single worker.

9.4 Preliminary Attempts to Improve the Relationship Between Enterprise and Employee

In the face of complicated labor relations and the dilemma and frustration of enterprise owners and workers, how can we solve the conflicts in labor relations? Shall we just walk again the path walked by Western countries, namely to achieve the balance of power through drastic confrontation of the two major classes?

The development and conflicts of Western labor relations originated from the industrial revolution in the eighteenth century. During the process of industrialization, workers started to fight due to the bad working and living conditions. The government chose not to intervene in the interests of fairness, to let it go, or rather issue laws to ban workers' demonstrations and strikes, such as the Le Chapelier Law in France, which strengthened the structure of "weak labor, strong capital". Workers' movements were getting more radical and more frequent (there were 313 strikes alone in 1890 in France). By the end of the nineteenth century, the universal development of trade unions had greatly changed the power comparison between labor and capital; strikes and negotiations became the main methods of solving labor-capital conflicts. The governments of Europe and the United States started to turn to active intervention policies to coordinate the relationships between labor and capital (e.g. England issued the first Trade Union Act in 1871). In the 1930s, the economic crisis caused many banks and enterprises to collapse, the unemployment rate reached 25 %, many workers and peasants suffered from hunger, homelessness and violence. Labor relations became intense again. Three major strikes: the Toledo Auto-Lite strike, the Minneapolis Teamsters Strike, and the West Coast waterfront strike led to the issuance of Roosevelt's new policy. After the Second World War, in order to promote industrial development and to relieve the social risks, Western governments adopted various measures to promote the development of labor relations; confrontations reduced significantly.

The 150 years of industrial war in the West warns us that it costs too much to take this path and we need to seek more effective and peaceful ways to deal with and develop the relationships between enterprises and employees.

The powers to solve the conflicts of labor relations come from three aspects: worker, enterprise and government. Citizens' sense of self-protection should be awakened, workers should start actions to protect their own interests; enterprises should use different ways to satisfy their employees; governments should set up public policies and mechanisms to control both sides. In the following, we use some successful cases of enterprises' practices to discuss the several paths to improving labor relations by Chinese enterprises.

9.4.1 Successful Practices of Enterprises

9.4.1.1 Be Innovation-Oriented and Industrial Upgrading

As we mentioned previously, conflict-type labor relations mostly belong to labor intensive industries. The characteristics of the products of this type of enterprises are: low-end products with low added value, unitary product kind, highly specialized, low technical level, no core technology and R&D capacity, no independent brand, no pricing rights and bargaining power, and not capable of forming market and technology advantages. This type of enterprise mostly adopts the low-cost strategy in competition.

Increasing the technology level in production and using the advantages of a differentiation strategy can help enterprises escape the vicious circle of low-cost competition. ANTA Group, the sportswear partner of the China Olympic Committee from 2009 to 2012, was only a small manual workshop in 1993. However, its R&D capacity is at the top level of China's sports appliance industry. In 2009, when Chinese Prime Minister Wen Jiabao visited ANTA, he highly praised ANTA's development. He said: "Labor intensive enterprises can also be technology intensive enterprises. ANTA sees a pair of shoes as a technical product. We cannot look down on labor intensive enterprises; they also have technology content and inventions. We should actively promote labor intensive technology to transfer to technology intensive enterprises." Technology innovation led ANTA to a scaled operation, and also achieved standardized and human-based management. For example, ANTA organized a sports meeting for employees which lasted for 20 days, and the awards were up to 370,000 Yuan. As a result, even in the worker famine period, the operational rate of ANTA was still more than 95 %.

In technology intensive enterprises, especially the new IT industry, labor relations between enterprises and employees mostly appear as neo-unitarist. Employees are not only performing labor work, but doing high-tech knowledge work. This kind of employee is generally rare in the market, and their working outcomes are difficult to imitate or replace; therefore, workers are not just being hired in labor relations, but participating in the development of the capital side by investing their intelligence.

From this perspective, the investment of enterprises in employees no longer belongs to the cost category, it can be considered as an additional investment. HUAWEI is a large-scale international high-tech private enterprise, which is quite rare in China. Experts from China Social Science Academy deem that HUAWEI is no longer a traditional labor intensive enterprise with low added cost; it is already a high-tech labor intensive enterprise with high added value. HUAWEI deems that human resources are a more important capital than money; it will continue to use the development of human resources as an important condition to achieve the target of increasing the value of human capital.

People normally think the reason HUAWEI inputting high investment in human resources is that its high profits are enough to support this behavior. As a matter of fact, Ren Zhengfei made it very clear in the "Basic Law" early on: "The target of increasing the value of human capital is the priority, financial increase is the second."

For 20 years, HUAWEI's investment in human resources has been spectacular. It spent nearly 1 billion Yuan on the company's training center alone. In addition, among the top 10 human resources management and consulting companies in the world, HUAWEI hired three of them in five years.

Human capital is the resource and power of creating financial capital. Even in those periods when HUAWEI's business was lagging, it still insisted on this principle. HUAWEI deems that people are a kind of capital which is more important than money. So it uses all of its resources to recruit personnel with high intelligence, innovative spirits, and those who are dedicated. It also creates a good mechanism to attract and keep talents, and to make the best use of them.

*HUAWEI largely promotes performance appraisal and post qualification management systems, namely a human resources management system which keeps the good and dismisses the bad, while promoting group development. Personnel teams can constantly be optimized during study and competition in this system. Through the constant "gold washing" processes, HUAWEI has created a team which overrides all the other competitors nationwide (*Wu 2008a, b, c*).*

9.4.1.2 Treat Employees as Family

Those enterprises that have difficulty undertaking industrial or technological upgrades could consider escaping their original mentality and consider another employee management model.

In 1994, Haidilao Company only had four tables serving hot pot on the side of a street. Fifteen years later, the company has become a chain corporation with 36 shops in Beijing, Shanghai, Xian, Zhengzhou and other cities, and has become a well-known hot pot brand. This company claims that profit is not their first priority; however, its sales revenue is 0.3 billion each year, and its customer satisfaction rate and employee loyalty rate are among the best in the catering industry. Zhang Yong's secret is treating his employees as family, and providing employees with independence and equal treatment. The good treatment of employees finally led to the development and growth of Haidilao.

Whoever visits Haidilao will strongly be aware of the extremely thoughtful services in there; some people exaggeratedly call it "abnormal service": after the customers are *seated, the waiters immediately serve hair bands, aprons and cell phone covers; during the meal, waiters hand over hot towels from time to time. The most impressive part is that all the waiters are very energetic; their happy mood influences every customer in the restaurant. On the "Public Comment" section of its website, many customers describe how amazed they are at this thoughtful service, and express their feelings as "finally found the feeling of what it is like to be god".*

Zhang Yong deems that people are the foundation of Haidilao's business. Customers have various needs. Waiters trained using procedures and systems can only reach a minimum level. Procedures and systems are necessary in ensuring products and services' quality; in the meantime, they also constrain people's personalities, because they ignore the most valuable part of employees – their brain. Making employees strictly follow systems and procedures equals only hiring their hands.

In what circumstances do brains facilitate creativity? Psychologists have proved that, when people really care about something, their brains are at their most creative. Therefore, getting all employees to care as much about Haidilao as he did became Zhang Yong's basic philosophy in running his business. But how do you make employees see Haidilao as their home? The answer is easy: see employees as family. Employees of Haidilao live in standard residence buildings which are equipped with air conditioning and heating, free Internet, and 20 minutes walking distance to work. Furthermore, the company hires cleaning ladies to clean the dorms for employees, and do their laundry. Haidilao established a boarding school in Jianyang Sichuan province, which solved the education problems for their employees. Haidilao also thought of its employees' parents. For excellent employees, the company directly posts their bonus back to their hometowns each month.

In order to encourage the employees to use their brains, besides getting them to really care about the company, giving them power and rights are also very important. The company gives managers financial rights to decide matters below 2 million Yuan. It also gives its waiters rights to exempt fees for meals. For whatever reasons, when the employees deem it is necessary, they can always give customers free dishes or even a free meal. Intelligent managers know how to let their staff work for them by using their brains. When an employee is not only automatically following his superiors' orders but thinking for himself, he is a manager. By this definition, Haidilao is a company that consists of 6000 managers.

People live in groups; they are born to seek fairness. Haidilao knows that for employees to feel happy, material rewards alone are not enough, they also need to feel that they are treated equally. Haidilao not only provides dignity to its employees, it also provides them with hope. At Haidilao, almost all the senior managers originally were waiters. These young people, though still maturing, independently manage several hundred employees each, and create 10 million Yuan in revenues each year. Some employees don't have the talents to become a manager, but, as long as they work hard, their work will still be recognized. Normal employees receive salaries only a little bit lower than a restaurant manager if they become an employee with merits.

Haidilao calls training qualified employees "building people". Zhang Yong sees building people as the basic development strategy of Haidilao. The company conducts appraisals of each restaurant manager with only two criteria: one is the satisfaction rate of customers; the other is the working enthusiasm of the employees: each restaurant is required to have staff numbers that are 110 % of their actual needs to ensure adequate staff. The human-oriented and slow-but-steady development strategies of Haidilao are good references for other Chinese enterprises (Huang et al. 2008).

9.4.1.3 Respect Employees and Protect Their Dignity

Some business owners may never think about the importance of their employees' dignity. Behavioral scientists tell us that "people are willing to receive less money for dignity" (Huang and Liang 2007); or in other words, if employees cannot receive proper respect in enterprises, they will leave eventually, no matter how much money is offered. Some people use a very vivid expression: if you treat employees as oxen, they will insist on being treated as people; if you treat them as people, they will work for you like oxen.

At Vanke Group, all employees are equally treated in terms of personalities and also access to opportunities. It is forbidden for family members to work in the company, because it would be unfair to other staff. The salaries of senior management at Vanke are considered medium level compared to what is being paid to other people working in similar positions in the same industry: 65 % of them have higher salaries than Vanke staff. People who work for Vanke receive more respect, which is lot more important than money. "A 20-year development journey has proved that being human-oriented and respecting people constitute the main characteristics of Vanke's culture. We insist on humanism; we respect people's dignity; this is what we've been proud of during the 20 years, this is also the key to Vanke's future" (Ren 2004, XXX). In 2004, Wang Shi wrote in the company's New Year's speech:

> *Respect formed Vanke's harmonious and passionate working environment, and brought together more and more excellent people. This excellent group is full of dreams and will lead Vanke to an eternal future.*
>
> *Respect means equality, understanding, trust, generosity. At Vanke, we emphasize that all employees are equal. The company respects and must maintain their dignity. The company has strict requirements for each employee, provides employees with equal returns, and provides employees with full development opportunities.*
>
> *Respect means having professional morality, insisting on transparent systems, and the constant pursuit of a healthy and rich life. Vanke believes that a healthy company is inseparable from standardization and employees with good dreams and good morals.*
>
> *Respect also means listening to the voices of the clients, and paying attention to each detail. "No detail is too small when it comes to clients". Pursuing the maximum value for clients, "building an infinite life starts from building your own life". We are client-oriented, constantly providing products and services expected by clients, and guiding an active and healthy life style.*
>
> *Respect is a core value that we should never change. This word includes many deep meanings; they are all big challenges for Vanke. For the past 20 years, we've been pursuing quality, effective and sustainable growth through market innovation, product innovation, service innovation and system innovation; this is the only path for Vanke to be in the lead in the industry and create healthy lives. While we are expecting bigger successes, what we should do is to stick to the human-oriented principle and respect for people, and create healthy lives. Vanke wishes to continuously provide customers with good quality products and services, make customers proud; continuously provide profit returns which are beyond the expectations of our investors, make investors happy; continuously provide development opportunities and revenues expected by employees, make employees proud.*
>
> *Respect is a soil that gives birth to new spirits. Inside the company, Vanke believes that every person has sparkling intelligence in their minds; forced unification will only lead to the murder of personalities, creativities and passion. Allowing different voices is the*

resource for a civilization to be creative, and the security for its constant development and progress. Now, the real estate industry has entered a new development phase, many rules have been changed; Vanke has also entered a fast-developing phase, new breakthroughs need strong wills to go forward and strive for innovation.

9.4.2 Trade Unions in China: Shoulder to Shoulder with the Workers

A trade union is a kind of spontaneously organized group in the history of Western labor relations. It is the representative of the labor side. Negotiations between trade unions and the capital side are the major way through which conflicts are settled between labor and capital. The development of China's trade unions has major differences.

During the planned economy period, trade unions were organized under the guidance of the government. They played a role of connecting the state, the party and the workers (Pravada and Ruble 1986). Trade unions represented the state's interests downwards and mobilized workers to perform production; they also channeled the requests of workers upwards to protect their rights and benefits. In state-owned enterprises and collective enterprises, basic level trade unions made great efforts to secure the interests of employees.

In the market economy, the development of private and foreign business caused more intensive conflicts of interests between labor and capital. This required changes in the function, content and other aspects of trade unions so they could really represent the interests of workers. The Trade Union Act, enacted in 2001, defined the essential responsibility of Chinese trade unions as the protection of the legal rights of employees. Since 2003, for the purpose of further protecting workers' rights and benefits, besides improving the Act, the government has also largely assisted in organizing trade unions for enterprises. Before 2004, Wal-Mart refused to set up trade unions in China, using the excuse that "not establishing trade unions is its global tradition". The government pushed Wal-Mart to establish a trade union, which consisted of basic level employees, and protected the interests of those employees.

On July 24, 2008, the Wal-Mart China HQ Trade Union and the trade unions of 15 operational units in Shenzhen held a collective contract signing ceremony with Wal-Mart Company at Shenzhen city trade union. As one of the top 500 enterprises in the world, Wal-Mart established its trade union in Shenzhen on the morning of August 4, 2006. Since then, the carrying out of collective negotiation and the signing of collective contracts has become a hot issue in society. The city trade union also immediately started the first collective negotiation in China; it also communicated with Wal-Mart China HQ many times regarding this.

After two rounds of negotiations, both sides reached consensus. They signed the collective contract on July 21; and from July 22 to 23, employee meetings were organized in the 16 Shenzhen trade unions of Wal-Mart to vote for the contract. According to the chief representative of the China side, Li Yixin, 90 % of the employees participated in the trade *union. During the voting, 5,500 out of 8,000 votes were affirmative, which represented 66 % of the total.*

It was revealed that the contents of this collective contract, which covers 8,500 people, include a labor contract, labor wages, working hours and vacations, insurance, welfare and staff trainings etc. The main points are: setting up a wage collective negotiation mechanism (every December, the trade union discusses with the company the general salary increase rate for the next year; in 2008 and 2009, the annual average wage increase rate is "9+1", namely the wage increases 9 % on average, while 1 % is provided for promotion and special adjustment); the minimum wage should be obviously higher than the minimum wage announced by the Shenzhen Government; employees who have worked for three years in Wal-Mart can sign a permanent labor contract; and this collective contract shall be used as reference for any amending of policies and rules of the company etc. (Southern Daily 2008).

The organization and operation of Chinese trade unions are still in their preliminary phase. In fact, there are still cases of enterprises setting up trade unions administratively from higher level to lower level according to the law; most trade union members are from the management level. Enterprises comply with the law in appearance but, in reality, this cannot achieve the goal of protecting the interests of employees (Wu 2008a, b, c). The full functioning of trade unions and the effective protection of workers have a long and hard way to go.

During China's current economic transition period, many problems between enterprises and employees still exist. However, many successful cases have been provided by some excellent enterprises. We believe that we should combine the employee's personal goal with the organization's goal and, looking at long-term development, labor relations will certainly have a healthy future.

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Chapter 10
Interpersonal Communication and Conflict Resolution

Xin Wei

No matter in a large enterprise with 10,000 employees or a grown-up with a dozen people, organizational members need to work out a variety of problems through communications. However, they usually have different opinions on any one issue, due to their differences in personalities, expertise, values, or in other aspects. If not properly settled, different opinions or conflicts of interest would cause organizational dysfunctioning, or even destroy the organization. During the past 20 years, numerous Chinese enterprises have been trapped in such a dilemma. One of the most controversial incidents was the "Liu-Ni War" between two top managers at Legend (later known as Lenovo). In 1994, a disagreement over the development of a key product – "China chip" – eventually evolved into a breakdown in the relationship between Liu Chuanzhi and Ni Guangnan. The two best friends, who used to work together shoulder to shoulder, embarked on a long war until Ni Guangnan, lost out in 1999. Years later, when people look back at this case, most think it reflects the overwhelming of marketing over research and development. However, as Ling (2005, p. 192) commented:

> *It is probably just a Chinese-style tragedy ... if things like this happened in the Western world, people would consider it from a straight business angle, frankly express their own opinions and listen to the opinions of the others, and use the simplest way to judge and coordinate for the purpose of reaching a practical result ... Our nation is so used to the word "yes", we don't like to say "no", or to hear "no" from others ... If there is a "no" between two people ... they tend to take personal and ignore the argument itself.*

During the evolution of Chinese enterprises, the emphasis on interpersonal harmony and conflict avoidance, which is drawn from traditional values, often collides with the spirit of justice and professionalism; this has become a unique

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characteristic of Chinese enterprises and prompted people to start thinking about how to properly communicate and smoothly solve conflicts. This chapter will discuss on this topic. In the Sect. 10.1, we will go through the pros and cons, and the types of conflict; we will also conclude various ways of solving conflicts and their applications within Chinese social and organizational settings. In the Sect. 10.2, we focus on conflict avoidance which is the most commonly used approach to conflicts in China. We will analyze the structural and psychological sources of conflict avoidance. At the end, integrating the previous analysis of conflict-avoidance mechanisms and practices in some Chinese and foreign enterprises, we will discuss some feasible systems and skills for constructive communication, which will contribute to effective communication and conflict management in Chinese enterprises.

10.1 Understanding Conflict: Pros and Cons, Focus and Resolutions

The importance of communication speaks for itself in organizations. Essentially, almost all the activities in an organization involve interactions among its members. In order to achieve a goal or accomplish a task, organizational members engage in a large amount of communication in their daily work – It could be a written proposal, or oral advice, happening in an official meeting, or in the tea room, between a supervisor and a subordinate, or between colleagues. On all kinds of occasions, and in all forms and directions, people get to know each other's opinions and share information. However, due to different backgrounds and positions, they do not always agree with each other on the opinions and information. Thus, interpersonal conflicts in organizations are inevitable. As a matter of fact, the word "conflict" is not as threatening as it seems to be. It is the process resulting from the tension between social entities because of substantial or perceived differences in interests, views, or priorities.

10.1.1 Are Conflicts Beneficial or Harmful?

Conflict and conflict resolution have always been heated topics in management field. From Scientific Management Theory, Bureaucracy Theory, Interpersonal Relations Studies and the Cooperative System, to the Open System Theory, researchers have explored how employees interdependently figure out the best way to solve conflicts. The classic perspective on conflict management deemed that conflict was harmful, and that it was a symbol of chaos, destruction and irrationality. In order to reduce or eliminate conflicts, managers should clearly define employees' rights and responsibilities, with different job assignments at different levels. This perspective emphasized the role of organizational structure, without much consideration on people in an organization.

Since the 1920s, the new classic theories represented by the Interpersonal Relations Studies Theory have investigated the effect of interpersonal relations on work performance. This perspective noted that conflict derives from a lack of social skills. In contrast to the classic perspective it proposed to reduce conflicts by changing the social systems of organizations, so as to improve organizational efficiency.

However, contemporary research and practices have acknowledged that conflict is inevitable, and it could be functional in some circumstances. Conflict and debates between organizational members can often stimulate creativity and improve the quality of decision making. In enterprises, there may be very few mental sparks between employees who have been working together for too long because they are too familiar with each other, which makes the organization unresponsive, like sardines on their last gasp due to lack of movement. Some fish sellers will put a restless catfish in the sardine fish tank. The catfish as an "alien" can stimulate sardines' movement and prolong their survival. Similar things happen in organizational settings as well. Conflict at a moderate level can stimulate the exchange of diversified ideas, promote organizational learming and creativity, and enhance the vitality of organizations. Conversely, organizations which lack conflict tend to be trapped in inertia, and hard to sustain the competitiveness.

10.1.2 Different Types of Conflicts: Task Conflict Versus Relationship Conflict

The level of conflicts is not the only standard by which we can evaluate the pros and cons of conflicts for an organization; the type of conflicts matters as well in bringing different results. Conflicts can be divided into two types: task conflict and relationship conflict. Task conflict arises when there are different opinions among members of an organization or a team over one issue. Moderate level of task conflicts in a team or an organization can be positive, helping members to deal with complex work tasks, stimulate creativity and improve work performances. In addition, a decision reached though full discussion is more acceptable. This is consistent with procedural justice – if people have the opportunity to express their own opinions during decision making processes, they will be more satisfied with the final results. As a matter of fact, there are many sayings from ancient China which extol open discussions and accepting advice, for example, "the purpose of keeping remonstrators at the side of the emperor is to correct the emperor's mistakes", "wood matched by straight rope will be upright and square, emperors who listen to remonstrations will be wise" (Wu 2008, p. 65), "correct judgments come from listening to many different opinions, mistakes come from only accepting single advice" (Sima 1993, p. 516). These all reflect the positive effects of task conflict.

Relationship conflict arises where people feel incompatible with each other. This type of conflict often causes hostility, distrust, aloofness and sarcasm. It undermines the efficiency of a team or an organization, and also negatively affects the employees' satisfaction and loyalty, as well as the decision-making quality of the team or the organization. This is because relationship conflicts distract team or organizational members from the task itself to criticizing and suspecting each other, which can create an intense atmosphere and worsen the conflicts, ultimately disturbing the team or organizational functioning. What's even worse is that, if a task conflict cannot be properly managed, it will turn into relationship conflict, which not only fails to stimulate creative thinking, but causes internal chaos, or even disasters to the organization. The "Liu-Ni War" at Lenovo, introduced at the beginning of this chapter, is a typical case of a task conflict turning into a relationship conflict. Similar cases can be found in many firms in China.

> *A company proposed a financial system upgrade plan. Several months later, the chief of the financial department found that the plan didn't work out as he expected. The IT department always said it didn't have enough people to work on it. "The account receivables of the clients and the credit assessment have already taken many of our staff. The HR department promised to provide us with two more engineers, but we haven't got them." The HR department did not agree with this, arguing: "We had recommended five candidates, IT didn't even pick one." The issue was raised to the CEO's office. The three departments all had their own arguments, and no one planned to compromise. The IT department thought the financial chief was exaggerating, "Maybe the project is not going as quickly as you expected, but it's unfair to accuse us of doing nothing." However, the financial chief deemed that, once the project was planned, it should be executed strictly according to the plan: "Either you don't promise, or you make it happen. Lack of staff is your own business." The IT manager felt it was very unfair that it was sort of his fault that his department didn't finish the task, but there was "a reason". And the HR chief really hated it when other departments could not finish work and blamed it all on the HR department: "What makes you say so?"*

We can see that, when individuals lack communication skills, the focus of the conflict switches from the task to personal relations, and causes damage to team cohesiveness. As we mentioned previously, implicit conflicts might exist in all occasions in an organization. However, how the conflict evolves and what influences it may have on the future relationships of people depend on how people perceive and interpret the situation and how they resolve the conflict.

10.1.3 Five Conflict Resolution Styles

Generally speaking, when people face conflicts, there are five ways they can deal with it. The first is through competition or dominance. When people are in a conflicted situation, they most likely focus on their own positions or interests, and try to convince others to accept their opinions and plans. If their communication skills are not mature enough when they adopt this approach, a task conflict easily slides into a relationship conflict. The result will be either one wins, one loses, or both sides lose.

The second way is accommodation. It implies that the individual pays more attention to other people rather than him/herself. At the first sight, this approach is a way of being modest; however, it may stifle the creativity or innovation of the team or the organization, eliciting "group thinking", and undermining the decision-making quality. Accomodation often appears in a situation where powers are greatly imbalanced between parties. For example, in Chinese feudal society with a highly centralized structure and unconstrained imperial power, government officials mostly followed the emperor's orders and never went against it, flattering the emperor to make him happy. This adherence to authority still exists in modern society; it was even aggravated by the influence of the collectivistic culture. This culture regards collective interest as the first priority, forming a compulsive atmosphere, in which individuals could not oppose opinions put forward by authority as authority figures are often deemed as the agent of collective interests. Therefore, compliance became the only option.

The third way is integration. This method involves people attempting to maximize both their own and the other party's interests. This method is largely recommended in theoretical and industry circles. It requires comprehensive information sharing to get to know each other's interests and priorities, as well as mature communication skills to smooth the negotiation. The chapter about teamwork and negotiation in this book gives full and focused arguments and guidance on this topic, we won't reiterate it here.

The fourth way is compromise. This method has long been regarded as Confucius' golden rule, the most exquisite and meaningful social art. The chairman of the board of Vantone Group, Feng Lun, mentioned this when talking about his experience in the business world (Feng 2007, p. 107).

Doing business is simply about letting other people feel comfortable about your words and behaviors. I normally adopt a "631" principle. "6" is situation; it is what society and the laws require us to do; "3" is business interests; "1" is what is on the face, it is compromise.

Traditional Chinese culture values the principle of reciprocity. Giving up some interests often gains returns from the other side concurrently or in the future. Therefore, compromising is highly appreciated in China. The founder of Lenovo Group, Liu Chuanzhi, is a master of compromising (Ling 2005). He has clear knowledge about his competence and the environment. While he was tenaciously fighting for the things he could change, he also openly accepted the things he could not change. We can see many entrepreneurs "being wise about life" and "being sophisticated" during the economic transitional period. In Chap. 4 of this book, these entrepreneurs are categorized as the "political intelligent". They are proficient in evaluating the situation, mastering indirect and sophisticated communication skills while sticking to their goals, and creating the best conditions for the surviving and thriving of their enterprises in the chaotic environment.

The fifth method is avoidance. Western research and practices have always argued open and direct communication as the optimal way for solving conflicts. The reason is that, through full discussion and communication, all parties in the conflict are likely to integrate their preferences and interests to achieve a mutually acceptable solution. By contrast, avoidance cannot make full use of diversified opinions in increasing productivity and optimizing the solution. In addition, conflict avoidance can lead to organizational silence, undermining organizational effectiveness. However, conflict avoidance is very common in China and has caused multinational enterprises or joint venture corporations a lot of trouble. For example, as a Sino-US joint venture corporation, Ford China has experienced the clash caused by the different ways American and Chinese employees deal with conflicts. American employees like to speak candidly. When they have different opinions, they voice out immediately. But Chinese employees normally don't express their opinions directly, because they worry that might cause conflict and make the situation ugly. This difference is especially obvious in meetings. If American employees don't agree with their bosses or, if they have doubts about the company's policies, they just speak up. On the Chinese side, normally only the leader makes decisions, employees stay quiet. But this does not mean they completely agree with their leader's decisions, they may talk about their doubts behind the bosses' back.

Many scholars and industry people have noted the differences between Eastern and Western societies in terms of dealing with conflicts. Some people think that avoidance is an effective way of dealing with conflicts in Eastern culture. It avoids the awkwardness of face-to-face confrontation and the terse conversations, and maintains the interpersonal harmony advocated by Eastern society – using a crafty gesture to protect each other's dignity, cooling the problems; as time goes on, the problems will melt away. So, is avoidance really an effective way of solving conflicts? Can it really maintain a "harmonious" situation where everybody is fine? Why are people reluctant to communicate openly, and would rather keep silent? Is it really due to Chinese culture? We will discuss and analyze these questions in Sect. 10.2.

10.2 Conflict Avoidance: Is Silence Golden?

Let's have a look at an incident that happened in an enterprise:

> *An industrial production development company planned to conduct a project that would take up a big part of the R&D budget. It looked like everybody thought it was a good plan, even the general manager attached great importance to it and took charge of the project himself. However, after the plan had been in the process of implementation for eight months, all the managers had to face the reality – the company was no longer able to afford the employees' wages; it had to lay off people and cut expenditure in two years. The company kept losing talented employees. Its reputation in the industry dropped considerably. An external consultant was very surprised to discover that the general manager, the vice general manager who was in charge of R&D, as well as the R&D team leader already knew the cause of the problem in the very beginning – the unavailability of a key technology; so, if they continued to carry out the plan, there must be a problem with cash flow. However, not a single person had shared their concerns with the others. The general manager said that, if he cancelled the plan, that would put the vice general manager in a difficult position, because she bet her professional reputation on this project. The vice general manager thought that, as the general manager paid so much attention to the*

project, even putting himself in charge, if she questioned the project, she might get fired for not respecting the boss's opinion. The R&D chief said that he could not let the general manager and the vice general manager know about his doubts on the project, because everybody deeply believed that the plan was going to be successful.

This case is the real life version of "The Emperor's New Clothes". People all know where the problems are, but they all stay silent to avoid conflicts. This phenomenon, referred to as "organizational silence" (Morrison and Milliken 2000), is quite common among Chinese employees: even though they have doubts about supervisory decisions, they are reluctant to point it out, so either they choose to bury their doubts and execute the orders exactly, or use other ways to get around it. Sometimes, despite thinking a colleague's work plan is a mess, they keep quiet or say some encouraging words in meetings, until the day that colleague's work delays the whole programme; then they say: "I knew it from the beginning."

10.2.1 The Spillover Effect of Conflict

When people explain their avoidance behavior, without exception they say it's to maintain workplace harmony. However, does avoiding the issue really help solve conflicts and maintain harmony? As we mentioned previously, when Chinese people are not opposing something, that doesn't mean they actually agree with it. There may be simmering conflicts underneath the peaceful appearance. These conflicts will not just disappear as time goes on; continual avoidance and repression may lead to a sudden explosion, and destroy the trust and harmony among colleagues. We can see this from a long letter Liu Chuanzhi wrote to Ni Guangnan at the beginning of the "Liu-Ni War". In this letter, Liu Chuanzhi said: "My biggest problem with you is your introverted personality. You always keep your words to yourself. You don't say anything until some day it's too late. Sometimes, there were misunderstandings; if we could have talked to each other about it earlier, we could have got the problems solved earlier. But you just don't talk. And you always think you are right."(Ling 2005, p. 187) All these small problems piled up each day and finally exploded when the two had different strategic opinions on the "China chip" issue. From then on, meetings in the CEO's office were filled with arguments between Liu Chuanzhi and Ni Guangnan. Every time they had different opinions on something, it became personal.

Sometimes, the consequences of conflicts may not be that extreme. People who are involved in conflicts adopt a "non-violent, uncooperative attitude". But the negative effect of this uncooperative attitude can extend to other occasions within the organization and bring harmful effects to teamwork. Researchers conducted an investigation in which the participants read a story about borrowing money to buy shoes: "You were shopping together with one of your colleagues. You two have been keeping a typical work relationship. Then he borrowed money from you to buy shoes, the amount was 1/15 of your monthly salary. After a while, this colleague forgot to return your money. What would you do?" The investigation found that only 8.9 % of the participants would directly ask for their money back; the others would either pretend nothing had happened or use other ways to get their money back, such as complementing their colleagues' shoes when chatting in the hope of reminding him about the money, or borrowing the same amount of money from the colleague. If this colleague asked for his money back, then he would be reminded that he hadn't returned the money he borrowed (Zhang et al. 2011). Some scholars call this indirect way the "outflanking"(Tjosvold and Sun 2002).

Then, researchers conducted another study. They asked: "If the company now decides to form a working team, you can choose your own partners, to what extent would you choose the one that borrowed money from you but forgot to return it?" Meanwhile, researchers also invited some participants who had not been in the money-borrowing study to participate in this team forming study. The results showed, compared with those who were not involved in the money-borrowing scenario, the participants who had "swallowed their feelings" in the money-borrowing situation chose not to work in a team with the people who didn't return their money. Next, researchers asked another hypothetical question: "If you are assigned to the same working team as the colleague who borrowed money, when this colleague met problems at work, to what extent would you like to help him/her?" Those people who had avoided the conflict were more reluctant to help. From this we can observe that, even with an Eastern cultural background, avoidance is not an effective way of dealing with conflicts, it is even harmful in the long run. It does not maintain interpersonal relationships, as people expect. To the contrary, the unsolved conflicts can affect their future cooperation and have negative effects on teamwork; this is what we call the "spillover effect" (Zhang et al. 2011).

This effect is largely connected with Chinese people's holistic thinking style. We perceive objects to be embedded in the context. This is consistent with the interdependence of the social structure in China. The building up of a relationship is an accumulation process; the previous communication will become the background that influences the future interaction. Meanwhile, Chinese people have diffuse life space; it is difficult to isolate individual behaviors in one domain completely from that in the others. In a cross-cultural study, researchers asked participants, "If your boss is moving, and he asks your help for the move, but you have already made plans for that day, would you turn down your boss's request?" On this question, there is a distinct difference between Eastern and Western people. Most people in a specific culture indicated they would turn down their bosses, because they thought they had the right to arrange their personal time. However, most people in a diffuse culture indicated they would rearrange their own schedules and go to help their bosses – the work hierarchic relations extended into personal life (Trompenaar and Hampden-Turner 1998). Because there are so many overlaps in each corner of social life, the "case by case" principle in social lives is a fragile balance, which is hard for Chinese people to maintain. Avoidance doesn't mean nothing really happened. Those hidden doubts and dissatisfactions will become thorns and, as time passes, they dig into people more deeply. At the lighter end of the scale, this can translate as "once bitten by a snake, be afraid of a snake-like rope for 10 years", in other words, no more cooperation. At the more extreme end of the scale, people may ambush each other, seeking a severe means of retribution to wash away all the shame.

So, why are people reluctant to speak directly? Only by completely answering this question, can we find effective ways to encourage open discussion in organizations. As a matter of fact, people are afraid of direct communication for two reasons: one is the hierarchical structure in organizations; the other is due to people's negative anticipation towards the consequences of confrontation.

10.2.2 Structural Source of Conflict Avoidance: Bureaucratic Structure

From the perspective of organizational structure, conflict avoidance originated from the control in bureaucracy. Max Weber (1952) noted that the external environments faced by organizations are similar; what really causes differences in efficiency is the internal operations. In order to maintain organizational functioning, all departments must be align with each other. Weber thinks that an ideal organization should have a hierarchical structure, which requires employees to comply with organizational norms and to maintain depersonalized connections; in this way, managers can regulate employee behaviors efficiently with low cost, ensuring the achievement of organizational goals.

Bureaucratic structure has been applied in many enterprises, governments, hospitals and militaries. This structure ensures the orderly operation inside the organization through a strict hierarchy and clear command chain. It is beneficial for the stability and continuous development of the organization in the long run, and also enhances organizational justice. However, as society developed, people found bureaucratic structure was not as stable and efficient as Weber envisaged. It was getting slow-witted and inflexible. Especially today, when enterprises are facing a more volatile market that values employee autonomy, the bureaucratic structure undermines effective communication and conflict management. Information sharing is constrained; employees cannot bypass their supervisors and report to skip-levels. It bred unnecessary and over-elaborate formalities, delays and low efficiency.

In addition, the depersonalized relationships among organizational members formed barriers for open discussions – due to the strict system, regulations and procedures, employees have little autonomy, and the organization becomes a "cage". Organizational members use aloofness as a way of avoiding conflicts. They strictly follow the rules and never cross the line. Even though problems are discovered, due to the constrained authorities and specific responsibilities for each level, people cannot deliver messages in time. Coordination between members and interactive supplementation between departments thus become a piece of paper –

people draw their own territories; the huge organization is divided into isolated parts, resulting in the inability to fulfill a common goal together.

In order to avoid the disadvantages of the bureaucratic system, an organic organizational structure has been more and more used. This type of organizational structure is less complex and less formal. It is a flexible structure with high adaptability, without standardized working procedures, so it can make timely adjustments according to specific situations. An organic structure may present in the following forms: the first one is simple and flat; the second one is the matrix structure, combining the advantages of functional and divisional structures; the third is the web structure, in which the core organization is small and it mainly depends on other supporting organizations to do business based on contracts; the fourth one is the team-based structure, which is designed for accomplishing certain complicated tasks with specific rules. These forms all emphasize two-way communication between upper and lower levels, as well as horizontal and slanting communication; embodying decentralized and participative decision making.

So, does this structure guarantee moderate levels of task conflict and information sharing? Unfortunately, even though the shackles of bureaucracy are relieved, the psychological shackles are still there.

10.2.3 Psychological Source of Conflict Avoidance: Negative Anticipation

Researchers have suggested the values on face, collectivism, conformity and interpersonal harmony as contributing to the higher levels of conflict avoidance among Eastern Asian people than Westerners (Kirkbride et al. 1991). This is especially the case in terms of the value on interpersonal harmony. However, if we chase back to the source of harmony, we can find it does not necessarily lead to conflict avoidance.

10.2.3.1 Genuine Harmony Versus Superficial Harmony

There are two motives for maintaining harmony. One is to prevent the loss that may be caused by a broken relationship; the other is to promote the relationship itself. People who are driven by the first motive use harmony maintenance as a tool to protect their own interests. On the contrary, if people genuinely value a long-lasting relationship, they welcome arguments instead of avoiding them, in order to reach a mutually acceptable outcome (Leung 1997). Confucious noticed that genuine harmony is about integrating many different things, making it grow so it becomes prosperous and generates new things. That’s why, in ancient times, wise emperors would select those people who were brave enough to speak up as chancellors. To sum up, genuine harmony encourages people to actively participate in social interactions, trust each other, and frankly sharing different ideas. This kind of intellectual communication can often trigger sparks of creativity. Conversely, what lies behind conflict avoidance is superficial harmony. It sensitizes them to potential threats and loss due to confrontation, and leads them to isolate themselves from the wider environment, which locks out the clash of thoughts.

10.2.3.2 Power Distance

Besides superficial harmony, the individual value on power distance is also related to conflict avoidance. Compared to superficial harmony that applies to general social life, power distance particularly explains the situation in an organization, especially between superiors and subordinates. It refers to the extent to which people accept the unequal distribution of power in an organization. People who value power distance defer to superiors or authorities; they feel uncomfortable with expressing their feelings in public; instead, concealing their disagreements to maintain the "natural" hierarchy between the supervisor and themselves.

What needs to be pointed out is values do not directly affect people's behaviors in a specific situation. It's more like a frame, which guides people to pay attention to certain features in a situation, and awakens specific psychological states that influence their behaviors. We will discuss the key psychological state that bridges the effect of values on conflict avoidance.

10.2.3.3 Negative Anticipation: Real or Illusory?

"Zhen Guan Political Affairs" records: Emperor Tang sighed: "Why do all the courtiers not discuss things with me?" Wei Zheng explained like this: "For those who are coward, they are not able to detect the problems though they are loyal; for those who are not very close to you, they worry that you wouldn't trust what they say; for those who love wealth and fame, they don't want to take the risk of ruining their career. So everybody stays silent and agrees with you majesty." (Wu 2008, p. 72). Wei Zheng revealed subordinates' concerns when facing conflicts. Nowadays, subordinates are not like those in ancient times who wanted to give opinions but were afraid of being killed, but they still have negative anticipations about the consequences of confrontations.

> *24 days after New China was established in 1949, 9000 soldiers from three regiments under the 28th Army of the People's Liberation Army were completely annihilated in the Jinmen Battle. When looking back at this battle, analysts found that most of those involved, including the vice commander of the 28th Army, Xiao Feng, had doubts about engaging in this battle; however, they didn't raise their concerns with their superiors. Xiao Feng said: "It is not appropriate to question the superiors' decisions again and again. If you always have a different opinion, it means you are not in the same pace with your superior, then how do you work together with your superior?"*[1]

[1] http://www.china-week.com/html/2084.htm

This example from the military is not an exceptional case. Organizational members fear confrontations may disrupt the relationships with significant others. Particularly when superiors and subordinates have different opinions, subordinates worry that speaking the truth may offend their boss, which may cost them promotion opportunities or threaten their position in the organization. It is this anticipation of negative consequences of voicing that inhibits their willingness to speak up (Wei and Zhang 2010).

Nevertheless, are those concerns justified? According to research, the result of direct communication is not as bad as people think; those negative anticipations about damaging relationships are exaggerated by their imaginations. We conducted continuing research into the "borrowing money to buy shoes" study that was mentioned in Sect. 10.2. We asked another group of employees to play the role of the person who borrowed the money but forgot to return it. They were asked to imagine what they would feel if the people who loaned them the money asked for it back; whether they would react as negatively as people imagined. The responses revealed that the borrower felt less insulted by a direct reminder than the loaner imagined. Thus we can see, many times we were just being too sensitive. We envisage a negative response by the other side, and these negative projections cause us to be over cautious and prevent us from delivering our true thoughts. What's more, the outcome of events may be the opposite of what was originally intended.

A software development company had been performing well in the market for some years; it attracted many excellent new graduates. According to the recruitment plan made by the HR Committee this year, the company only planned to recruit graduates who majored in software engineering and marketing, management students were not considered. During a chance meeting, a college-mate of the company's CEO, Mr Xu, recommended a management graduate to him. Mr Xu thought the company's rules could not be broken, but he wanted the HR Committee to make the final decision, so he passed the CV of the candidate to the HR Committee.

The five members of the HR Committee held a meeting to discuss the candidate. In the beginning, everyone was silent. After a while, one of them said: "Mr Xu never made any recommendations before. This time, he must think this student is very talented. We should trust Mr Xu's judgment and provide an interview opportunity to this candidate." The other four people all agreed with him, and decided to give the candidate an interview opportunity. After the interview, one of the committee members said: "This candidate is very knowledgeable. Even though she is not very familiar with management practice, I think she has high potential." The other people all agreed and decided to hire her.

After a while, when this new graduate reported to duty, she expressed her appreciation to Mr Xu in person. Mr Xu was surprised and asked why the HR Committee had broken the rules and hired an unneeded person of average quality. Some HR Committee members started to blame the person who first suggested the graduate be interviewed. This member felt this was very unfair: "None of you spoke at the beginning, and I was in a hurry to attend another meeting. We needed to make a decision at that meeting, so I gave my opinion first. If you didn't agree with my idea, how come none of you stood up and gave a different opinion?" (Zhang 2005).

In this case, no one wanted to hire that candidate because she was not the one that the firm needed. However, everybody was guessing what CEO Xu was thinking and what each other was thinking, and they all thought others would want to do what CEO Xu wanted to do. So, a bad decision was made which was opposite to the original purpose.

As a matter of fact, this negative anticipation not only exists between superiors and subordinates, or between people at the same level. Sometimes, when a subordinate is performing badly, the boss may also be reluctant to point out the problems. A middle level manager told the following story:

> *I have a staff member that doesn't exactly work well. Every time, her task was not completed as I expected. Considering she had been in the company for a long time, I didn't want to hurt her feelings, and I also thought, since she had been here for so long, she probably didn't care about criticism, so I tried to assign her workload to other people, or just do it myself. As time went on, my negative opinions about her were increasing. So, when it was time for her performance appraisal, I gave her a poor review. This staff member became very emotional, because she always thought she was doing well. Then I learned she had been expecting to receive comments from me to improve her work.*

From this case we can see that the boss was concerned he might hurt the subordinate's feelings and was worried that direct communication might be futile. As a result, he missed the right opportunities to solve the problems. ln the end, the pump out of the problems hurt the subordinate's feelings, and disrupt the relationship between them.

So far, we have reviewed and analyzed the sources and disadvantages of avoiding conflicts in Chinese society and organizations: the barriers in the structure, the restraints of culture, as well as psychological states in a specific situation, which raise obstacles to direct communication in conflict situations. As we discussed in Sect. 10.1, researchers have noticed that, if conflicts can be solved in a constructive way, the effectiveness of a team or an organization will be improved. People may learn new skills and ideas from others, review their own ideas, correct what was wrong, discuss from different perspectives and make better decisions. Is it possible for Chinese enterprises to adopt certain practices and enforce certain rules to conquer people's tendencies to avoid conflicts, and to promote team effectiveness and creativity? In talking frankly, how do we communicate in a sophisticated way in order to prevent a task conflict turning into a relationship conflict? In the next section, we will provide advice based on the practices of foreign and domestic enterprises.

10.3 Constructive Communication: Leadership, Rules and Skills

In the previous section, we mentioned that anticipating negative outcomes blocks people's willingnesses of direct communication, and this kind of anticipation actually exaggerates the negative outcomes of confrontation. On the one hand, it shows biases in individual perceptions of other people – social psychologists have discovered that the two parties in a conflict tend to use “naïve extremism” in appraising the other side, overrating the differences, and exaggerating the conflict. For example, different political parties always overestimate the differences between the other side’s and their own positions. The more important the issues, the bigger differences they assume. And this misunderstanding often breeds hostility and mistrust, and even triggers more severe conflicts. In addition, people also adopt an “imaginary enemy” mindset which overestimates the possibility of receiving harsh treatment from others. For example, researchers asked subjects to guess how many strangers they would have to stop on a street before they found one willing to lend them a cell phone to make a call. They were then asked to carry out the test for real. The result showed the subjects commonly underestimated people’s willingness to help (Flynn and Lake 2008). This difference in perceptions can be reduced or reversed by perspective taking, which refers to standing in other people’s shoes, putting oneself in other people’s situations and trying to feel what other people feel. In this way, empathy can be awakened, which helps people to balance self-interest and other people’s interests in many areas of social life, such as in racial issues, or in a negotiation, and to promote mutual understandings. Research has shown that, for people who had engaged in perspective taking, their negative anticipations about direct approach to conflict faded visibly, and they were more prepared to deal with the conflict in a straightforward way (Zhang and Wei 2012).

On the other hand, this negative anticipation actually has its foundations in reality, which reflects Chinese organizations’ deficiencies in rules and systems on constructive confrontation, as well as the lack of training in communication skills. Chinese empires seemed to greatly valued voice. Voice system also has a long history, and particularly thrived during the Tang and Song dynasties. In order to encourage brave and direct remonstrations, the remonstrators were even granted the privilege of never being blamed for voices. However, when we explored the details, we found this privilege was no more than a tradition of courtesy or a moral standard for the emperor. In execution, there were no powerful systems to secure it. Numerous remonstrators were punished; sometimes their lives were even threatened. Even Emperor Tang, who was well known as an open-minded emperor, almost killed Wei Zheng, who was accused of insulting the emperor by disagreeing with the emperor. In addition, some words of the remonstrators were too sharp. In the Ming Dynasty, officials felt honored by voicing at the risk of their lives. The sense of ritual in voice replaced its real purpose to correct mistakes.

Under such a tradition, frank communication is difficult. A famous Chinese HR website conducted a survey with regard to the relationships between employees and superiors in 2005. It discovered that communication was the biggest obstacle. When having different opinions with their bosses, only 21.47 % of people would immediately speak up. For an organization, this is a signal of low efficiency. In modern, professionalized organizations, the decision-making process and communication should be open to the public and non-personalized for the good of justice. The most common and most official communication channel is the meeting.

Meetings occupy more than half of senior managers' time; however, if participants cannot be effectively motivated to talk actively, the meeting loses its advantages in collective decision making. Enterprises should build up organizational cultures with constructive confrontations. When major changes happened in the market, this kind of organizational culture would release infinite wisdom and vital forces. We will discuss how leadership style, system building and communication skills contribute to frank communication and constructive controversy in organizations.

10.3.1 Leadership and Employee Voice

The leadership style of high level managers has great influence on corporate culture. In Sui and Tang Dynasties, there was a chancellor called Pei Ju; he was very devious during the Suiyang Empire, but very straight forward during the Tang Taizong Empire. A famous historian, Sima Guang commented, "It is due to different leadership styles of his supervisors rather than the change in his personality. When the emperor hated to hear about his faults, the loyal became evil; when the emperor liked to hear straight comments, the evil became loyal." (Sima 1993, p. 70) When Tang Gaozong was still the Crown Prince, he used to speak up his disagreement with his father, Emperor Tang Taizong. Zhangsun Wuji commented that the Prince's behavior was unconventional. Normally a prince only expresses ideas to the emperor in private so as not to offend the emperor. In fact, because Tang Taizong always guided his officials to voice, and rewarded those who speak up, there is a climate of free expression in this dynasty. Wei Zheng, Cen Wenben, Ma Zhou, Chu Suiliang were all loyal officials who often speak up. This environment cultivated the voices from the prince (Wu 2008).

It is the same in modern enterprises. Leadership style of high level managers can directly exert influence at organizational level; it also has a cascading effect by shaping the leadership style of lower level managers, or indirectly affects employee behaviors through building a corporate culture. The founder of Intel Corporation, Andrew S. Grove, actively advocated a culture of constructive confrontation. He took every opportunity to let his employees get to know him and talk to him about their ideas; even questioning his knowledge and capacity wouldn't cause negative consequences. At Motorola, there are three magic weapons to stimulate constructive confrontation, including leaders as role models, issuing public praise and telling stories. Its global operating vice CEO/HR Director likes to tell a story about a manager who suddenly pounded on the table and stood up at a company dinner party, before painfully complaining about the company's defects in quality management in front of all the high level managers and their families. The incident caused a major shock inside the company; it is also the main reason Motorola today boasts a well-known quality management activity, "Six Sigma". The founder of Sony, Akio Morita, is also a leader who inspires his employees to speak up. Once, when he was having dinner with middle level and lower managers, he noticed that a young man looked very depressed. Akio approached him and encouraged him to tell him what was on his mind. After several drinks, the young man told Akio about the problems he thought existed in the company's HR management. Akio Morita accepted his opinions, and carried out reforms in the company to address the issues raised, resulting in an improvement in the company's HR management.

Of course, not all leaders can or would like to accept the voices of their subordinates. There are two influential factors here. One concerns whether the leader is confident enough in his status in the organization or in the team. Some leaders are not very confident about their status, so they easily see contrary opinions as challenges to their authority (Wei and Zhang 2014). Many leaders are assigned to the posts from unrelated areas, and they tend to enforce tough measures to stabilize their positions. In this case, it is not easy for them to accept voices. By contrast, if a leader is very confident about his status, he will be less concerned with whether he is challenged or not; instead, he will care more about the content of the voice. The second factor is the leader's goal priority. Does he care more about the development of the enterprise and the collective interests, or his own gains and losses? A leader who cares more about the long-term development of the company will be more likely to accept voices that benefit the team or the organization. The author of "*Lenovo Storm*", Ling Zhijun mentions that, when he was talking with Liu Chuanzhi, he said that Yang Yuanqing seemed like the kind of person who didn't really know how to maintain a close relationship with the boss. Liu Chuanzhi said: "Yes, he is quite introverted. He doesn't know how to flatter at all. As long as he is valuable to the company, even if he is rude, I'll endorse him." (Ling 2005, pp. 328–329).

10.3.2 Systems and Rules

A mature communication system or rules can provide sufficient communication channels, and can profoundly influence the resolutions and results of conflicts among team or organizational members. In this regard, many European and American enterprises have valuable experiences. GE Company often arranges for employees to talk to high level leaders. Former CEO John F. Welch often participated in such face-to-face conversations, and carried out debates with employees in order to improve the management (Welch and Welch 2005). Another well-known case is the employee suggestion system of global document management company Pitney Bowes. This system includes monthly employee coordination meetings, and the annual meetings for employees and managers. The employee coordination meeting takes the form of a public discussion. Prior to the meeting, employees can pass their suggestions or ideas to their employee representatives who are to attend the meeting. The representatives will discuss the suggestions with the management at the coordination meeting. The management can also use this opportunity to explain the company's policies and plans to the representatives.

Meanwhile, Pitney Bowes encourages employees to participate in another form of communication – the company-installed suggestion boxes in offices. Employees can put their questions or suggestions in the boxes at any time. The company will reward those employees who raised any suggestions that made visible progress after being adopted. In addition, the annual employee meeting is mostly held in big business units. The headquarters assign representatives to host the meeting; chiefs of each department attend the meeting. At the beginning of the meeting, the chairman of the meeting reports on the company's financial status, salary, welfare, bonuses and other issues, followed by a question and answer session. The annual employee meeting is different from the employee coordination meeting. Questions raised should be general and objective. As along as it is not a personal issue, the representatives from headquarters will try to give an answer as soon as possible. The annual employee meeting welcomes submission of questions in advance, so full answers can be prepared, although the meeting accepts proposals raised at the meeting as well. In the 1980s, in the face of the global financial crisis, this system played a huge role in increasing the company's productivity.

After decades of evolution, Chinese enterprises have increasingly realized the importance of encouraging employees to contribute suggestions and of promoting constructive controversy. The chairman of the board of Alibaba.com, Ma Yun regarded the opinions of employees to be more important than the opinions of shareholders, because their suggestions ensured the execution and the accomplishment of firm strategies. At Mengniu Group, even during the most difficult period, managers organized study meetings every week with the purposes of information sharing and training. Vanke Group also clearly highlighted communication in the description of its corporate culture, "promoting simple and honest interpersonal relationships", "encouraging all forms of communication, promoting information sharing, and disencouraging under-the–table behaviors".[2]

These enterprises not only take constructive controversy into their strategic thinking, they also continuously explore relevant practices and have gradually established some effective rules and systems. For example, the Lenovo Research Center at Lenovo Group has three rules for meetings: be careful about major decisions without any dissenting opinions; constructive controversy is strongly encouraged; experts are more important than authorities at the meetings. These rules have helped maintain task conflicts and idea sharing at a proper level, which contributed to Lenovo's continuous development in creative products. In 2002, HUAWEI Company switched its marketing system from manager-based to client-representative-based. The difference between these two lies in their duties. The objective of managers is to sell products to the clients; however, client representatives are motivated to provide feedback about the company's operations on behalf of the clients. No criticism means the breach of duty; and reasonable criticism or suggestions, if adopted by the company, will be counted in the performance

[2] www.vanke.com

appraisals. The president of HUAWEI, Ren Zhengfei, explained the rationale for reform in this system:

> *We haven't heard criticisms from clients for long. Clients think our employees work very hard, so, even when there are some mistakes during work, they won't tell the company, because they are afraid that might affect the promotion of the employees. As time passes, we think everything is fine, but the problems have piled up and may finally ruin the whole customer relationship* (Wu and Ji 2006, p. 48).

In addition, HUAWEI also uses a "democratic life meetings", routine boss-staff meetings and other ways to widen the communication channels within the enterprise, and to achieve the merging of different thoughts, cooperation and resources sharing; eventually laying a firm foundation for the sustainable competitiveness, high efficiency and organizational creativity and innovation.

Similarly, Ford China's "opinions go up to the wall" system also encourages employees to present their suggestions in public. It fully uses the flexibility of working groups to allow employees to engage in the continuous improvement of the enterprise. The company has continuously received beneficial improvement proposals from its employees since the system was established in 2003. From January to September 2007, 4,000 proposals were acted upon, resulting in more than 70 million Yuan increase in its total revenue (Wei and Zhang 2011).

Vanke has written employee relations and communication management into the company's rules; among which, 12 communication channels are listed: open door to upper level managers, briefings for high level management, talking with an employee relation specialist, face-to-face work talks, work discussions and meetings, sending out group emails, BBS, employee complaints channel, employee satisfaction rate survey, and publication of the company's information. Through the above forms and channels, the company ensures its employees can fully understand what is going on at the company, and have a chance to fully express their opinions.

Furthermore, a mature communication system is more than widening the channel. Reward and feedback are necessary in sustaining and even enhancing the effect of constructive communication. At Haier Group, there is a system to promote employee voice.

Firstly, Haier established an idea management company in which a complete process is adopted. It starts with filling out and posting the proposals online. The submitting, enforcement, tracking and closing are on one loop, which speeds up the application and settlement of the suggestions and comments. If the advice is accepted, employees will be immediately rewarded. On occasions, bonuses have been transferred to employees' bank accounts on the same day the suggestions were adopted. Besides material rewards, these reward winners will also be mentioned on the bulletin board and the internal journal "Haier People", which serves as a non-monetary incentive. In 2004, Haier developed an internal "innovation promotion platform" to publish all the latest innovations of all departments, including detailed operational instructions and feedback from the departments which had used it. In order to promote information sharing among departments, If the innovative ideas of one department are applied in other departments, this department will receive credits according to a specified category, and these credits are directly connected to pay. In addition, some employees thought that their knowledge and skills are limited, so they are afraid to share their ideas in public. Haier has recognized this situation and has provided full support for these employees. In 2005, Haier Group awarded its top ten constructive proposals. One of the award winners said: "......due to the limitation of my knowledge and work perspective, my proposal only provided a framework and a direction. However, the company did not give up on my proposal because it lacked full research and detailed feasibility demonstrations. The management constantly communicated with me about my proposal, and organized relevant staff to conduct deeper analysis, supplemented and improved my proposal, also provided a lot of support on techniques and resources." (Wang 2007, p. 67)

10.3.3 Communication Skills

The establishment of communication systems has provided soil for constructive communications. However, what will actually grow from this soil is contingent upon employees' communication skills. In ancient China, communication skills, especially the skills of voice, were highly valued. Scholars have discussed about the importance of voice skills; whether voice is expressed in a simple or complicated, deep or superficial, elegant or vulgar way, determines if they would be accepted by the king, or even decide the future of the speaker's life and family possessions. Voice skills were classified into five types: indirect voice, choosing appropriate timing, voicing in the name of justice, direct voice, and using power. Among these, direct voice and indirect voice are the most controversial.

Indirect voice doesn't directly point out mistakes. Instead, it skillfully implies to the recipients, for instance, uses analogies to express the real opinions. From the perspective of the Confucianist, this way is suitable for working around the emperors, so it was very popular back then. However, indirect voice has its negative effect. Sometimes the effects are opposite to what were expected – a similar problem with conflict avoidance as we analyzed in Sect. 10.2. For example, officials in the Han Dynasty liked to use poetry to raise suggestions and comments to the emperor. However, the style of poetry at that time was too exaggerating and euphemistic, too much rhetoric were used. It weakened the function of voice, sometimes the emperor took it as a flattery. For example, Emperor Han Wu believed in supernatural beings. Sima Xiangru tried to express his disagreement in an article *"Praise of His Excellency"*. However, this beautiful poetry gave the emperor a very proud feeling rather than reminded him of his mistakes (Ban 1962).

Direct voice needs mature communication skills, otherwise it's highly possible to turn a task conflict into a relationship conflict. Traditional Chinese people prefer compromise and avoidance when facing conflicts; however, along with social and economic development, the new generations have diversified values. They are becoming more confident and are keen to display their uniqueness in public. When encountering conflicts, they no longer avoid it or adopt indirect approaches as traditional culture decrees. Instead, they guard their own positions, sometimes even use extreme ways to express their opinions. Many managers indicated the new generations were being “self-centered” at work and aggressive during interpersonal communication. The “toughest secretary” case in Chap. 8 of this book is a typical example.

This situation is mainly because there is not enough training in constructive communication skills in Chinese society. Traditionally, Civil officers are proud to die in voices, whereas military officers are proud to die in battles. People either avoid conflict or take extreme action and ruin everything. But in Western society, there is much discussion and research about effective communication and dispute resolutions. There are also some lessons worth learning from practical experience. In addition, our interviews with high level managers in Chinese enterprises have also allowed us to identify some skills of communication and voicing.

10.3.3.1 Case by Case, Don’t Get Personal

Communication should remain problem-oriented rather than person-oriented. The “constructive communication culture” of Intel Corporation emphasizes that arguments should be treated case by case: everyone should focus on the topic for discussion instead of the person who raises the questions; even though there are disagreements at the beginning, once decisions are made, all people should support the decisions. In fact, many high level Chinese managers also pointed out that, when they were listening to the opinions of their subordinates, what they cared about most was the suggestion itself, whether it was “beneficial” and “visionary”. “Beneficial” means if the suggestions are beneficial to the development and improvement of the enterprises; “visionary” means if subordinates put themselves into the shoes of the top managers so as to comprehensively consider the situation. Managers, especially high level managers, hope that voice can reflect the strategies, and fully consider the relations between each functional unit and department. On the contrary, if subordinates see only one tree and ignore the whole forest, their voices are less likely to be accepted.

10.3.3.2 Providing Convincing Evidence Instead of Being Judgmental

Communication should focus on objective description. When two sides are in disagreement, words can easily take on the appearance of an accusation, which upsets both sides and puts them on the defensive, or even leads to attacks on each other. Laying down solid evidence is a better method than arguing who is right and who is wrong – only evidence with clear logic can truly convince the other party. From the interviews with the Chinese high level managers, we found that sufficient evidence, especially data, plays a decisive role in voice endorsement. A middle level manager recalled one of his failures in voicing. He tried to convince his boss to reduce the investment in one of the production lines, because he estimated the market was nearly saturated. But his suggestion was rejected. Later, he analyzed the reason for being rejected: "Even though later, my estimation about the market was proved to be correct, at that moment, I didn't have enough data analysis to support my statement. I only had a sense about the market, and I didn't express it very well, so I failed to convince my boss."

10.3.3.3 Showing Respect to Other Party

Depreciating others should be avoided during communication. Even though there are different opinions, discussions should be carried out based on mutual respect. On this point, there are visible differences between the East and the West. Lang Ping was the pride of the Chinese women's volleyball team in the 1980s. After retiring from her professional volleyball career, she took on successive roles as the head coach of the Chinese and American volleyball teams. When comparing the coaching experiences with the two teams, Lang Ping found there are huge differences between coaching the American team and the Chinese team. When coaching in China, Lang inherited the Chinese volleyball team's "hard working" tradition and the military style management. She was very tough with the team members; if someone didn't perform as well as she expected, she would criticize the player very harshly, and ask the player to practice harder. Nonetheless, when coaching in the US, Lang adopted a completely different method. She found that the American players had a strong sense of independence; they would not just accept the coach's orders unconditionally. She discussed plans with the team members and they executed the plans together. If someone did not do well, she would smile and say, "I believe you will do better next time". This communication method expressed her respect for the other side, and made the other side feel recognized, understood and valued. It also avoided the escalation of task conflicts.

10.3.3.4 Combining Constructive and Critical Communication

If people are not happy with the existing systems or methods, the best way for them to resolve their grievance is to propose feasible suggestions rather than simply criticize them. Based on the constructive and critical nature of suggestions, we categorized the members of an organization into four kinds, as Table 10.1 demonstrates. The first kind of people is good at both critical thinking and giving constructive suggestions. We call them "opinion leaders". The second kind only gives advice without criticizing others. They always work hard and are usually most likely to gain appreciation from leaders. We call them the "Model employee". The third kind only criticizes problematic issues but never provides any constructive suggestions. We call them the "cynic". The fourth kind, the so-called "mediocrity", never raise any criticism or suggestions.

Table 10.1 Four kinds of people in organizations

	Non-critical	Critical
Constructive	Model employee	Opinion leader
Non-constructive	Mediocrity	Cynic

Among these four kinds of people, the "Model employee" is the favorite of Chinese managers, and the "Cynic" is the biggest problem for them. Many managers indicated that some of the problems the subordinates brought up were already on their minds for a while; they just hadn't found the best way to solve them. They hoped their subordinates could be both critical and constructive, and provide some feasible solutions.

10.3.3.5 Perseverant Yet Flexible

We discovered that, in Chinese organizations, a successful method of communication should be "perseverant yet flexible". Usually, people try to explore the intentions and concerns of the leaders in private before raising their own ideas in an informal way. If the leaders show interest, they will submit written proposals with detailed plans and evidence. If the leaders seem unwilling to accept the proposals, they can use the following several methods. The first is to discuss it with the leader, revise the plan based on the leader's preference, and let the leader feel that it is his decision rather the subordinate's proposal. A middle level manager called it "making wedding gowns for other people". The second one is widely use, which is to voice upwardly together with other colleagues and make the leader realize the urgency of the issues. We call this way, "more people can make a bigger fire". However, this is a double-edged sword. The leader, especially those who are not very confident about their status, may feel threatened. This would make it even harder to get the voice accepted. The third method is using a third party. There is a Chinese saying: "outsiders are more competent". We found that many managers had the experience of borrowing help from the outside in promoting their own ideas; some tried to bypass their direct supervisor and convince an higher level leaders; others turn to external experts to support their proposals. The fourth method is, "facts speak louder than words". By executing the leader's decisions while experimenting with their own plans, proposers can use the facts to convince the leader when the preliminary results come out.

As one manager we interviewed said, communication in organizations should "have a firm goal and flexible approaches"; In a larger scope, this also reflects the ecology of Chinese enterprises for decades. People tend to avoid conflict due to values on superficial harmony, lack of effective communication systems, and shortage of mature communication skills. However, in a transitional society nowadays with more and more diversified values, many enterprises are determinedly exploring the path to professionalism. They have been making great efforts to establish a climate of constructive controversy, to increase decision-making quality and stimulate creativity and innovation. We hope through the theoretical analysis and the discussion of good practices, this chapter can benefit Chinese enterprises in communication and conflict management that contribute to organizational effectiveness.

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Chapter 11
Work Teams in Chinese Enterprises

Jing Qiu

In November 2007, when Alibaba founder Jack Ma was lecturing in Taiwan, he asked the audience: "If you need to organize a work team, would you pick a team like the 'Tang Monk's team' in 'Journey to the West', *or the 'Liu-Guan-Zhang team' in* 'Romance of the Three Kingdoms'*?"*

The professional managers in the audience all thought "who doesn't want a team with all the best warriors?" However, contrary to their expectations, Jack Ma himself preferred the 'Tang Monk's team', which is like a hodgepodge of different characters.

And the reason? Jack Ma said: An ideal work team should consist of a moralist, a capable man, a wise man and a worker. The moralist leads the team; the capable man solves all the problems; the wise man provides strategies; and the worker executes all the plans. In the 'Tang Monk's team', Tang Monk can only pray, but he has the clear vision and defines the goal for all the members to get to the West and get the Buddhist scriptures. The Monkey King is the most talented one in the team; if we put him in modern times, he is definitely a strong, independent and dedicated professional manager. The Pigsy is a common character in the office; he loafs on the job, flatters the boss, and always asks the Sandy Monk to do the job, but he holds his position when facing a life and death situation. The Sandy Monk is the one with the least aggression in the team; he will not work overtime, has no interests in the vision of the company, and only wishes to have a stable salary. However, he is also important to the team; without him, no one will go to take care of the administrative and other supporting jobs and the team will become a mess.

Jack Ma deems that an enterprise's employees cannot be all Monkey Kings or Pigsys, and especially not Sandy Monks. "If the staffs in Alibaba.com are all like me who only talk and don't do the concrete jobs, that would be horrible. I don't know how to use computers, and I'm not good at sales either. As long as there are people good at doing those jobs, that's fine."[1]

Jack Ma's philosophy of how to form a work team looks simple, but it actually captures a basic point: How do we select members for an effective work team?

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[1] Compiled from the speech of Jack Ma, the founder and Chairman of the board of Alibaba.com, on Nov. 5, 2007 at Taipei.

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Besides this question, Chinese enterprise managers also face other various questions about teamwork. There are basic questions like: Are Chinese people suited to teamwork? Is a leader necessary for a team? There are also detailed questions concerning the management and operation of the team, such as: How can conflicts be effectively managed? How can a balance be reached between delegation and control in a team? How can the team's creativity be improved? How can better coordination be achieved to reduce confusion in a team?

Teamwork is no longer a new concept to Chinese enterprises, managers and employees. It has been accepted and adopted widely among Chinese enterprises and organizations. However, managers still have many questions about how to successfully manage a team.

The most direct reason for this phenomenon is that the work team is an originally imported management practice. This practice, which was introduced from the West, is still not well applied in Chinese enterprises. Work team was born to fit the continuously growing uncertainty in Western commercial and industrial society. Since the 1980s, work team has been well accepted and used in Western organizations and has grown up to be an important concept in the modern Western management system. Team management still remains complicated and a headache even to Western enterprises, which have extensive experience in the field, let alone Chinese enterprises, which are relatively late comers.

This chapter will begin with reviewing Chinese enterprises' exploration of work teams; then it will discuss whether a work team is a suitable practice for the Chinese. It will then discuss some confusions and misunderstandings in teamwork and finally it will illustrate some main factors to improve teamwork.

11.1 Chinese Enterprises' Exploration of Work Teams

Let's have a look at the journey of Chinese enterprises in adopting the concept of work teams. In the past, as the leading body of China's economy, large-scale state-owned enterprises adopted a traditional bureaucratic management system. It composes of three management levels: the factory, the departments and teams. The bureaucratic management system was also applied to the work units at each level. The heads of factories, departments and teams assign work to their subordinates. The responsibility of the managers was to clearly make assignments for everybody. Good managers could make sure that "everybody has some work to do. All the work is assigned to somebody to take care of". Basically, employees worked individually, and there were not any real work teams. Thus, traditional Chinese state-owned enterprises featuring the bureaucratic management style emphasizes especially on labor division and individual responsibilities. The working units in organizations are not well integrated, like China's administrative system. The enterprise was like a machine, performing the pre-designed functions. Each department work independently, just accomplishing its own targets; the top level management mainly coordinates among the departments when necessary.

Employees only needed to perform their duties according to the instructions; cooperation between individual employees and departments did not exist or was not even encouraged.

Work teams were first found in the growing private enterprises that appeared after China's Reform and Opening-up. Most of these enterprises developed from family workshops. At the beginning, there was always a core work team; members of this team were either relatives or friends who have known each other for many years. At a later stage, they generally also inclined to hire someone who was related. Work teams which are based on personal relations were very common in Chinese private enterprises; it was also the way that many well-known alliances were built in Chinese ancient times. The "Liu-Guan-Zhang" team in the "Romance of the Three Kingdoms" would be a good illustration. Liu Bei, Guan Yu and Zhang Fei built up a firm brother-like alliance by making their vows in the peach orchard and this laid solid foundations for their future battles together. This story later became a widely praised deed. The founder and commander-in-chief of the Xiang Army, Zeng Guofan, is also praised by people for his capability in managing his teams. Zeng Guofan insisted on one principle: The commanders should be selected by himself, and the soldiers should be selected by his own people. That is "in order to build an army, the commander-in-chief picks a general commander and organizes several battalions. The general commander then picks the battalion commanders, and the battalion commanders pick the squadron commanders, and so on". This practice formed strong nepotism, and maintained the stability of the army through personal relationships. In this way, the army's effectiveness and cohesiveness were enhanced to a large extent.

On the other hand, unlike state-owned enterprises, private enterprises were not very formalized in their early development stages. Regulations and rules were not systematized; clear division of labor was also not achieved. In addition, they did not get the same human and material resources as state-owned enterprises. Under all these disadvantageous conditions, the only way private enterprises could compete with state-owned enterprises was to require employees and all departments to be proactive and task-oriented; instead of "Only sweeping the snow from one's own roof, and not caring about the frost on the neighbor's roof" as the Chinese saying describes. Therefore, compared with the traditional state-owned enterprises which operate like 'mechanical organizations', these private enterprises were more like the 'organic organizations', which encourage cooperation between and support for each other. Of course, the leaders and employees of these private enterprises might not have realized that what they were doing to some extent was the "teamwork" Westerners were talking about.

However, the various teams within private enterprises we have just outlined have something in common: their cooperation was based on blood ties and personal relations. These kind of "teams", maintained by personal relations, are completely different in nature from the teams in modern enterprises. In real work teams, the cooperation between members should be task-oriented. Actually, it doesn't matter whether personal relations exist or not, because the interpersonal relations are based on and maintained by the team's tasks.

Along with the fast development of China's economy, the market environment has also been changing. Increasingly severe competition in the market and changing situation make Chinese people realize the traditional bureaucratic management as well as the family management had become obstacles to the development of enterprises. Many enterprises started to conduct large-scale reform on their internal management systems. They introduced more sophisticated and more mature management methods from the West. One of the most important reforms was to change the basic work unit, switching from individuals to teams, because teams are supposed to be more flexible and effective when facing complicated tasks.

Meanwhile, the tasks that need to be accomplished were getting much more complex. They went far beyond the capability of a single person; thus, labor division was imperative in such circumstances. Enterprises started looking for "specialists" rather than "generalists". This also promoted the wide adoption of teams in organizations.

In addition, managers also find out that, if managed properly, teams could attract and retain talented employees in a better way. The new generation in China increasingly expect to have greater independence and more involvement in work. Compared with the traditional bureaucratic organizational structure, teams could not only give the members more discretion to make their own decisions, but also provide more opportunities for employees to learn from each other and make up for each other's deficiencies. These features of teams fulfilled employees' strong desires for self-study. Since the Chinese market has been changing so quickly, that not being able to keep up with the changing market become a big concern for all employees; thus, they try to learn new skills and keep improving themselves to meet the requirements of the market better. Their need of self-study is much higher than employees in developed countries. According to the survey by Manpower Inc. in 2006, lack of opportunities for study and development was the top reason for Chinese employees who decided to change their jobs. Further, according to the survey, Chinese employees tended to proactively make plans for their own professional careers. The enterprises would lose their attraction to talents due to their insufficient investment on employees' personal development. However, team can provide employees with good learning opportunities; it provides employees with the opportunity to work with and learn from others with different skills, and to improve one's own capability.

To adopt work teams in organizations appeared to be an imperative, however, the process wasn't so simple at all. A commonly used format of work teams in the early time was the traditional manager-led team. The superordinates in the organizations were the managers of the work teams, in charge of making work plans, controlling the work processes, making decisions and guiding the teams to accomplish their goals. Employees were not authorized to make decisions on how to complete the tasks. To finish the tasks assigned to them would be enough. In most of these traditional teams, a formal team leader was appointed by the upper level management. In this type of team, the superordinates had very strong control power over the team members, the working process, and the final performance of the team. Team members only needed to comply and execute. Therefore, this type of team usually has very strong executive power. However, people gradually realized the problems of the manager-led teams: Members were lacking of senses of responsibilities, not very committed to their teams, and blindly obey manager's orders, teams were low on creativity, and this type of teams is suitable to work on tasks that are clearly defined, simple and routine.

Later, many enterprises started to adopt self-managed teams, which are popular in the West: The leaders set the goals, and then the team members work together to make their work plans, control the work process, make decisions and take action to solve problems. In some enterprises, the teams are even allowed and encouraged to set their own goals. Very soon, managers realized that this popular practice had its own problems. Chinese employees were not really comfortable with this self-management method. The Chinese society always emphasizes hierarchy and respects of authority. In the enterprises, employees should respect their leaders, follow leaders' instructions, and they are very used to being assigned tasks by the upper level managers. Once the enterprise authorizes the team members to make those important decisions for the team and their work, team members often feel uncomfortable and have no idea what to do. They don't feel right managing themselves.

In 2005, we interviewed employees in a high-tech private firm in Shenzhen about their team's operation. One of the middle level managers who had rich experience in team management told us:

> *I don't think the Western-style team management is suitable for Chinese people. Western enterprises have rich experience in teamwork. They can have very good control over the teams' operations through companies' rules, the working procedures and technical aspects. All these factors working together would guarantee that big mistakes will not be made. However, that's a different story in China. We are still at the preliminary exploring stage concerning team management. Our employees have little experience in teamwork. In such kind of situation, whether a team can work effectively or not depends highly on the leaders. Our employees rely on their team leaders to a large extent. If the team leader has a strong capability, the team will have good performance, probably even better than those teams in foreign companies. However, if the team leader is not very competent in team management, the final result is difficult to predict. In other words, it is hard to control the quality of teamwork. That's why self-management is not very applicable here.* (Interview scripts, Dec. 2005, Shenzhen)

Another hidden problem in self-managed teams is that employees are given too much power in making decisions. If not managed properly, the teams can deviate from the company's original goals. It can also lead to a high turnover rate. The following case, which happened in a firm in the south of China, is a good illustration of this point.

> *A high-tech company in City S recruited four employees for product development at City Q. They worked really hard after they joined the company. They always came to the office together, worked together until very late and left the office together. A year later, three of them were rewarded for their excellent performances. The company also planned to promote two of them to project manager. During one Spring Festival, the four people all went back to their home towns for the holiday. Soon after they came back to work, one of them resigned from his position, saying that his wife no longer wanted them to live in two different cities, and his wife did not want to move to City S. Later, the other three people*

also requested to leave for City Q. After some investigation, the director of the company found out these four people had already grasped the core technology of their products and they had reached an agreement with another company in City Q. After joining that company, they will be rewarded a large amount of stock of that company in exchange of the core technology.

Although managers always have high expectations on teams, it is not easy to manage a team in reality. People don't want to work together in teams because they feel work team itself cannot guarantee better performance. Many people have many concerns over working in a team or even hate to join a team, because they find out that in many cases working in a team could waste much time on coordination, could be unstable, or too risky. They are concerned that their personal characteristics, skills and preferences might affect the stability of the team, or they might not fit into the team. Some people say: "I don't want to work together or have meetings together with people I'm not familiar with, or people I have never met or people I don't know whether I will like. Working alone is hard enough. Working together with other on one project will definitely be messier. I don't have time for that." Some people feel uncomfortable with working with other people; some have doubts about the teams' composition; some just don't like the fact that you have to discuss with others before making decisions; some cannot tolerate others' mistakes. All these concerns and discomfort have created resistance for teams. Many people even attribute their poor performance to working as a team, saying 'I could have done better by myself'.

Managers have increasingly realized that teamwork is not simple. Changes in working units from individuals to teams are far from enough. Team management is a more important and more challenging issue.

During the process of learning from the West, Chinese managers have noticed the cultural differences. The concept of work teams was originally born in the West. The relevant theories and practices were also based on Western culture. To apply this management practice in Chinese society, we need to take into account the characteristics of Chinese culture and Chinese people.

11.2 Are Chinese People Really Good at Teamwork?

We often use "collectivism" to describe Chinese people's behavioral tendency, believing that Chinese people emphasize "us" more than "self". From this point of view, it seems that Chinese people should be good at teamwork. However, we've often seen cases that people work individually without caring about others and the collectives. Why does this contradiction exist? What's the problem? First of all, let us have a look at the exact meaning of collectivism in terms of Chinese society and Chinese people.

11.2.1 Are Chinese People Really Collectivistic?

Scholars have for a long time realized the differences between different cultures. They have roughly group different cultures by the geographic areas. They have analyzed the influences of cultures by generally grouping them into Eastern culture and Western culture. Hofstede (1980) proposed that China is a collectivistic society, as compared with the individualism of Western society like the United States. Hofstede measured individualism of many countries, and the result showed that Western countries normally had higher scores. For example, the US got 91, the UK 89, Australia 90, Canada 80, and New Zealand 79. The scores for Chinese societies, however, were much lower than Western societies. Hong Kong got 25, Singapore 20, and Taiwan only 17. Later, Triandis have demonstrated the differences in cultural orientations between the US and China in many studies: Self interest is the foundation and core value of American society. While in Chinese society, to sacrifice personal interest to fulfill the collective interest is a core characteristic (Triandis et al. 1988).

Markus and Kitayama later noted that, in different cultures, people had different definitions for 'self' (Marus and Kitayama 1991). Every culture has its own specific historical connotation and social organizations; the ways of defining "self" are developed within these big environments. They proposed two types of "self": the independent self in the Western society and the dependent self in the Eastern society. Western countries represented by the US and Western European countries regard "self" as an independent and autonomous entity, guided by the individual's internal thinking, feelings and behaviors. We can often see in the following tags such as "individualism" and "self-centered". In contrast, people in China, Japan and some other countries often define "self" by their relations with others. They believe that 'self' is connected with other people. The 'self' is only meaningful when building up certain relationships with others. To sum up, the Western world sees "self" as independent from the social network. In contrast the Chinese tend to see "self" as a part of the social network, and "self" must fit into the social context.

In the individualistic culture of Western societies, people value their own self-image; they don't really care about comments from other people. However, in collectivistic cultures (such as in China), people place more importance on how other people look at them. These theories indeed match our day-to-day observations of Chinese society and Chinese people.

Yang Chung Fang (1994), however, has raised doubts about the theory that "Chinese people are collectivistic". She indicated that Chinese people's value system could not simply be described by collectivistic-individualistic in Western society. She proposed that Chinese people's values were indeed self-centered, but in a different way from the Western society, where people only care about themselves. The main objective that Chinese people pursued was to keep a harmonious relationship with the surrounding environment, which was the essence of Chinese culture.

The collectivism of Western society values collective interests more than individual interests. Chinese people also care about others' interests, but these 'other people' only include those in-group member or acquaintances. They care about others for their own personal interests. That's why we often see people utilizing or manipulating their personal relations to fulfill individual needs or short-term personal interests.

The anthropologist Fei Xiaotong (1948) noted that Chinese people lack cooperativeness and have a very weak sense of teamwork. He indicated that In Chinese society, interpersonal communications were actually self-centered and mainly relation-oriented. Chinese people were very cooperative to people who are within their network, but they lack cooperativeness when interact with strangers. He also vividly described the influence of relationships on the definition of "us":

> *Our social structure is like the circles of ripples on the surface of a lake when you drop a pebble into the water. Everyone is at the center of the circle. Interpersonal networking happens as the ripple moves. People use different circles at different time and different places.*

Under such a social structure, people are not treated equally. People have different psychological distances from other individuals. This is the place where all the emotions, obligations and responsibilities come from. Each individual (like the 'pebble') and the connected others constitute a society (like the 'surface of a lake') from which the concept of 'us' grows. Everybody sees themselves as the center of the circle, and divides other people into categories of 'insiders' or 'outsiders', based on the degree of closeness. People divide "us/others" by their judgments of the relationships. When people think someone is related to them, they will include this person into their own circle; make him or her as an insider. Also, people identify other people's positions in their social network and decide the method of communication.

Western research has also noticed the distinctiveness of Chinese collectivism. Many scholars later found out that collectivism had different meanings from country to country. For example, collectivism in Japan was not the same thing as that in China (Singelis et al. 1995). Scholars made a distinction between 'horizontal collectivism' and 'vertical collectivism'. Vertical collectivism focuses on the relations between individuals and the collective, emphasizing sacrifice of personal interests to fulfill the collective interests. Japanese society is a typical example of vertical collectivism. Chinese society has been defined as "horizontal collectivistic". This kind of collectivism focuses on the relations between individuals and other people, not relations with the collective, emphasizing the importance of interpersonal relationship.

The above studies explain why Chinese people appear to be not cooperative and disunited in many circumstances, although they are categorized as collectivists.

Do people's value orientations stay stable and not change? From a long-term perspective, the culture and value systems of a country are relatively stable; changes are slow/. However, from a short-term perspective, enormous changes in the external environment can result in changes in people's behaviors. Many scholars believe that China's earth-shaking Reform and Opening-up since 1978 may have caused a huge shock to the Chinese people's traditional value system.

Chen (1995) conducted research on whether Chinese employees' preferences towards the reward allocation systems have changed in such China's changing social environment, and also made comparisons with American employees. According to our understanding of Chinese society, people with traditional collectivistic culture background would prefer equalitarian rule in reward allocation, emphasizing that there should not be little gap between people in wealth distribution; ‘no worry about scarcity but unevenness’ is exactly the reflection of these values. The equalitarian norm is commonly used in Chinese enterprises before Reform and Opening-up. The system of “one big wok” dictates that, no matter how much work one person has done; his or her salary is nearly the same as the others. People supported this egalitarian distribution rule, because it ensured social harmony and helped maintain interpersonal relations. However, individualistic culture like the United States and other Western countries invokes differential rules for rewards allocation, under which the more you contribute, the more you get. Since China's Reform and Opening-up, the “one pot” system has broken down. The reward allocation system has changed from equalitarian rule to differential rules, and performance-related pay was introduced, which aimed at linking employees' salary to their work performance. The differential rules adopted by modern enterprises have some contradictions with the traditional collectivistic culture. Chen's research specifically focused on whether Chinese employees' allocation preferences have completely changed in the face of these two contradictory forces. The result was totally unexpected: Chinese employees who were well-known as “collectivists” preferred to invoke differential rules for the allocation of both material and socioemotional rewards whereas their U.S. counterparts preferred a performance rue for the allocation of material rewards but equality rules for socioemotional rewards.

Therefore, simply describing Chinese culture and Chinese people's values as collectivistic is still far from sufficient. Chinese people's collectivism is Guanxi oriented. It emphasizes maintaining harmonious relations between people to maximize one's own interest rather than sacrificing personal interest for collective interest. In addition, Western management systems introduced since China's economic reform and opening-up have battered the traditional collectivism, infusing more individualistic elements into Chinese employees' mindsets.

11.2.2 Are Chinese People Suitable for Teamwork by Nature?

Let's bring our discussion back to the discussion on teamwork. How does the Guanxi-sm affect teamwork in Chinese society?

11.2.2.1 Ingroup/Outgroup Differences for "Free-Riding"

One of the common problems in teamwork is "free-riding": When working with other members, if individual performance cannot or will not be evaluated, individuals tend to loaf and take advantage of others. Interestingly, research by Western scholars shows that, compared with Americans, Chinese people are less likely to "free ride" (Earley 1989). Scholars argued that Chinese people with the collectivistic values tended to care about the interests of the collective. The individual members were likely to make an effort to fulfill the collective goals. In contrast, Americans with the individualistic values only considered their own personal interests. As a result, they were more likely to take advantage of others.

According to our previous discussion on Chinese people's collectivism, Chinese people may not really care whether the collective goals can be achieved or not when working in a team. What they really care about is the way to maintain a good relationship with others. Thus, collectivism-individualism is not enough to explain whether Chinese people take "free rides" in teamwork. Later studies show that Chinese people also take "free rides" at work. Whether they do or do not depends on their relationships with other team members (Earley 1993). As we mentioned previously, Chinese people normally judge their closeness with the other person. People that they are close to will be categorized as ingroup members, and people they are not so close to will be categorized as outgroup members. They have close relationship with ingroup members, and they trust and support each other. In contrast, they don't trust outgroup members and may even hold a hostile attitude towards them. This shows that when Chinese people work with ingroup members, they will not loaf on the job; but, when working with outsiders, they are more likely to take advantage on others. Americans are different from the Chinese. They do not make the distinction between ingroup or outgroup. Their behaviors tendencies do not have significant differences when working with different people.

11.2.2.2 Too Much Focus on Harmony Results in Poor Team Performance

We have interviewed several college students on their experience in the project teams. We found out that many project teams have the following problem as described by one team member:

> *The relationship in my team is harmonious, but our working efficiency is low. We are just so familiar with each other that we feel uncomfortable to offer different opinions. Our team leader has the similar problem. He cares too much about the dignity of the members. So he never organizes us to discuss the problems we have and just ignores different options.* (Interview scripts, May 2006, Beijing)

We have observed similar problems in business organizations:

> *The 'face' is an obvious problem for our team. People all concerned about others' face, so no one wanted to stand up to point out others' problems and raise different opinions. Normally, if the problem was not so severe, we just ignored it.*

> *The 'face' issue has caused a bad result in another team. The team leader pointed out the members' problem via email. But that was not an appropriate way. It did not resolve the problem and made some staff feel they lost their face. They finally had intense conflicts.* (Interview scripts, Dec 2005, Shenzhen)

Conflicts are inevitable during teamwork. If conflicts can be properly managed, they will not become obstacles to teamwork, but may even help improve the team's performance. Therefore, team members should hold a more objective attitude towards conflicts, and actively manage the conflicts for better results.

The Guanxi orientation of Chinese people emphasizes harmonious interpersonal relationships, and not damaging good relations. In order to maintain harmony, Chinese people have a tendency to express their feelings in a more gentle way than Westerners. Keeping face for others is one of the most important rules in social activities. The Confucianism also stresses maintaining harmony and avoiding conflicts. Since the Confucianism doesn't tell people how to actively deal with conflicts, to avoid conflicts becomes the most widely adopted way to deal with conflicts. Chinese people tend to get anxious and panic when facing conflicts, so they decide to avoid it, make compromise and repress their feelings. In order to avoid conflicts, they just ignore the problems and try to get along with everyone, but at the costs of sacrificing individual interests as well as collective interests.

11.2.2.3 More Difficulty Adapting to *ad hoc* Teams

Use of *ad hoc* working teams with changing membership and leadership is popular in organizations. The ad hoc task forces and teams exist temporarily to solve specific problems, where those problems may need to be solved in an immediate time frame. The obvious difference between *ad hoc* teams and permanent teams is that selection of team members depends on their particular skills, expertise and availability. Team leaders are also chosen on a project-by-project basis depending on expertise. These *ad hoc* work teams are usually used in R&D, consulting and programming projects.

Some scholars compared employees' adaptability to *ad hoc* work teams in Taiwan and Australia. It turned out employees of Taiwanese organizations have more difficulty adapting to ad hoc work teams with changing membership and leadership (Harrison et al. 2000). Researchers also interviewed some middle level managers in both countries, and asked them to describe whether their employees could fit well into the following scenario context, and what kinds of reactions they might have.

(a) working in different teams under the new structure (changing membership and leadership);
(b) working under different leaders from time to time, some of whom may be no more senior than, perhaps junior to, him/herself.

For the first scenario, Taiwanese managers stated their employees might not feel comfortable about it. The typical reaction would be:

He would not adapt to it; the reasons why are that he is sentimentally attached to the environment of the established group, secret agreement, coordination, and deep affection between the employees. These would be affected and thus produce extreme mental pressure.

It would be filled with an unknown challenge and risk, and work teams would be forced to be dissolved after they have finished. Component members would be filled with terror and worried about their future.

However, managers from Australia said their employees wouldn't have too much trouble with this kind of situation:

People move in and out of task forces. They are cool and comfortable with that.

We find that people work together pretty well. They don't care much which team they are in.

Innately, people are happy to do this (change teams on a project-by-project basis).

Previously, we mentioned that Chinese people spontaneously divide the people into their ingroup or outgroup members. They keep close relations with ingroup members and are very supportive to each other. The cooperation will be smoother if all the ingroup members work together as a team. But towards outgroup members, they will not be that cooperative. Most of the time, it is often based on close friendships and associations built up over a long period of time. It is very difficult for Chinese employees to move from group to group frequently, because it means to disattach from the previous ingroups and to rebuild close relationship with a new group of people. By contrast, in an individualist society, a person tends to have many ingroups, regards interactions with each as restricted to a particular purpose and time, and experiences little difficulty in moving freely among groups on the basis of their ability to satisfy the individual's goals. Their ingroups are not as stable and isolated as in collectivistic cultures. Previous research has also provided evidence for this. Children in the individualistic culture of the U.S. could readily and quickly shift their relations with others from cooperation to competition with the stimulus of a reward change, while children in the collectivist cultures of Taiwan and Hong Kong could not. The demands for interpersonal are too strong to be overcome by temporary economic advantage.

In the second scenario, Taiwanese and Australian employees also have significant differences in their adaptability to changing leadership. Chinese society places high importance on respecting seniors, and especially emphasizes order and hierarchy. Therefore, Chinese employees like to have a fixed leader. It is very difficult for them to get used to the way of selecting a new person in charge for an *ad hoc* project. However, in an individualistic society, people are very used to having different bosses for different projects. It is also common for them to have different bosses at different periods.

Taiwanese employees: Under this system, employees will not adapt. If a superior is demoted, he will not accept it. Moreover, they have to work in the same company in the future. Therefore, they will not adapt to working under different group leaders. It disobeys Chinese normal human feelings.

Taiwanese employees: The problem of mental adjustment exists. Those who have been the subordinates find it difficult to manage their former superiors. That is, some may not believe their new superior's ability.

Australian employees: People are happy to work with someone junior leading the group where that person has specialized skills. People can generally disassociate the project from the hierarchy.

Australian employees: Seniority is not an impediment. If someone has the expertise and maturity, then their existing position hierarchically is not an impediment.

There is not any simple answer to the question whether Chinese people are suitable for teamwork or not. Teamwork in Chinese organizations has distinct problems from Western organizations. In individualistic cultures such as most Western societies, one biggest concern in team management is that the individual team member might only care their personal interests and ignore collective interests. In Chinese societies, the problem is people only focus on interpersonal relationship and ignore the interests of the collective of themselves and others. In addition, this strong relationship orientation might cause many “ingroups” to form within a team; and people only cooperate with ingroup members. Chinese enterprises need to explore their own feasible way to intervene and manage all these negative factors.

The strong relationship orientation is a common problem in team management in Chinese enterprises. Another problem in teamwork is that both the Chinese enterprises and employees have insufficient knowledge and skills for effective teamwork.

11.3 Confusions and Misunderstandings of Teamwork

11.3.1 Lack of Teamwork Experience

Chinese enterprises have already realized the importance of employees’ collaboration and teamwork skills. Therefore, many enterprises evaluate job candidates’ scores in teamwork and collaboration in their recruiting process. Here is a ‘help wanted’ notice from an experienced engineer on teamwork:

Seeking for help: Today I went for an interview with a JAVA company. They asked me a series of technical questions at the beginning, which I had no problems at all. At the end, they asked me the key factors for a team leader to effectively manage the R&D processes. I got totally lost. Can anyone please tell me the answer? And before you start, please do not worry about whether I will agree with your answer, but think about if the interviewers will be satisfied with your answer!

The following two paragraphs are ‘help wanted’ notices from organizations’ HR managers. One is an interviewer who is in charge of evaluating whether the candidates will be able to collabate effectively collab; the other one is in charge of teamwork training.

Seeking help: how to evaluate whether the candidates can collaborate effectively or not during a short interview? Are there any little tools I can use?

Seeking help: Right now my team's cohesiveness is quite weak. Can anyone share some good team activities to improve cohesiveness?

We can see that not only the fresh graduates have little knowledge about teamwork, but also the experienced professionals lack a clear understanding of teamwork. In addition, many professional managers might not have clear answers to questions such as 'what make a team become an effective team?' or 'what kind of employees are good team players we are looking for?'

Chinese professionals have very little teamwork experience. People who were born before the 1970s are now the major force at the high management level in Chinese enterprises. They gained and accumulated most of their professional experience from the traditional bureaucratic management system. As we discussed in Sect. 11.1 regarding the journey of teamwork in Chinese enterprises, neither the state-owned enterprises nor the private enterprises provide them enough teamwork or team management experience. They themselves have also experienced low adaptability when these enterprises started the reform of the organization structure and adopt more and more teams as the basic work units. People who were born after the 1970s began their teamwork experience soon after they started their first job. It is easy for them to accept this modern concept, but not easy to actually practice well. Traditional Chinese educational systems emphasize personal efforts and achievements, seldom assigning team-based projects to the students. Chinese students did not receive enough training on team cooperation and had little experience on teamwork. Lack of teamwork experience has resulted in a lack of collaboration in this generation. They are used to working alone but have no idea how to effectively work with others to accomplish a task. In 2008, the chief interviewer of the "2008 Excellent Graduates Selection" campaign in North China described the graduates he interviewed as follows:

When they were asked to comment on two competing arguments, many interviewees only commented on one of them they agreed on, and totally ignored the other one. When they were asked, "As the person in charge, how do you plan to organize and plan for the company's activities", many students still only thought about "how I would do" without making full use of the human, financial and material resources around them. Few of them were thinking about seeking assistance from the labor union or company heads. They normally prefer 'working alone' and put importance on individual values. They have too little team spirit.

These 'post 80' were very used to working alone in their previous experience. After started their first job, they lacked some basic idea of team spirit. In the work place, the most possible role models would be the "post 70s", who also have limited teamwork experience. It is not so easy for these 'post 80s' to develop teamwork skills by themselves.

So this is the current situation. While the enterprises' expectation on teamwork is getting higher and higher, the employees lack teamwork experience. That's why people were looking for help on teamwork related issues on the internet as we discussed at the beginning of this section.

The strong desire to improve their teamwork capacity can be reflected on the internet where many people share their interview experiences. One of the hottest issues is how to behave in the group interview.

【*Group interview*】

Definition: A group of candidates are interviewed at the same time by a hiring manager. Some companies prefer to have a group of applicants interviewed together. The interviewer raises a topic for the group of applicants, and the applicants are going to have a discussion and get an agreement finally. In the process of discussion, some applicants may lead the group's discussion, and some may act as listeners. This type of group interview of interview mode is called "group interview".

The "group interview" became popular with the business expansion of the multinational companies, especially the world top 500 companies in China. Through group interview, interviewers can comprehensively examine the applicants' teamwork skills, leadership style, problem-solving skills and other capacities in a specific situation.

These job applicants with little teamwork training often share their experiences and offer their advice to each other on the Internet. By learning from others' experience, they try to at least make the interviewers feel they have already had some teamwork experience. Below is the experience someone posted on the Internet on how to perform as a reliable team player.

Interview question: please share with us some of your previous teamwork experience using concrete stories.

My experience: The interviewers expect you to talk out your past stories for them to evaluate whether you are a good team player. When answering this type of question, please be careful with the tone you are using. Do not always use sentences like "how cooperative I am"; because using "I" too many times is not the way to show you have a reliable team player.

Another person on the Internet even summarized a list of questions interviewers often used to evaluate whether one could be a good team player. He tried to figure out the interviewers' intention behind these questions and also proposed some strategies to impress the interviewers:

The interviewer may ask: "What hobbies do you have? What do you do in your spare time?" This is to evaluate your personalities through the hobbies you like. You can answer: "I particularly like to play basketball, because playing basketball can help me to learn to be a good team member."

The interviewer may ask: "what kind of people do you want to work with?" you should say: "I would like to work with different kinds of people." "I like to work with the kind of person who can work under pressure." Anyway, there is one principle. All these answers should be able to show that you are a reliable team player; you are an active person, being able to take the initiatives, and easy to get along with.

The interviewer may also ask: "what kind of person do you not like to work with?" You can say: "I don't like lazy people, or those who gossip." "I don't like people who cannot handle pressure." These are safe answers. No one likes lazy persons or those who cannot carry any pressure. More important, you can show that you are not a lazy person and you are a good team player.

The interviewer may further ask: "How is your relationship with your co-workers?" The interviewer wants to know if you can get along well with your colleagues, and if you are good at interpersonal coordination. You can say: "Generally speaking, I have good relations with all my colleagues." But remember, you are not supposed to be too extreme, because conflicts are inevitable. So, the next thing you should say is that you have the ability to solve conflicts: "Of course, sometimes conflicts happen. In that case, I normally focus on the issue itself, I don't make personal attacks. I think by this way, we can find the *solutions and still maintain a good relationship with others, and may even become close friends."*

Sometimes, the interviewer may ask very practical questions, such as: "If you need to finish a task with limited time, and in the meantime, one of your colleagues needs your help, how do you deal with that situation?" You can say: "If my colleague's question is easy to solve and it will not occupy too much time, I would help him/her immediately; otherwise, I would ask him to wait for me to finish my own tasks." Such answers are very likely to impress the interviewers and make them believe you know how to prioritize tasks and be a good team player at the same time.

Chinese enterprises as a whole still have limited experience in teamwork. The existing education system in China does not provide adequate teamwork training for those young students. With increasing demand for teamwork by enterprises, Chinese employees have become aware of their lack of relevant skills. They are working to learn teamwork skills in various ways.

11.3.2 Misunderstandings of Team Spirit

What are the elements of team spirit? The answer that may first come to one's mind is to sacrifice one's self-interests for the collective interests. These thoughts are reasonable since that always happens in high-performance teams. However, sacrifice can't guarantee better team performance. Team spirit is not only about compromising in order to reach an agreement. We find that in many organizations managers praise their teams because 'there are never any conflicts or contradictions in my team'. However, conflicts might not always damage team performance. In contrast, certain categories of conflicts are necessary for members to develop more accurate and comprehensive knowledge; they are also beneficial in helping team members to know each other better, as well as leading to more innovation. Whether a team is successful or not cannot be solely judged by whether there are any conflicts in the team. A team with no conflicts may not have the best performance. In contrast, a team with a lot of conflicts could probably be very creative.

When talking about team spirit, managers often put too much emphasis on the value-related aspects, ignoring the fact a team exists because there is a job task that they need to perform. When some managers boast their organizations have great team spirit, they mean the team members are willing to be cooperative. However, the team spirit doesn't guarantee good team performance. Simply equating team spirit with teamwork ignores the fact that teams are used for the purpose to improve performance. Without clear performance goals, a team doesn't have any legitimacy to exist anymore. Teamwork does not require self-sacrifice; In contrast, team spirit is about respecting personal interests and achievements. An appropriate organizational structure should align individual goals and interests with the collective goals and interests. Therefore, the foundation of team spirit is respecting individual characteristics, with coordination and cooperation as its core part and team performance as the final evaluation criteria.

Our study found that some managers regard “team spirit” as the ultimate goal, and ignore that ‘team spirit’ was just a tool to enhance team performances. Sometimes, too much emphasis on team spirit may even cause the performance of individual members or the whole team to decrease (Qiu 2008). We interviewed some employees in a high-tech company in Shenzhen City. More than 40 % of the employees mentioned that sometimes the company put too much emphasis on “teamwork”, which led to high-performing individuals carrying too much extra work, and the heavy workload caused a lot of stress:

> *In this circumstance, employees tend to rely on the collective more and more, because then they feel that they can always look for help from their co-workers when they have any problems at work, and the co-workers will not say no..*
>
> *This may cause some members, or even the entire team, get relying on certain high-performance members more and more. This is not good for those excellent members, because they often got too tired from helping their colleagues. Sometimes they had no time left for themselves to do their own work. It will also increase their workload and cause great mental pressures.* (Interview record, December 2005, Shenzhen)

The basic purpose in enterprises emphasizing team spirit is to reduce employees’ selfish behaviors, to encourage employees to support each other. Helping colleagues is certainly important, but what is more important is to finish one’s own work in time. In an ideal circumstance, if the individual’s time and energy is unlimited, there should be no problem for them to help others; however, in reality, everyone needs to effectively distribute their own limited time and energy to multiple tasks. If enterprises believe “team spirit” is all about “selflessly helping others”, in order to be a good team member, employees just can’t say no and have to ‘actively respond’. Under such pressure, they leave their own tasks unfinished and go help others, and later they have to work overtime to finish their own tasks. Finally, they will become tired. Work pressure will increase, and their work efficiency will decrease. So here is a paradox: the enterprises need members who are willing to help others, but it turns out that these great team members will have to pay the price for their “supportiveness”.

So far, we demonstrated that equating the tools with the goals in team management might have significant negative impacts. It is necessary for managers to understand that no matter what fancy tools are used, they all serve one purpose that is to improve team performance.

11.4 Process Is the Key to Teamwork

11.4.1 Both “Hard” and “Soft” Skills Are Necessary

A team is not simply a group of people working together; a committee, a board or a group may not be a real work team. One of the fundamental characteristics of a work team is that team members influence and depend on each other. Such high interdependency also brings challenges to teamwork. Teamwork can also be seen as ‘input-process-output’ processes. Team members are the key input of teamwork. Team performance and team members’ satisfaction is the final output. Further, the team’s working process is the processing stage in the middle. Excellent team members working together cannot guarantee an effective output. That’s why we often refer to the teamwork process as a black box. Inside of this black box are the interpersonal interactions, and these interactions directly influence team performance and team members’ satisfaction. We often can observe disordered teamwork, low efficiency, and wasting of time in work teams. Sometimes team members insist on their personal opinions, and they cannot reach an agreement. Sometimes a few members in the team control the situation, the others’ voices are not heard. Sometimes individuals just have to conform to the majority. Any of these problems will result in team output less than the sum of individual outputs.

The Chairman of the board of Haier Group, Zhang Ruimin, proposed the “New cask principle” to illustrate the importance of the teamwork process:

> *The capacity of a wooden cask is decided by both the length of the plank and the compactness between each plank. The key factor to determine the capacity of the cask sometimes is not the shortest plank, but the compactness between planks. He said: “No matter how tall the cask is, the water can still leak from the cracks.”*

We all know the importance of the teamwork process, but not all of us know how to achieve a highly effective teamwork process. We once conducted an in-depth study at a high-tech company in medical software development industry. We interviewed 21 members from 5 work teams. The performance evaluation record from HR department showed that some of them had excellent performances while some were at an average level. We found that almost all the teams had a good idea of the key elements of successful teamwork, but the difference between an excellent team and an ordinary team was whether they could really do it well.

Here is a post on the internet summarizing how to behave distinctively in the group case discussion in job interviews:

(1) *To help your team to understand the whole story of the case*
(2) *To clearly and logically analyze the case*
(3) *To help control the whole discussion process, make a time plan*
(4) *To focus on important issues,; don’t spend too much time on details*
(5) *To bring up creative and effective ideas*
(6) *To be supportive and encouraging to other members; a smile and nodding are two most effective tools; applauding after other members’ presentations is also a good way.*
(7) *To be open to different opinions. If there are disagreements on critical issues, you should take into account everyone’s opinions and reach an agreement after the group discussion. Even you don’t agree with the majority, you should still obey the group’s decisions. You can keep your opinion, but you need to actively get involved in group discussions.*
(8) *To Try to ask for every team member’s opinions, even though he or she may keep silent all the time. It is a basic respect to them.*

(9) *When your colleagues have disputes or conflicts, you should make efforts to mediate the disputes, instead of just sitting down and watching.*[2]

The above suggestions seem simple, but it involved two most essential elements of teamwork: How to accomplish tasks and how to interact with others.

We once systematically observed enterprise managers and MBA students engaging in a team based projects. After they finished the project, we asked the participants to review and summarize their experiences and lessons learnt during this process. During the participants are working on the projects, the researchers as observers, observed and made a record of each team's interaction processes. From participants' reviews and the researchers' record, we identified several factors which have an obvious effect on team performance: Whether team members could reach an agreement on their team goals in a short time, whether the labor division was clear, whether members had sufficient communication on their information and viewpoints, whether they trusted each other, whether there was a coordinator, whether team members made common efforts etc. Based on the findings, we categorized teamwork processes into two aspects: team structure and interpersonal interaction (Liu and Zhang 2005). This is in line with the existing teamwork studies and management practices.

There are many articles and books about team building, but most of them only talk about how to build an appropriate structure for a team. They suggest that efficient teams need to clarify team goals, formulate work plans, monitor work progresses, divide tasks and labors, etc. There are also some books or institutes providing training on teamwork to make people better understand the importance of labor division, cooperation and coordination. These structure-related issues are relatively easy to learn. Our training experience showed that many employees can grasp those "structural" requirements after taking only one course. In other words, people can quickly understand the "hard" issues they should pay attention to in teamwork, such as division of work, making plans, assigning tasks and roles. However, the most difficult part of teamwork is how to achieve goals through effective interpersonal communications, in addition to the 'structured' task and labor divisions. For example, how to benefit from different viewpoints? How do arrange members with diverse expertise? How to improve the quality of decisions through effective dispute management and constructive debates? These "soft" issues require team members to have some knowledge and skills of interpersonal communication before they get into a team. Without the soft skills, those "hard" skills learnt about teamwork or project management trainings are far from enough. Therefore, we often find some good-looking teams produce poor performance because they haven't made best use of the different viewpoints, are not able to handle conflicts in, and do not know how to reach consensus.

[2] Posts on the Intership website, http://bbs.shixijia.com/viewthread.php?tid=49061. Accessed 2 Feb 2010.

11.4.2 "All-Star Team" May Not Be the Best

To facilitate effective team interaction, team constitution is the first issue to think about. When enterprises select team members, they always wish everyone in the team to be excellent. However, the 'all-star' teams often have coordination problems.

The key to the selection of team members is complementarity. The "hard" elements such as members' knowledge and background need to be complementary. In addition, the specific roles that members play also need to be complementary. As a result, team interaction would be smooth and effective.

What and how many roles do a team need? A team's task involves task management and people management. Therefore, a team needs members who are good at task management and members who are good at people management. Members in charge of task management focus on facilitating others and the team to complete their tasks, and members in charge of people management focus on maintaining good interaction and fulfilling members' emotional demands among team members. One can play several roles at the same time; he also can change his role from time to time. The key issue is the combination of different roles has to be managed and balanced. High performance teams do need someone who is creative and aggressive. However, if a team is full of such members, with no one coordinating members' distinct ideas, the whole team will turn out to be busy discussing new ideas all the time and cannot reach consensus. That will not be a high performance team.

Managers all understand this principle very well. A team member we interviewed described the constitution of his team:

> *My team has six people. We are very complementary.*
>
> *Our chief has a strong network within this company, and he is very familiar with the leaders of all the related departments. He has good vision, is very sophisticated, and is effective at fighting for resources and favorable policies for our department with the company's headquarters. He is also open to delegate his power to the subordinates. The vice chief of our department is straightforward and he has strong executive power. He is an important role to push the team keep going forward. Our third manager has very strong apprehensiveness, is good at organizing people and activities, and is excellent at reading the subordinates' minds.*
>
> *One of the staff members is introverted but good at execution. He always says yes to others when they look for help. Another female colleague is very good at coordination and innovation. We also have another colleague who has a very wide network. He often helps us to get information we need and coordinate the resources. I am a very active person; I have strong coordination and communication skills; I'm the actively participate in our department's activities.*
>
> *My team has a very reasonable structure. There are people who can handle the general direction, and there are also people who can execute the tasks well. Some people are very straightforward and ambitious; some people are very sophisticated and good at making strategies.* (Interview record, Dec. 2005, Shenzhen)

Actually, the four people in the team from "Journey to the West" are a great example. Each of the four has shortcomings, but when coming together as a team, they have the power to overcome all obstacles in their path. They successfully handled 81 challenges on their way to the west. Because they all fill the right positions, everyone turns out to be a good employee. Tang Monk is a management genius; he is the right person for high level management. He made a strategic alliance with the Rulai Buddha; he successfully obtained the sponsorship of the Tang Empire; he appointed Guanyin Buddha as his headhunter who looked for excellent subordinates for him; we can see his strong diplomatic skills. He persuaded his three apprentices to identify with his own beliefs to the west to get the bibles, which shows he is good at developing corporate culture. Most importantly, he has extremely strong willpower. Thus, although Tang Monk didn't have the skills to defeat all the evils, he was the one who can manage the entire team. He was calm, sophisticated, detail-oriented, and cared about others. However, he is very slow in decision-making. Fast-paced colleagues might not be able to tolerate his snail-like speed, because the speed is an important element to win in today's severe competitions.

The Monkey King was the elite employee; he was no doubt the star member in the team. Nothing is impossible for him and no one can beat him. On the journey to the West, he was the operation director, working extremely hard to achieve the goals of their journey. He always took the lead and fought alone, and achieved remarkable performances. But he was not easy to go along with. He was the major executive force, and he is persistent and straightforward, but he is too proud and too cold to cooperate with others.

The Pigsy was a nice guy. It seemed that he didn't have any special qualities, but he was extremely necessary for the team because he was happy to be the foil to reflect the glamour of The Monkey King. He was very outgoing with high EQ. He made jokes, was good at flattering, and was willing to accept other's criticism. He was like the "lubricant" in the team. When there was a dispute or conflict, he would be there to smooth things over.

Monk Sha is just an honest and plain staff member. He had average capability, and had no independent opinions. But he is ready to do any work without complaint. He took care of the "heavy work" voluntarily, and contributed to the team's success silently.

11.4.3 What's the Problem with Our Teamwork?

We observed college student project teams for a whole semester to research on their teamwork process. At the beginning of the semester, the lecturer assigned a team-based project, and asked all the students to form their own teams and finish the project by the end of the semester. During the 4-month-long semester, each student was asked to give a briefing on their teamwork at the beginning, in the middle and at the end of the semester. We found from their reports that, in many teams, students divide the task as soon as they got the assignment, so that each student took responsibility for a small part of the project. Team members had very little communication in the following months, until the end of the semester, when they all submitted their work to one person to integrate them into the final report. When they were asked why they divided the task that early and had so few communications on their project, some students answered:

> *We know it is not the ideal way, but task division at an early stage has two advantages. On one hand, clearly task division makes everyone's responsibility clear which can prevent "free riding". On the other hand, we felt that the work efficiently will be decreased when working together. People all have their own preferences, and it is difficult to coordinate. It is better that we divide the task and everyone finishes the assigned part. At the end, we all hand it over to one person for integration. In this way, there will be no disagreements and no disputes. I would finish my part for sure, and I would not take advantage of the others.* (Interview record, May 2006, Beijing)

In the above story, team members did not like the coordination processes. They found it time-consuming and energy-consuming, and there was no guarantee of good results. That's why they divided the task as early as possible and tried to reduce the coordination as much as they could.

This kind of situation is not rare in the real business world. We interviewed a member from a low-performance team. The team member described the coordination and communication in their team as follows:

> *We were completely separated after dividing the tasks. There was little communication unless we met a problem; otherwise there is no need to communicate. But sometimes, at the end of the project, we did find that there were problems at the interface between departments, and then we would get busy working on those problems and trying to find out solutions.* (Interview scripts, Dec.2005, Shenzhen)

Another high-performance team had a different story:

> *Our team had many discussions on how to implant the plan. All of us know what we need to provide to the other members. There were many communication activities, such as routine meetings, and all the members would attend. They report on their own progress and problems they met, so everybody got to know other's progress and they could adjust their own pace accordingly. If any particular problems happen, the relevant people could hold a small meeting. If the original plan needed any revision, relevant parties would be informed at that time, and; all the revisions would be announced to all members in the routine meeting. We had communications so frequently that we didn't spend too much time on coordination and integration at the final stage.* (Interview scripts, Dec.2005, Shenzhen)

The above comparison shows that sufficient communication and discussion are the key to team's success. Avoiding the troubles in the coordination process, and underestimating the importance of communication will lead to a decrease in team performance.

Based on our observation and analysis on college students' teamwork processes, we identifies five problems in teamwork: (1) insufficient information sharing between members at the beginning stage of the project; (2) a lack of time control and supervision during the implementation of the tasks; (3) unclear and unbalanced task division; (4) a lack of coordination between sub-groups which conducted their own assigned tasks; and (5) a lack of supervisory rules. Again, we can see that some of these problems are related to labor division, plan, supervision and other 'hard' skills, and some others are related to more ‘soft’ skill such as communication, and coordination skills between team members.

Generally speaking, teamwork consists of ‘structure building activities’ and ‘communication and coordination activities’. Structure building includes clarifying team goals, formulating work plans, and dividing tasks and labors. Communication and coordination refer to whether team members have sufficient communication, discussions and integration during the process. Building up the structure is a comparatively fundamental and ‘hard’ issue, which is relatively easy to solve. For example, people can quickly understand the issues they need attention in teamwork through taking some training. However, communication and coordination part is hard to improve in a short time. No matter how perfect the structure and work plans are, high performance cannot be achieved without efficient coordination.

Whether an effective communication system can be established at the early stage is the key to successful teamwork. Based on our research on the process of team development, we find that team members have a general understanding of the team tasks when the team is first established, but they do not have clear definitions and expectations about how to execute the task and how to coordinate with others. At this stage, the most important issue is to facilitate communication and negotiation among team members on the team’s goals, expectations and the roles to be assigned to each person, and reach consensus at the end. Activities at this stage build foundations for the future work. Members need to set up the appropriate structure for their team. At the same time, they need to create a cooperative atmosphere. The early stage is always the most difficult stage for teamwork, because during negotiation and communication processes, different opinions and ideas may cause disputes and conflicts among team members. It is also possible that members will be unsatisfied with the team’s goals, expectations, their roles and responsibilities.[3]

Chinese employees are not good at these skills required by the most important stage. We mentioned previously that Chinese people fear potential conflicts because they may harm good relationships with others. So in most cases they choose to avoid any intense disputes. At the early stage of teamwork, when discussions are needed, Chinese people always feel uncomfortable and will stay silent. Once team leader proposes an idea, the others may quickly agree. Also, because of the intention to avoid potential conflicts, some teams choose to divide their tasks as soon as possible, and try to get rid of those tasks which need much coordination.

In order to solve this problem, team members need to pay great attention to communications at an early stage, and take a positive attitude towards potential disputes and conflicts which might happen in the future. In this way, people can initiatively join in team discussion and communication activities. If there is a team leader with sophisticated team management skills, the problems can also be solved on some level. The leader can encourage members to communicate at the beginning stage, to lean about each other better, and negotiate fully on everyone’s roles.

[3] This study is sponsored by the National Natural Science Foundation project (70572019) titled “The development and effects of transactive memory system in high technology firms”.

11.5 Conclusions

The huge change in China's commercial environment promoted the introduction and growth of the work teams in Chinese enterprises. Chinese enterprises have been exploring on team management practice, and have promoted the integration of this western working practice with Chinese society, enterprises and employees. In the beginning stage, Chinese enterprises just used work teams, which were Western management practices, without any adjustment. Because of insufficient understanding of how teams work and the nature of teamwork, Chinese enterprises didn't select the most suitable formats and didn't get the high performance as they expected.

As we discussed, Chinese managers and employees had some misunderstandings of teamwork in their management activities. Their teamwork experience is also very limited because of the short history of using work teams in organizations. So the current Chinese work teams might not perform as well as the organizations initially expected.

The value system in Chinese society also has significant influence on teamwork. The collectivism in Chinese society is Guanxi oriented. Chinese people value interpersonal relations, seek harmony, prefer to work with their ingroup members, and are not used to flexible teams and changing leadership. However, too much emphasis on maintaining harmonious relations prevents Chinese employees from effectively managing conflicts in teamwork.

Teamwork is not an easy issue. It is composed of two elements: task management and people management. In order to become a highly efficient team, these two elements need to be well managed. When forming a work team, managers should consider each people's roles so that both the task and people management can be well taken care of. They also need to think about whether the members' personalities are complementary for better coordination processes. Effective teamwork needs the managers to pay attention to both team structure and interpersonal coordination.

To be a good team member, one need to grasp two categories of skills. One category of skills refers to those "hard" skill, including clarifying tasks and goals, formulating work plans, and dividing labors. The other category refers to the "soft" interpersonal communication skill, including negotiation skills and conflict management skills.

Compared with Western enterprises, Chinese enterprises and Chinese employees still have many shortcomings. However, Chinese people are better at interpersonal cooperation. This is an advantage. Along with the accumulation of teamwork experience by both enterprises and employees, Chinese managers have gradually mastered skills in team management, and employees have gained skills in team cooperation. Work teams in Chinese organizations will become excellent work teams in the future.

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Chapter 12
When the East Meets the West: A Retrospect on China's Negotiations with Foreigners

Min Wang and Xiao Wang

In 1996, Hangzhou WAHAHA group, French Danone group and Peregrine Investments Holdings reached an agreement through negotiation to establish a joint venture (later Peregrine transferred its shares to Danone group). Thanks to this transaction, WAHAHA solved a cash flow problem and enjoyed rapid growth; meanwhile, Danone Group enjoyed the benefit of sharing "WAHAHA", which is an excellent brand. Their partnership should have been a role model of "win-win" cooperation. However, in 2007, a battle broke out between WAHAHA and Danone over corporate control. WAHAHA accused Danone of trying to purchase its non-joint venture companies at unreasonably low prices. Danone claimed WAHAHA founder Zong Qinghou took advantage of his control of WAHAHA group to establish a large number of non-joint venture companies under the WAHAHA trademark, which violated the agreement and undermined the interest of the major joint venture. To resolve the dispute, Danone took WAHAHA to court. WAHAHA launched a two-pronged response: it actively responded to the law suit and launched a media campaign featuring nationalism. During the course of this dispute, there was a lot of action on both sides, such as employee representatives and franchisers of WAHAHA openly supporting Zong Qinghou, Danone group accusing Zong Qinghou of forging shareholders' signatures, and much more.

The cause of such a "Chinese-style divorce" was in fact changes in the power of both sides of the joint venture during its 10 years of operation. The rapidly growing WAHAHA gradually dropped the "modest" attitude it had at the beginning and began to object to Danone's rude and unreasonable request for revenue increases, fussy bureaucratic reporting and approval system and its arrogant attitude of "free riding". While holding 51 percent of the joint venture, Danone in the beginning took the position of the stronger side, but later had to surrender its power of corporate management to Zong Qinghou. As a result, both sides became dissatisfied with the original contract.

From the conflict between WAHAHA and Danone, we can see that negotiation in the general sense is not only about doing business at the bargaining table, but also about wrestling and cooperation away from the table. The negotiation is not only dependent on the negotiating skills of both sides but involves the influence of all stakeholders, such as the

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media, employees, third parties and so on. Meanwhile, with increasing operational experience, increasing corporate strength and the widening international horizon of Chinese enterprises, the game between China and the rest of the world has undergone a delicate transformation. Such a transformation directly affects the rules, strategies and outcomes of the negotiation.

For modern Chinese, the word negotiation used to be serious and heavy. When talking about negotiation, they would initially think of examples in the diplomatic field, such as the negotiations that led to the establishment of diplomatic relations between China and the US in the 1970s, or China's negotiations to enter the WTO, which lasted 14 years. Because of the importance and political nature of the negotiations, the inside stories of these achievements are usually not available to the public. People can only appreciate the wisdom and eloquence of the high-profile individuals involved; their determination to safeguard the national interest, such as Premier Zhou Enlai at the Bandung Conference, or Long Yongtu during China's negotiation to enter the WTO.

More than 30 years since Reform and Opening-up, negotiations at the political level are still going on, but, meanwhile, negotiations in the economic and social fields are becoming more and more important. The backdrop is the dramatic economic growth since Reform and Opening-up. In 2009, China's GDP was more than 3.3 trillion Yuan, the third biggest in the world. The economic growth facilitated an increase in investment and trade. Statistics show foreign direct investment for the past 30 years in total is 800 billion US dollars. By 2009, the volume of imports and exports had accumulated to 2.21 trillion US dollars. China's direct investment in foreign countries also started increasing. Non-financial investment in 2009 reached 43.3 billion US dollars. In 2008, direct investment in foreign countries realized through foreign acquisitions has accounted for 43.5 % of total overseas investment. Growing foreign trade and investment leads to increasing business negotiations. More and more negotiations are coming to people's attention, such as the annual iron ore negotiations, China-US textile negotiations, and Lenovo's sensational negotiation to acquire IBM's PC division. The outcome of such negotiations can affect the development of the enterprises involved or even the national interest.

When negotiating with Western countries, Chinese negotiators went through a process of the two sides getting to know each other's cultural background and enhancing their negotiating ability. In this chapter, we will summarize the Chinese philosophy on negotiation, review business negotiations from the past 30 years, abstract Chinese negotiator's characteristics or strategy, and identify the characteristics that are the result of the interaction of culture and conditions. In Sect. 12.3, we will analyze some key negotiation cases from the perspective of negotiating power, in order to draw a detailed picture of the situation.

12.1 Harmony and Victory

Some people use a metaphor to describe the negotiating features of Americans and Japanese. Americans take negotiation as a sporting competition; winning the game is the ultimate goal, punching and attacking are the methods to win. Japanese think negotiation is a family reunion. Members of the family sit together and discuss how to assign everyone's responsibility, therefore family harmony is important. However, whether the Chinese philosophy of negotiation is "Harmony" or "Victory" is still a mystery.

Western researchers usually divide negotiation into two categories: distributive negotiation and integrative negotiation. Distributive negotiation is a bargain that distributes a fixed resource between two negotiators so that the more one gets, the less the other gets, such as negotiations on iron ore prices. Integrative negotiation always includes several items, and both sides have a different priority of interest, therefore a "win-win" outcome can be achieved through the exchange of interests. Negotiators always employ different strategies in pursuing the different categories of negotiation. In distributive negotiation, the purpose of the negotiator is without a doubt "Winning"; whereas in integrative negotiation, the negotiator pays attention to both "Winning" and "Harmony"; in other words, taking care of the interests of both sides, and together making the pie larger.

The negotiation philosophy based on the above mentioned negotiation categories, however, does not suit Orientals. As stated in the beginning of this chapter, Chinese people traditionally take negotiation as an important political or economic activity, usually facing foreign opponents. Therefore negotiation is always a situation of confrontation. Chinese textbooks on negotiation always discuss strategies in terms of how to "defeat your enemy" or how to "play psychological warfare". As a result, Chinese negotiation philosophy has a significant "Winning" characteristic. Quite differently, Western negotiation researchers usually argue from a perspective of culture and value; that due to the influence of collectivism, Chinese people tend to seek "harmony" in negotiations, and tend to take care of the interests of both sides, instead of being competition oriented.

The difference in the understanding of the Chinese philosophy of negotiation is because of the various definitions of "negotiation". Negotiation in Westerners' minds has a broad extension, which can either be political talks in the international community, or be daily discussions among friends. However, negotiation in the Chinese dictionary is quite narrowly defined. It only includes political or important business negotiations. During research conducted by the writer, respondents were asked to state words in relation to negotiation. Phrases like "lash of the tongue", "cheating between each other", and "openly and secretly fighting with each other" were commonly mentioned. This indirectly testifies to the Chinese view of negotiation as unpleasant and hostile, as the word "negotiation" carries a strong meaning of confrontation. Chinese people believe negotiation is not good for relations. In 2009, during basketball star Yao Ming's acquisition of Shanghai Dongfang basketball team, an incident labeled "Negotiation gate" occurred. It concerned whether

Liu Wei, the captain of the team, should stay or not. It is said that Liu Wei set a price to continue playing for Yao's team, but Yao Ming sent his team's agents to negotiate with Liu Wei. This should have been a regular negotiation, but, according to Liu Wei's agent, Liu was deeply hurt by such a gesture because he and Yao had a long, brotherly relationship and he thought Yao should personally take part in the negotiation instead of throwing the negotiation work to his team.

> *I said to Liu Wei, you go and make it clear to Yao Ming, I will not get involved, Lu Hao (Yao Ming's Chinese agent) shall not get involved, the negotiation should be between you brothers. If Lu Hao and I get involved, this thing will become a business negotiation, and business negotiations sometimes hurt feelings because you have to achieve business goals through business measures.*[1]

The above remarks reflect Chinese people's common view on negotiation. Therefore, for certain negotiations, people usually change the word to "discuss", "exchange of ideas" or "sit down to have a talk". The slight difference between "talks" and "negotiation" shows the following features of Chinese negotiation philosophy:

12.1.1 The Difference Between Insiders and Outsiders

Zhixue Zhang and his colleagues say there are three elements in Chinese negotiation, namely competition, cooperation and trust (Zhang et al. 2009). They say "harmony" and "winning" seem to be in contradiction but can be well handled by Chinese negotiators. The guiding principle is Chinese people's distinction between "insiders" and "outsiders".

Fei HsiaoTung believes Chinese people follow the Pattern of Difference Sequence to deal with inter-personal relations. It is like throwing a stone into the lake, ripples are always found. People treat others according to the distance to themselves. The relationship is like a ripple, the further it goes, the thinner it becomes. In negotiation, negotiating with insiders is about compromise, but negotiation with outsiders is a real hard fight. In negotiation philosophy, when discussing with insiders, harmony is always the guiding principle, which doesn't only mean negotiating in a good spirit but also being prepared to compromise and step back on real interests. However, when conducting negotiations with "outsiders", Chinese negotiators always show no mercy and fight really hard. Foreign negotiation experts warn that Chinese negotiators usually take negotiation with foreign companies very seriously, and will use all kind of strategies to "win", so don't think Chinese negotiators will save their power only because they think harmony is important.

[1] http://www.nbd.com.cn/newshtml/20091113/20091113222753327_2.html

12.1.2 Harmony First

Chinese people place different emphasis on "harmony" and "winning" when facing insiders and outsiders, but, no matter whether it is consultation with insiders or negotiating with outsiders, harmony is always important. There are two reasons for this:

Firstly, following the relationship-oriented mentality, people firmly hold the position of avoiding conflict. When negotiation is inevitable, people always hope to maintain the apparent harmony, and the mentality of "never lose your nerve". As a result, a Chinese negotiator attaches importance to courtesy in negotiation and opposes the negotiation strategy that is too provocative.

Secondly, harmony also serves as a tool in negotiation. Firstly, when in confrontation, stressing harmony can disrupt an opponent's defenses, and win the chance for development. In China's diplomatic fields, the guideline of seeking peaceful development and a win-win situation has been upheld, which shows China's strategy of keeping a low profile to preserve peace when the national strength is comparatively weak. In some circumstances, stressing a win-win outcome is an indirect way of increasing the benefit. In negotiations between China and Western countries, due to a disadvantage in information, overall strength and other aspects, only win-win solutions can be accepted by the other side, therefore it is a practical choice to protect our own interest.

The above description of Chinese negotiating philosophy tells us that Chinese people believe the purpose of negotiation with outsiders is to win, to secure benefits, and the purpose of negotiation with insiders is to reach harmony, to settle problems, to enhance the interests of both sides. But whether to win or to reach harmony, good relations (or seemingly good) is a goal that a Chinese negotiator never gives up easily.

12.2 Chinese Way of Negotiation

In this section, we summarize the major features of Chinese negotiation. Such features, on the one hand are the result of China's distinct culture, such as collectivism, high power distance and so on, and, on the other hand, are also the result of the country's disadvantaged economic situation. Chinese enterprises are in a weak position in all aspects, such as funding, technology, human resources, and management measures. A weaker side's strategy to reverse the situation in negotiations happens to tally with certain cultural characteristics, or such characteristics match the situation of being the weak side, and are fully developed. Therefore, when reviewing these features, we will notice that those features (or negotiating strategies) are the outcome of the interaction between a Chinese negotiator's judgments, based on values and practicalities.

12.2.1 Chinese People's Old Friend

China is an acquaintance society. Chinese people like to do business with acquaintances. When seeking a foreign partner, they hope to get an introduction from a third party, because they always have doubts about strangers (outsiders). In negotiation, Chinese highly regard the sincerity expressed by the other side; they believe sincerity is the foundation for the success of the negotiation. Once a good relationship has been formed with the other side, Chinese usually hope to maintain it in the long term. For example, in diplomatic negotiations, many individuals have established a deep friendship with China, earning the title, "Chinese People's Old Friend". Dr. Henry Kissinger, the former secretary of state of the United States, who played an important role in the China-US negotiations that established diplomatic ties, is one of them. Because Dr. Kissinger made a great contribution to China-US relations, and shared common views on China-US relations with the Chinese side, the Chinese government accords him high respect and a courteous reception. The Chinese media's comments on him are relatively positive. During a visit in October 2009, Premier Wen Jiabao insisted on escorting and carrying an umbrella for him in Ziguang pavilion at Zhongnanhai. It is worth noting at this point that a Western negotiating guide always warns its readers to be careful about the "old friend strategy" when analyzing the Chinese negotiation style. It believes, once you are called an old friend by your Chinese negotiating opponent, you may forget your interests. It cannot be denied that, in early diplomatic practice, because of the ideological differences, the new China had very few partners, therefore a proper friend-making strategy was necessary: in other words, "to unite with all forces that can be united". But it is still a natural reflection of Chinese people's relationship-oriented mentality to address long-term friendship during negotiation.

12.2.1.1 Roast Duck, Maotai, Summer Palace and Pandas

If negotiating can be divided into five phases, namely pre-negotiation contact, exchange of information on the project, bargaining, compromise and agreement, American negotiators usually believe the bargaining phase is the most important. They think a deal is a deal, but Chinese negotiators think the first phase is the most important, because this is the beginning of an important relationship. In order to establish a good relationship, Chinese negotiators place a lot of emphasis on many kinds of etiquette. As an old saying goes, "It is always good to have a friend coming from afar." Chinese social rules dictate a host should show hospitality in the form of a solemn welcome ceremony, a long and satisfying banquet, a tour to local places of interest, and the giving of presents. For foreign negotiators coming to Beijing, eating roast duck, drinking Maotai, visiting the Summer Palace and seeing pandas are usually the most important items on the agenda before the negotiations start.

During US President Richard Nixon's visit to China in February 1972, Premier Zhou Enlai expressed a wish to give the US a pair of pandas as a present to Mrs.

Nixon, which was quite a surprise to the US side. The New York Times commented at the time, "Zhou Enlai really touched the heart of the United States", the Washington Post was likewise impressed: "Zhou Enlai conquered the Americans' heart with a pair of lovely pandas". Also, during Nixon's visit, the schedule included a visit to the Great Wall by the US president. But heavy snow fell in Beijing. On Zhou's instructions, the Chinese government mobilized soldiers and civilians to clear the snow from the route from Diaoyutai State Guesthouse to the beacon tower of the Great Wall, to Nixon's great surprise and pleasure. Those moves expressed Chinese goodwill for friendship as well as a determination to remove hostility and reach agreements.

From a Chinese person's view, these moves carry several levels of meaning. First of all, it serves as a lubricant, to show hospitality and consolidate emotional trust. A feast can dilute the hostile atmosphere in business. Secondly, in line with the old saying, "wine in, truth out", Chinese negotiators always expect to find out more about the other side at informal occasions. Thirdly, if the other side agrees to attend such exhausting social occasions, the Chinese think this represents the other side's commitment to and investment in the relationship. Fourthly, they are intended to ease the opponent's nerves through the laughter and drinking.

12.2.1.2 Trust Is Important

In Western negotiations, separating the person and the business is always stressed. The focus is on the business not the person, in the belief that "no matter how bad our relationship is, as long as both sides can join hands to face a common problem, we can better coordinate our demand to serve our interests" (Fisher et al. 2009, p. 34). However, Chinese people believe, "be a good person first, then start to do business" and "one should not achieve without credibility". One important aspect for self-review is honesty and credibility. Credibility is the foundation of personal interaction.

In negotiation, negotiators always gauge the credibility of their opponents first, and then consider the business. Sometimes people will stress relations are more important than business, as embodied in the sayings "friends first, business second" and "even if we can't reach a deal, we can still have a friendship".

The purpose of building relations is to build up trust. Such trust is not only recognition of the other side's professionalism and qualifications, but also the emotional acceptance of their character, reputation and so on. The first part is trying to understand the opponents' capability during the process of building relations, the second is to transform an "outsider" into an "insider", so that both sides can follow the "insider's rules", covering honesty, mutual trust and benefit, and a fair distribution of interests.

In 2005, Tan Zhi and the Framedia company under his leadership achieved a "Mission Impossible" in the elevator advertising market, by integrating seven operators in this business in the space of a few months, which gave Framedia 90 % market share and ended vicious price competition. It is widely believed by business observers that Tan Zhi, as the president of Framedia, made a major contribution to the integration by planning and dominating the negotiations. Head of franchising companies believe Tan Zhi impressed upon them his experience, capability, credibility and trustworthiness. According to a manager of one of the companies that was integrated:

> *During our first meeting, Mr. Tan gave me an impression that, although he is not young, he looks very refined. Later on, I found he is very sincere to others. From then on, I started to pay attention to Mr. Tan's background. We also asked a few friends what kind of person Mr. Tan was. As putting the entire company into an unknown business model is like letting our child out of the house, we have to be responsible. When we found out what kind of person Mr. Tan was, we felt reassured. Whatever the business is, the personality of your partner is very important. During our first meeting, I recognized Mr. Tan's sincerity* (Xu Yingjing and Li Ping 2008, p. 59).

Another person had similar remarks:

> *Mr. Tan is an easy-going person. He is very good at dealing with people. During the whole process, he made great efforts to work on the people. You have to know, it is the most difficult thing to work on people. They used to be competitors in the market; some of them don't even talk to each other. You can imagine how hard it is to put them together and work on the same project. But Mr. Tan accomplished this project "easily"* (Xu Yingjing and Li Ping 2008, p. 94).

At the early stage of cross culture negotiation, the establishment of emotional trust is more important. As both sides know very little of each other's world, it is very difficult to build trust based on understanding; therefore emotional trust plays a bigger role. Hu Maoyuan, president of Shanghai Automotive Industry Corporation, recalled his first meeting with Phil Murtaugh, president of GM China:

> *My first meeting with Murtaugh was at the Detroit Auto Show in early 1996. When we were having a buffet dinner that night, Mr. Murtaugh kept taking care of us, he even served some food by himself. I felt him very friendly and sincere. He gave me a very good first impression. For 10 years after that, we maintained very good relations.*[2]

The trust built by the leaders of both sides in the early stages greatly facilitated the negotiation on a joint venture. Since then, Hu Maoyuan and Murtaugh have developed a deep friendship, Hu even calls Murtaugh his brother, which has further promoted the cooperative operation of the two companies.

12.2.1.3 Focus on Face

"Face" is Chinese people's spiritual guideline. Negotiation is an activity containing conflict, but also involves personal interaction; therefore Face is still very important. Chinese negotiating holds it is important for both sides to save each other's Face, to maintain respect for others. The warm hospitality extended to guests is one way to save Face for the others.

[2] http://auto.sina.com.cn/z/gdfw0811

If the other side can pay attention to Face, Chinese negotiators are always happy with that. In 1979, Deng Xiaoping paid a visit to the United States as the vice premier, but America upgraded the level of his reception to that of a head of state. Such a move expressed goodwill to China.

> *Tang Longbing, who worked in diplomatic protocol fields, sensitively noticed the subtlety in American reception standards: This time, the US side not only broke the conventional practices by sending high level officials to welcome the delegation in Las Vegas, but also raised the standard provisionally when the delegation arrived in Washington. Vice president (Walter) Mondale was sent to welcome the delegation. During Deng's visit to cities outside Washington, other than the constant company of Mr. Woodcock and protocol officer Dubel, special adviser to the president in trade negotiations, three important cabinet ministers, and several senators and house representatives accompanied Deng's visit to different cities at different times. This was a delegated arrangement after thorough research. Ji Chaozhu's memory of this visit to the US proved such a conclusion. This shows the US side knows very well the situation in China...* (Li Jing 2009a, b, p. 71)

During the integration of Framedia, a person in charge of a participating company recalled how he felt privileged to be dealing with Tan Zhi because Framedia was stronger than their company and Tan was much more senior than that person:

> *In the end, I told him I needed to go back to consider and talk to the other two shareholders. "But whatever the result is" I said "I feel comfortable to be approached by you personally, because it shows your respect for me"* (Xu Yingjing and Li Ping 2008, p. 56).

Tan Zhi also has an opinion on the importance of Face during the integration negotiations:

> *...we always mention one word, in Framedia for the last year, but not the word "acquisition", because in traditional Chinese mentality, being acquired is almost the same as a breakdown. If you say you want to acquire this company, the other side might not feel comfortable because it means I am not capable of saving my company from bankruptcy. So, in Framedia Company, it is forbidden to use the word "acquisition". We changed to another word: "integration". People are getting together, integrated; not I acquired you or you acquired me. It is not about who is incapable, whose company is going into bankruptcy, but about everyone united to do bigger business* (Xu Yingjing and Li Ping 2008, p. 61).

An integrated company manager bore out this point:

> *He (Tan Zhi) kept emphasizing that it was integration not acquisition, which is a typical case that reflects his wisdom and capability in working with people* (Xu Yingjing and Li Ping 2008, p. 94).

On the other hand, when a negotiator is in a disadvantaged position, out of a mentality of self-defense, he usually pays extraordinary attention to the respect he receives. During one round of China-US intellectual property talks, both sides agreed to start the negotiation at 9 am, but the US delegation, headed by Lee Sands, didn't arrive until 10 am, after repeated urging by the Chinese side. As a result, the Chinese delegation waited for more than an hour in front of the mass media. Though the US side's move could be interpreted as a strategy to weaken

China's morale, the Chinese delegation viewed it as a humiliation which led to the failure of the negotiations that day (Wu Haimin 2009, p. 121).

As Chinese negotiators place a high value on Face, this characteristic is always used by Western negotiators. In one Western negotiation textbook, the author points out that it is better to negotiate with Chinese face to face than through correspondence, because Chinese are afraid to hurt other people's Face by rejecting the other side face to face.

12.2.2 "Feather Fan and Silk Head Dress"

Western researchers believe American negotiators define themselves as the tough guy in US western movies, such as John Wayne. Their characters are independent, tough, and tend to solve all the problems by pulling out a gun and shooting. But for the Chinese negotiator, John Wayne is more like a roughneck. In Chinese people's minds, a negotiator should be a gentleman, who can solve the entire problem easily through his knowledge and wisdom.

12.2.2.1 Strategy First

Chinese negotiators see negotiation as a white war, in which strategy is the key. Master Sun's "Art of War" said:

> *Therefore one hundred victories in one hundred battles are not the most skillful. Seizing the enemy without fighting is the most skillful. Thus what is of supreme importance in war is to attack the enemy's strategy. Next best is to disrupt his alliances by diplomacy. The next best is to attack his army. And the worst policy is to attack cities. Cities can only be attacked when there is no alternative.*

In other words, strategy is more important than real combat. Ancient classics, such as "Art of war", "Mo-Tze" and "Intrigues of the Warring States" have served as sources of strategy for Chinese negotiators. American scholar Lucian Pye (1986), who researched Chinese business negotiations, pointed out:

> *The Chinese may be less developed in technology and industrial organization than we, but for centuries they have known few peers in the subtle art of negotiating. When measured against the effort and skill the Chinese bring to the bargaining table, American executives fall short* (Pye 1986, p. 74).

According to research, Chinese people use strategies from the beginning to the end of negotiation (Faure 1999, p. 200). For example, compromise is for "throwing a sprat to catch a whale", asking for negotiations to be held in China is for "luring the enemy away from his base", intimidating the opponents is for "beating the dog before the lion". Some even believe the "honey trap" in the Thirty-Six Stratagems reflects the strategy of loosening the other side's vigilance with friendship and warm hospitality, and "hiding a dagger behind a smile" means obtaining a benefit while maintaining a warm reception to others.

It is also worth noting that the negative outcome of using a lot of strategies would be to leave the impression of dishonesty, because some Chinese negotiators believe the motto in The Analects that, "If one does not overstep the bounds in major matters, it is of little consequence if one is not meticulous in minor matters", and employ some morally questionable measures, such as fraud and lying, to achieve their goals. This also shows the utilitarian aspects of strategies.

12.2.2.2 Avoiding Confrontation

Harmony brings business is what the Chinese businessman believes; therefore, they don't like confrontation in negotiation. On the contrary, as Western people see negotiation as a competitive activity, and their heroes are people like John Wayne, they tend to choose more aggressive strategies in negotiation, such as arguing, mocking, interrupting, threatening to withdraw, sending ultimatums, and so on. Chinese negotiators see this approach as a sign the negotiator is running out of alternatives, because a loud voice cannot compete with a clear voice.

Ma Xuezheng is the former financial director of Lenovo group. In 2004, she led Lenovo's negotiation on acquiring IBM's PC division. She recalled one incident during the negotiations on Yang Lan's TV talk show:

> *It was Friday afternoon; we were having a meeting somewhere in New York City. The negotiation failed because of one small issue. This was actually a strategy, and all their teams were leaving. They asked as to leave the building and told us clearly, "we are going to talk to another company". We were in a very difficult position for the whole of Saturday and Sunday.*

It seems Chinese people are not used to such a strategy of confrontation, which might affect the negotiation result with Western enterprises. There are two reasons. One, these measures will hurt the other side's Face, causing Chinese negotiators to feel disrespected; they think such provocative action will ruin the atmosphere and mutual trust. Second, when negotiating with Western companies, Chinese negotiators will refrain from over aggressive action because they feel they are in a disadvantaged position.

When challenged by the other side, Chinese negotiators, following the guideline of being a gentleman, prefer "playing Taichi" to sort out the problems. The following well-circulated but unconfirmed story is a typical example:

> *During a US delegation's visit to China, an official commented in front of Premier Zhou Enlai that Chinese people liked to walk with their heads lowered, but American people liked to walk with their heads lifted. Such a comment surprised everyone present. Premier Zhou, however, was not angry and replied with a smile that this was not surprising because Chinese people liked to walk uphill but American people liked to walk downhill.*

Of course, we can't rule out a situation where, when challenged by the other side, a disadvantaged Chinese negotiator will follow the philosophy of "Step back and have a brighter future" or "A little impatience spoils great plans" and bear the challenge silently for future success.

12.2.2.3 Calm, Restrained and Modest but Confident

Chinese people believe in self-cultivation through practicing Taoism. They prefer to remain emotionally neutral, cautious and restrained in response to either honor or humiliation. We often hear from the media, when there is a major international conflict, a foreign ministry spokesman firstly will say, "we call on all parties to exercise calmness and restraint". In negotiations, people appreciate a calm and reasonable attitude (Kopelman and Rosette 2008, p. 68), believe one should "remain cool even when Mount Tai collapses in front of me" and "maintain a calm face even when there is passion burning in the chest". Losing one's temper or striking the table is seen as not being gentleman.

Wu Haimin recalled the performance of negotiator Tong Guangzhi during China's negotiations to rejoin the GATT (Wu Haimin 2009, p. 30):

> *His pipe has a magical function during the negotiation. He uses his left hand to hold the pipe gracefully, blowing a cloud, adjusting his rhythm of talking through smoking. When the most pressing moment comes, the pipe helps him remain calm. Such calmness brings him an imposing manner, makes the opponents feel nervous. In negotiation, it is quite normal to see heated confrontation, Americans like to strike the table or tap the table with a ballpoint pen, but Tong Zhiguang uses his pipe. It looks more civilized to knock with the pipe, because "I was just flicking the ash".*

Chinese negotiators believe one should be modest but confident. These words constantly appear in some instructive books on negotiation. Firstly, modest but confident shows calmness. Secondly, it means one should conceal his shortcomings, be quiet and patient in looking for attacking opportunities in unfamiliar circumstances. Even when in the weaker position, one should not express concern. This is also an elaboration of the empty fort strategy, one of the Thirty-Six Stratagems.

12.2.3 Indirect Communication

The differences in communication between negotiators are most noticeable. In communication, Chinese negotiators have two characteristics, indirect and patient.

12.2.3.1 Indirect Communication

Chinese features high-context communication, which means language in communication is part of the message. To communicate and understand the message, you need to get the meanings from the context instead of the language. As a Chinese saying goes, "There's an end to the words, but not to their message." Chinese Zen is a typical form of high-context communication. From Buddha's gesture to verse, people all need to discern its subtle meanings. Comparatively, most people in Western countries (such as the US and Germany) are more straightforward and frank in communication.

In a high-context culture, people pay a lot of attention to implications in language. During cross culture communication, people can probably overestimate the ability of their counterparts from a low-context culture to catch the implications. Before President Nixon's visit to China in 1972, the Chinese government repeatedly sent out messages of goodwill. However, such messages were too subtle for the US side to understand. Dr. Kissinger related a small story during an interview with Yang Lan:

> *Kissinger: Chinese always overestimate our sharpness, and we always overestimate Chinese ability to focus on practical outcomes. For example, in October of 1970, or in 1969, Chairman Mao Zedong stood side by side with Edgar Snow on the stand of honor.*
>
> *Yang: on Tiananmen Rostrum*
>
> *Kissinger: Yes. Mao Zedong thought this move was actually sending a signal of change for better relations between China and us. We were aware of that but, back then, we thought Snow was too friendly to the Chinese Communist Party and didn't take it seriously. We thought China was doing propaganda and didn't pay attention to him. This was in fact a very subtle move made by China but it was a pity we didn't get it.*

By contrast to Mao Zedong, President Nixon expressed his wish to visit China directly to Time magazine. Dr. Kissinger commented, if we say Mao was waving a light sword, then Nixon was holding a big hammer to send his message (Li Jing 2009a, b, p. 43).

Negotiators influenced by high-context culture will prefer indirect communication, such as avoiding sending direct information but beating around the bush. Westerners, especially American negotiators, prefer to take a direct approach in communication. They are used to "putting all their cards on the table" to express their position and preferences on negotiation items.

High-context culture results in frequent silence during negotiation, as Chinese culture underlines the principle of being careful of what you say. Therefore, silence usually is of significance during negotiating. Sometimes silence can achieve a better result; it could be a time of consideration, or an expression that the current terms are unsatisfactory but the negotiator doesn't want to disagree directly for fear of losing Face, or it could be just a strategy. Negotiators from low-context cultures usually fail to interpret these signals. Western negotiation researchers have pointed out that silence in negotiation often makes American negotiators frustrated, which makes them either compromise or keep speaking to fill the gap (and thereby leak more information).

Apart from the cultural influence, indirect communication is a result of Chinese enterprises having less understanding of negotiation rules, the international environment, and the industry situation; therefore, they always take a defensive position and try not to reveal their position as a means to improving their chances of winning.

12.2.3.2 Be Patient

Chinese companies usually take a long time in negotiations. There are a number of reasons for this. Firstly, it is because Chinese are mentally oriented to long timeframes, they believe in "more haste less speed" and "with one's eyes fixed on petty profits, one can hardly succeed in great ventures".

Secondly, because of Chinese organizations' long internal command chains, it is always necessary to ask permission from superiors during the negotiating process. If it is a state-owned enterprise, the decision making process is even longer as government approvals will be needed. In the early stage of Reform and Opening-up, when there were inadequate laws and policies, it took a particularly long time. In 1978, SAIC group started negotiating with Germany's Volkswagen group on introducing the Volkswagen Santana to China. The negotiation didn't conclude until 1984. Qiu Ke was the former general manager of Shanghai Tractor and Automobile Industry Company, and one of the major negotiators. He became the first president of Shanghai Volkswagen group. He recalled how this negotiation lasted for 6 years:

> *30% of the pressure was from outside, 70% of the pressure was from inside. Why? Because the briefing work was quite a lot. In Beijing, we needed to brief 10 ministries, and more than once; if one ministry was not satisfied, the whole project would need to restart again.*[3]

Several representatives of multi-national companies who experienced joint venture negotiations in China have pointed out that patience is the key to business success. In 2003, L'Oreal Group acquired the domestic skincare brand, Mininurse. After 4 years of negotiation, the president for China region of L'Oreal summarized as follows (Xia Xiangrong 2004, p. 47):

> *We spent a lot of time communicating with the owner of Mininurse. We told them why we were interested in this brand, why we should cooperate. Such cooperation would bring benefits to the brand, the consumers and even to the Chinese cosmetic market. The merging of two different corporate cultures is difficult; you need a long time to communicate. With communication, our mutual trust was deepened.*

A third reason for long negotiations in China is probably the Chinese people's appreciation of a spirit for hard work. Classic stories about happiness after enduring long-term hardship are commonplace in China. Western researchers always use the Long March as an example in describing the Chinese people's ability to endure hardship. So they are able to fight for a long time until they get the best result from the negotiation.

Fourthly, certain strategies will expand the negotiation period. One feature of Chinese negotiation is mobile warfare (or guerrilla warfare) (Faure 1999, p. 200). Using such a strategy, different groups of negotiators will join the talks in a bid to exhaust the foreign side, or ask the same question repeatedly. This strategy is obviously time-consuming.

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[3] http://auto.ifeng.com/culture/culcomposite/20091019/126973.shtml

12.2.4 Focus on Power

The importance of power distance in the Chinese cultural context is relatively high and can be reflected during negotiations, including in the form of the sensitivity of Chinese negotiators to power, the practice of limited power, and, for foreign negotiators, the importance of government relations.

12.2.4.1 Sensitivity to Power

Chinese negotiators are very sensitive to power. Many Western textbooks advise that, to negotiate with Chinese, you have to find out your opposite number's title and call him or her by this title. The American style of "Just call me Mary" won't work. Even during official meals, the seating arrangement should be based on titles. If there are government officials, priority should be given to government officials. When conducting important merger negotiations with foreign companies, the Chinese side often thinks the current foreign representative can not make the final call. The final decision will be made when the highest ranking managers of both sides meet. Before the negotiation, both sides should coordinate to make sure the same ranking representatives are being sent. When the negotiation is at the edge of failing, the company president can intervene and solve the problem.

Out of instinctive sensitivity to power, Chinese people even find some seemingly equal negotiations unequal. For example, in a negotiation between seller and buyer, Chinese always think the buyer has the higher position (Faure 1999, p. 199) because the seller should satisfy the buyer. Western research discovered through simulative negotiations that, in the Taiwan region of China, buyers usually gain higher benefit from negotiations, and the benefit is always the manifestation of power.

12.2.4.2 Strategies for Negotiating from a Weak Position

In negotiation, power (information, alternative plans, status, etc.) determines the final proportion of the benefit. During negotiations between China and foreign countries, especially in the early stage, Chinese negotiators often felt they were in a weak position because of the large gap in national strength, the backwardness of Chinese enterprises in funding and technology, and their unfamiliarity with industry development and international practice. However, some companies can make use of such a weak position to win the game. Basically, there are three strategies that can be used.

The first one is "restrained power". Schelling (1960) pointed out, if well practiced, restrained power can have a positive effect during negotiations (Schelling 1960, p. 27). For example, before the beginning of international negotiations, the weaker country can use propaganda at home to stir up emotions of nationalism, thereby creating domestic pressure. During the official talks, this can be used as leverage in seeking compromise from the other side. The more common situation in business negotiations is where the representative does not have full power. When negotiating with Chinese companies, foreign negotiators usually find the Chinese representative cannot make a decision on some key issue, but says “we need to report to the supervisors” or “we need to review this at home”. This leads the foreign side to believe it is hard to make the decision, but wins time for consideration. In addition, there are some issues that cannot be resolved due to current national policy; Chinese sometimes use this as a reason to win benefits. Therefore, foreign sides sometimes think Chinese negotiators are too tough and don’t know how to compromise.

The second strategy commonly used is “be ready for change”. In the early stage of attracting foreign investment, many multi-national companies expressed a wish to enter China. Chinese enterprises always take a “shop around” strategy, getting several negotiators to compete with each other. For instance, in 1995, SAIC group sought to joint venture with foreign automobile manufacturers to produce mid and high level cars. After preliminary selection, SAIC group was left with two options, GM and Ford. SAIC’s strategy was to take advantage of the fact that both companies were eager to work with China to seek better conditions during the negotiations and was able to fix those conditions in the principal agreement. This is very similar to the BATNA theory, which is one of the Western negotiation theories.

The third strategy is complementary interest. Chinese negotiators always work very hard to achieve a win-win solution, to maximize their own interest. From the national perspective, Deng Xiaoping pushed forward the “one country, two systems” solution for the Hong Kong issue, which protected China’s sovereignty by replacing the “sovereignty for jurisdiction” proposal raised by British government, while ensuring Hong Kong’s continuous prosperity and stability, so as to achieve win-win outcome. From the perspective of an enterprise, since the early 1990s, Chinese enterprises have adopted the strategy of “market for technology” in negotiating with foreign companies to attract foreign investment, technology transfer and mature management patterns by promoting advantages such as the Chinese market’s potential and cheap workforce. Although such a strategy has proved to have many problems, the ultimate purpose was to achieve a win-win outcome.

12.2.4.3 Government Relations Cannot Be Ignored

When a foreign company wishes to cooperate with a Chinese company, the local government always needs to help in connecting the two sides, or the foreign company needs to negotiate with the local government. It is vital for the company to maintain good relations with the government.

The CEO of GE China, Steve Schneider, once said, 65 % of his time was spent with government officials and state-owned enterprise leaders (Fernandez and Underwood 2006, p. 225). Some of the time was spent for substantial negotiation and trade, but at least 10 % was purely for establishing good relations. Establishing government relations doesn't necessarily mean bribery. In a developing country like China, where the laws are not clear enough and there is large room for interpretation, good government relations is helpful in getting the company favorable policy interpretations.

Former Kodak global vice president Ye Ying pushed forward the negotiations between Kodak and the Chinese photographic industry to establish the "98 agreement". Her experience as a US diplomat provided her with good knowledge of how to develop good government relations. She kept expressing Kodak's sincerity and commitment to the Chinese government. With her active efforts, under the framework of the "98 agreement", Kodak secured its exclusive investment in China and integrated the entire Chinese photographic industry.

When SAIC group was conducting joint venture negotiations with Volkswagen, to ensure smooth operation of the joint venture, both sides attracted investment from state banks and government-related groups. Jiang Tao, who was the president of Shanghai Automobile and Tractor Industry Company at the time, recalled (Jiang Tao and Qiu Ke 1998, p. 22):

> *. . .(the German side) had two concerns, one was whether the foreign exchange needed for early operation of the joint venture could be provided, two was whether the government would provide direct support. Joint ventures, especially in the early stage, need foreign exchange to develop; therefore the source of foreign exchange is an important issue. The German side hoped the Bank of China, which manages foreign exchange in China, could get involved to ease the pressure on foreign exchange. We believed this was a reasonable suggestion. We won support from the Shanghai branch of the Bank of China after discussion with their leaders. Approved by the headquarters of the Bank of China, the Shanghai branch invested its foreign exchange and became one shareholder of Shanghai Volkswagen. This has set a precedent for national financial agencies to invest in joint ventures. Regarding securing payment support, this was not a problem, but the German side insisted China was a socialist country and SAIC was a local enterprise, without direct support from the central government, and there would still be obstacles. For this reason, we persuaded Comrade Rao Bing, who was in charge of China Automobile Industry Corporation, which carried the government function, to invest in Shanghai Volkswagen, which played an important role in the success and future development of the joint venture.*

However we have to acknowledge government involvement (such as intervening in the joint venture pattern and long approval process) causes negative effects on the negotiations. With the standardization of the environment, the importance of government relations is gradually reducing.

12.2.5 Principle First

If we divide negotiating style, Westerners negotiate based on interest, with the purpose of solving problems through coordinating interests. But Easterners like to stress position. They prefer to settle the main principle of the negotiation, and then conduct the negotiation with the guidance of that principle. The purpose is to win the mind game. Putting the principle first is also related to the Holistic thinking of Chinese culture. Chinese people believe everything in the world is connected. You can't take one question separately, but should think of things as a whole. Therefore, negotiators should settle the major principle framework, and stick to the principle. Otherwise, it is impossible to discuss the details. For example, during China-US negotiations to establish diplomatic relations, China insisted the US should end diplomatic relations with Taiwan and US troops should leave Taiwan. On the contrary, many Western negotiators (such as from the US) have no general principle; they think details are the fundamentals of negotiation.

The merit of the principle-first negotiation style is that, as the principle includes several items to be discussed later, accepting this framework means the Western negotiator is accordingly locked into making compromises. The defect in this style is that, as details are not being examined, the negotiation agreement could be very general; therefore, it may not protect their own interests or proceed to good cooperation. Some researchers reviewed Chinese joint ventures and the contracts they signed. They discovered the more detailed the contract is (the more comprehensive, and the more specific the items are), the better the joint venture's performance.

It is undeniable that "principle first" is the result of cultural influence, and also bears the character of that time. Firstly, when a Chinese enterprise is in a weak position, it usually sticks to one or a few pre-fixed stands, which have to be accepted by the foreign side if it wishes to reach an agreement.

Secondly, in the early stage of joint ventures, most Chinese enterprises were short of special qualities, and the understanding of industry practice, management rules, sense of risk and rights awareness. The contracts had to be general. With the increase of negotiating experience, Chinese enterprises went through a learning process and started to be detail- and standards-oriented. In 1996, the former executive director of Hong Kong China Resources Limited, Huang Tieying, conducted the acquisition of C'estbon purified water from Vanke group. He recalls:

> *After confirming their intention to sell, we asked for the price range. I found their price calculating formula was quite simple. After my first exploratory price bid, Wang Shi and I took less than 10 minutes to reach agreement on price. This result was quite quick to achieve, but I wasn't surprised, because my experience in acquiring Chinese enterprises was that it was always an easy beginning but a hard ending to acquire Chinese enterprises. It was not only because Chinese businessmen inherited the Chinese culture of "general picture is more important than details", but also mergers and acquisitions were still a brand new topic to China in the 1990s. Not surprisingly, I found the process slow down during the mid-term of acquisitions. Wang Shi complained to me over the phone, asking why your acquisition conditions were so complicated and rigorous. He was mentioning our Hong Kong lawyer's request to Vanke to sign a guarantee letter containing more than 30 items on C'estbon's assets and state of operation. As he kept complaining, Wang Shi was a little angry. He started to accuse us of not trusting Vanke and not being sincere enough for this business. After three days, Vanke signed on the acquisition contact drafted by our lawyer. More surprisingly, during the signature ceremony, in front of his subordinates, Wang looked into my eyes and said, "We should learn from you on future merger and acquisition business. You made us know the difference between professional and unprofessional. Four years ago, we signed a page and half contract to acquire C'estbon,*

today you used a 30-page contract to buy this company. I wish to invite you to give lessons to us on corporate merging (Huang Tieying 2006, p. 176)."

It is worth noting that "principle first" firmly protects the user's own position and prevents compromise on certain issues, which may ignore the differences in the point of interest of both sides. Therefore, to a large extent, it reduces the room for maneuver and lowers the possibility of achieving win-win outcome.

Table 12.1 is a summary of characteristics of Chinese negotiators. These characteristics are influenced by culture and values, and carry the features of the time during past 30 years. They are the result of the interaction between culture and context.

12.3 The Evolution of Chinese Enterprises' Negotiating

In recent years, conflicts often happened in Sino-foreign joint venture corporations. Besides the divergence in terms of cultures and management concepts, the more important reason is that small changes happened to the comparative capacities of both parties during cooperation. In the early days of Sino-foreign business negotiations, the Chinese party relied on the foreign partner more. When the comparative capacity of both parties started to change, the previous psychological balance was broken, and changes in the previously arranged benefits were sought. In view of the fact that more and more Chinese enterprises are increasing in power and sophistication, this section will analyze the process of the unbalancing from the perspective of the changes in the negotiation powers of the Chinese and foreign partners. It is expected to provide inspiration for the collaboration of Chinese and foreign enterprises.

12.3.1 Strong Counterparty vs. Weak Our Side – Trading Market for Technology and Capital

During transnational negotiations, due to the learning and growth of both parties, as well as increased investment, faster localization, change of environment and other reasons, the overall capacities of the two sides of the negotiation have been changing; thus, the core interests of both sides have also been changing. As this has happened, each party to the joint venture has started to adjust their strategic behavior and sought more management and control.

The negotiation capacity mainly presents as alternative replacement plans, strategies, professionalized management and technology, international support, localized knowledge, logistics channels, capital, shareholdings etc. In the early times of Sino-foreign negotiations, there was a visible imbalance in the above-mentioned capacities between Chinese enterprises and foreign enterprises. We

Table 12.1 Chinese negotiator's characteristics

	Corresponding cultural feature	Negotiation features when negotiating from a weak position
Chinese people's old friend	Relation-oriented Focus on Face	Showing goodwill during meals and drinks to soften the defensive line; getting to know the other side, and obtaining relevant information
Feather fans and silk headdress	Harmony, avoid confrontation Neutral emotion	Good at strategies Compromising to make a good impression, waiting for opportunity Modest but confident, keep defending
Indirect communication	High context culture	Withholding of information
	Long-term oriented	Keeping silent during negotiation to make others compromise Extending the negotiation to win time
Focus on power	High power distance	Refusal to compromise by claiming "limited power" Achieving complementary benefit by strategies such as "market for technology", "Facilitate negotiation with the aid of government intervention"
Principle first	Holistic thinking	Asking the opponent to accept principle, to win advantage Shortcoming is lack of awareness to rules, the contract formulation is rough; limited negotiation room

could sense this at the GATT conference venue during the early days of China's application to join the WTO:

> *The conference venue of GATT is very special: There is a big coffee hall in the middle. People can sit there and drink coffee or beer. Around the circle are many small independent negotiation rooms. The delegations of the United States and European Union were negotiating in the small meeting rooms. Japanese delegations were negotiating with Canadian delegations. Basically, delegations of big countries were negotiating, and representatives of small countries were sitting at the coffee table and waiting. The United States is the most powerful member of the GATT. It had the largest GDP. So, only approximately 30 members negotiated (directly) with China. Another 100 members were counting on the United States to negotiate with China. If China and the United States made an agreement, according to the most-favored-nation clause of GATT, the result would also apply to these 100 countries. Therefore, they just needed to sit there and wait for the news.*[4]

In this uneven situation, the strengths and weaknesses of Chinese enterprises, respectively, are:

[4] http://www.cnfamily.com/200208/ca499.htm

12.3.1.1 Strengths

Compared with foreign enterprises, there were only two cards which Chinese enterprises were holding: one is cost advantage, namely using its cheap labor to become the world factory and thereby keeping down the manufacturing cost of international brands, so as to create plenty of room for profit for foreign enterprises; the second is the market status of China. China's huge population made it an attractive consumer market. Setting up in China could provide foreign companies with localized marketing concepts and channels, a lower entry level for foreign products, faster establishment of sales networks, and faster growth of market share. In addition, besides the advantages of local enterprises, the Chinese government also provided favorable tax policies to further attract foreign investment.

12.3.1.2 Weaknesses

However, there were weaknesses that made Chinese enterprises look inferior, even with the above two cards in their hands, and put them in a disadvantaged position in transnational negotiations. The weaknesses of the Chinese side mainly had three aspects: first of all, there was the low technology and management skill. Because of their deficiency in independent research and development capacity and innovation capacity, as well as a lack of efficient and orderly management systems and concepts, Chinese enterprises relied on their foreign partners to bring core technology and advanced management experience; they expected to "trade the labor and the market for the technology and the management skills". The second weakness was insufficient capital. In terms of purchasing advanced equipment, introducing and keeping high tech and management talents, as well as establishing and maintaining high-efficiency logistics and marketing channels etc., most of the domestic enterprises could not compete with those foreign enterprises with solid financial strength. Therefore, at the early stage, central and regional governments used many ways to try to attract foreign capital, including tax exemptions and deductions and other favorable policies. The final weakness was a lack of internationalized brands. Chinese enterprises at the start paid little attention to branding; they did not make an effort to build up and maintain local brands. Their great admiration for foreign brands made the development of a national industry really difficult. In addition, due to low technology and non-standardized quality control, their products were of poor quality and could not compete with foreign brands. Therefore, many enterprises had to give up their own brands and become the factories of foreign companies. The above points show that, at the early stage, Chinese enterprises lacked good alternative replacement plans in terms of the situational factor; in terms of the resource factor, they also urgently needed technology, capital and the support of international brands. Only relying on the local market with a big population and a large amount of cheap labor could not help enterprises effectively integrate manufacturing and operational capacities to reach the goal of fast development. In this situation, vulnerable Chinese enterprises were more eager to cooperate with strong foreign enterprises.

This imbalance in capacities directly caused an imbalance in the process and results of Sino-foreign negotiations in early times. The negotiation logic of those dominant international companies was “self-centered”; they did not consider the benefits of the weak parties and long-term development. They either viewed the Chinese as a pathway, using the cooperation to ease their entry into the Chinese market or gain more market share; or let Chinese people work for them to decrease manufacturing costs in their global planning. In this situation, the Chinese enterprises, as the weak party, could not obtain the core technology and management experience they wanted; instead, they had to give up more management control and accept the profit and resource distribution shares imposed by the stronger partner. This imbalance ensured Chinese enterprises would seek a more equal “dialogue” after their capacities strengthened. The representative of the Chinese negotiation delegation for entering the WTO, Long Yongtu, once said:

> *The reason for difficulties in the negotiations between China and the United States was because, firstly, the US had been very tough; they talked louder because they were richer. The US’s attitudes in each years’ negotiation had always been: if my requirements are one, two, three, four, then you have to do it exactly; there was no room for negotiation. But Chinese people could not accept this. That’s why at the beginning of the negotiation, it was not a substantial negotiation, it was a negotiation of attitudes. It took the Americans five years to finally get used to Chinese people’s request for equality in negotiation.*[5]

12.3.2 Strong Alliance – The Negotiation of Technology Capacity Combining Skills

12.3.2.1 Changes in the Negotiation Capacity

The comprehensive competitiveness of Chinese enterprises has been growing along with the development and expansion of the new national enterprises. They have more confidence and energy to bring to the international negotiation table, as well as more right to speak. In relation to the three weaknesses mentioned above, Chinese enterprises’ management skills and technology level have now caught up with, even exceeded, the skills of advanced foreign companies. For example, at the Mobile World Congress 2009 in Barcelona, the mobile heavyweight Huawei Limited displayed the world’s first integrated 4G system specifically designed for mobile operators. This put Huawei at the global top level in 4G technology. In terms of capital capacity and scale, there were 70 mainland China enterprises, 39 from Hong Kong and 42 from Taiwan in the Forbes 2008 global top 2,000 enterprises. Six of the top 100 were Chinese. In terms of international branding, Haier, Lenovo,

[5] http://news.sina.com.cn/c/2001-11-11/396813.html

Huawei and many more Chinese enterprises are not only deeply rooted in the local Chinese market, but also have expanded their businesses into overseas markets. In addition, China has dropped its different tax regulations for domestic and foreign enterprises, and started to enforce a fair tax regulation covering both domestic and foreign-invested companies.

12.3.2.2 Dealing with the Change of Negotiation Capacity During the Joint Venture Process

The measures of the foreign side. In today's Sino-foreign joint venture negotiations, foreign enterprises have realized the change in the negotiation capacity of the Chinese side and have changed their previous tough approach. Although some foreign-invested companies were still so used to their preemptive negotiation strategy, they continued to try to negotiate based on their own envisaged results and did not want to lose their advantages. They found that, if they persisted in their aggressiveness and arrogance, it not only created hostility but also resulted in a negative outcome from the negotiations.

Facing China Mobile, which enjoys daily net profit of more than 200 million RMB, as well as the Chinese market, where service contract phone sales only have less than 10% market share, Apple has to adjust its dominant negotiation style when dealing with the world's top mobile service providers, such as AT&T, T-Mobile and Orange. In the US, Apple sells iPhones with an AT&T service contract and charges 10 to 20 US dollars for each subscriber every month. However, in China, Apple has had to give up its proposal of sharing 20% to 30% of the sales revenue with China Mobile, and had to try a more equal gesture by reducing the revenue share request in order to reach an agreement. It aims to find the best cooperator after patient negotiations with China Mobile and China Telecom.

The skills of the Chinese side. The rising Chinese enterprises are no longer in a disadvantaged position when facing foreign companies. They now have strong potential capacities in local branding, marketing channel establishment, as well as manufacturing and operational concepts. These enterprises are also improving their negotiation styles and methods while growing. Below, we will elaborate by outlining two cases: one is a distributive negotiation case involving the China Iron & Steel Industry Association's iron ore negotiations, and the other is an integrative negotiation case involving Huawei Company's dealing with disputes with Cisco Systems Inc.

12.3.2.3 Case One: Flexibly Handling the Negotiation Capacity and Timing – The China Iron and Steel Industry Association Iron Ore Case

As a country which relies heavily on imported iron ore, China's annual iron ore negotiation is critical to the future of the iron and steel and related industries. In the previous iron ore price negotiations, BHP Billiton Ltd., the Rio Tinto Group and

Brazilian Vale do Rio Doce Company – the three global iron ore-producing oligarchs – always worked together as a cartel and harmoniously supported each other. However, the buyers from different countries all worked alone, taking care of their own business, so they could not have a big influence on the negotiation process and results. This left the price of iron ore totally in the control of the sellers, and formed an exchange of unequal values.[6] As the biggest buyer of iron ore in the world, China approached the 2009 price negotiation seeking more favorable iron ore prices for the domestic iron and steel enterprises by adjusting negotiation capacity and seizing the negotiation timing, turning a passive approach into an active approach (Qiu Feng 2006, p. 37).

In terms of negotiation capacity, Chinese iron and steel enterprises have been constantly emerging and restructuring in recent years, and organized an enterprise alliance to further consolidate their strength. This has enhanced the organizational level of China's iron and steel industry; through the strong alliance they strengthened their general capacity and thereby increased their negotiation capacity. They have also established an iron ore pricing center. Therefore, Chinese enterprises were equipped with the power to fight with the three international iron ore oligarchs, and to adjust and influence the iron ore price negotiation.

In terms of negotiation timing, the productivity of the world's oligarchs was reaching its limits, so the Chinese market, as the biggest single market for iron ore, patiently bargained under the general guidance of the China Iron & Steel Industry Association. This put significant pressure on the intense capital chain of the iron ore manufacturers and gained China more bargaining chips. In addition, the China Iron & Steel Industry Association skillfully took advantage of a "spying" incident involving the Rio Tinto Group to break the deadlock in the negotiations, which had run overtime. This solved China's dilemma and sounded an alarm to the Rio Tinto Group and other oligarchs,[7] and finally prompted success in getting a favorable price.

12.3.2.4 Case Two: The Skillful Utilization of Conditional Contracts – Huawei's Dealing with the Cisco Dispute

The negotiation between Huawei and 3Com provided good inspiration for the coping strategies of joint venture corporations during negotiation reforms. As a telecom equipment manufacturer established in 1988, Huawei in its early days and facing a strong foreign competitor adopted a negotiating strategy of "accept its weak position and trade comparative advantages with the competitors, even if it is unequal trading, to gain long-term development benefits". The strategy Huawei adopted was nothing more than using its comparative advantages to trade for an improvement in its disadvantaged areas, and through removing the disadvantages,

[6] http://www.huanqiu.com/zhuanti/finance/irondeal/

[7] http://www.chinanews.com.cn/cj/news/2009/07-17/1779839.shtml

to increase its overall capacity and gradually occupy a beneficial position in the long and complicated negotiation game. The telecom equipment industry had been dominated by Western companies. As a private enterprise, Huawei continually grew by "using small power to play with the big hunk", and promoted their products in overseas markets. Huawei's performance gained the close attention of the leader of the international network equipment market, Cisco Systems Inc. In January 2003, Cisco accused Huawei of illegally copying the source code of its operational software. In the face of this sudden major dispute, Huawei did not panic just because the other side was the "big hunk", Cisco. It made a fast decision to stop selling the disputed products; while analyzing the product disputes. It also established the Huawei-3Com (H3C) Company together with the 3Com Company to challenge Cisco's system. Finally, Cisco backed down in July 2004.

During the battle with Cisco, Huawei's move to align with 3Com was a strategy of "the rocks of another mountain can break the jade". In addition, Huawei wisely used the strategy of conditional contracting, freely choosing strategies to serve the constantly changing targets of the company during the cooperation with 3Com. At the beginning of the establishment of H3C Company, based on the principles of a "strong alliance" and "joining forces to fight a common outside threat", Huawei held 51 % of the shares in order to take the initiative in emergencies. After Cisco gave up its challenge, Huawei turned its strategic direction back to the development of its own company. In 2005, it sold 2 % of its shareholdings to 3Com for 2.8 million US dollars; and eventually sold the remaining 49 % for 882 million US dollars in 2006. This move provided the company with a "timely rain" on its capital, giving it the resources to further explore the international market. On Sept. 28, 2007, Bain Capital and Huawei announced their intention jointly to purchase the 3Com Company for 2.2 billion US dollars. Under the deal, Bain would have 80 % of the shares and Huawei the rest. Even though, in the end, the United States government moved to block this transnational purchase on the grounds of national safety, the deal showed H3C had now moved from the previous "trade market for technology" mode to a "trade technology for market" mode. Through the agency of holding the technology advantage, the rising Huawei skillfully cooperated with 3Com, defeated the assault of Cisco, and recaptured its market share in North America. Finally, it attempted to purchase 3Com to plan its future internationalized operation, and created more beneficial space and growing opportunities from a long-term development perspective.

The growth of Huawei is a long–lasting, extremely complicated negotiation history which is full of competition and encompasses situations where one was fighting many and enemies and friends co-existed. The "war and peace" of Huawei and international enterprises fully reflects the unavoidable "competition-cooperation problems" that have existed during the growth and expansion of Chinese enterprises. From Huawei's difficult negotiation journey, we can see that, on negotiation's path towards the top level of international companies, competition in cooperation and cooperation in competition must become the theme for the maturing of Sino-foreign joint venture enterprises. While balancing their own capacities, Chinese enterprises must find the right complementary advantages and disadvantages of both sides, as well as the point where these meet, skillfully look for a mutually beneficial space and try to avoid contradictions and conflicts to reach a win-win situation that brings long-term benefits.

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Postscript

For scholars like us, who are doing serious academic research, writing a book is always an unappreciated job. In the academic community, people's inquiries, discussion and congratulations are mostly related to academic papers, especially those papers being published at world-renowned top-tie academic journals. It is very rare to talk about publishing a book, which seems to be an embarrassing thing. Even the author is afraid of declaring with confidence that "I published a book recently".

But people outside the academic community, especially the clients to whom we serve, corporate managers and employees, have completely different expectations. During years of teaching at Guanghua School of Management, Peking University, we find what engages students the most are real business cases and analysis of the real management practices of Chinese enterprises. Almost without exception, the most frequent question students asked is, "Professor, is there any book you can recommend to us?" Every time when this happened, we felt embarrassed. We were unwilling to say that we don't have a book to recommend. If we explain the rules of the academic community to them, it would sound like quibbling. Therefore, we had no choice but to say: "there will be in future". Sometimes we also suggested them to read our research papers, but we were still afraid they might feel disappointed after reading, and hence affect our "good image". Sometimes we even proudly believe there are already enough similar management textbooks, so many that a bookshop might launch a promotion campaign, such as "selling books by the kilogram". Therefore, we don't need to waste our energy writing a book that lacks creativity and insights, which are only used by our own students.

In recent years, fellow faculties in Guanghua School of Management have become concerned that Chinese enterprises are making breakthroughs in management but we, as researchers of organization management, are stepping aside. Affected by the academic evaluation system, management scholars in universities have to spend time and energy on writing serious research papers. Young scholars are even more attached to such an evaluation system and give top priority to publishing papers in journals which are included in SSCI or SCI. These papers sound profound and complicated, but no one pays attention to the question of

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whether such papers can address the real situation in China (and in management), or provide inspirations to Chinese managers. Our ancestors said a teacher was obligated to teaching lessons and answering questions. But, in recent years, we have been pursuing the publication of papers in international journals while drifting further and further away from being real teachers.

In recent years, the academic community and press workers have published many books and reviewing articles summarizing China's experience with reform in the past three decades. Unfortunately, these books are all talking about the macroeconomy but neglecting the development of Chinese enterprises. As the driving force of China's rapid economic growth, the "absence" of the Chinese enterprise is surprising. Chinese enterprises experienced the twists and turns of the market, survived competition with international corporations, accumulated remarkable experience and lessons worth reviewing. As researchers of organization management, we have the responsibility to write down the trajectory and evolution of organization and management of Chinese enterprises.

In spite of above motivation, sitting down and writing this book is still a challenge for us. We wish to thank some friends for their efforts in helping us finally to make up our minds to write this book, to record Chinese enterprises' management practices. Some talented people in the journalism and publishing field inspired us deeply with their vivid portrait of Chinese enterprises, particularly Ling Zhijun and Wu Xiaobo, who provided comprehensive descriptions on and passionate insights into Chinese enterprises and industries. When most scholars are busy with journal papers, a small number of researchers got into the enterprises to investigate and do research. Some corporate practices they summarized made people see that Chinese enterprises can justifiably be referred to as "the rise of the dragon". Professor Zeng Min's book, "Dragons at the door", also inspired us to write a book to describe the management practices of Chinese enterprises. Another person who strongly encouraged us to make the decision was our alumnus Ren Xiaoguang. After leaving the college, Xiaoguang was active in companies around the Zhongguancun area in Beijing. Later, he founded with some good friends the Ninetowns Internet Technology Group Company Limited, which listed on the NASDAQ in 2004. On April 4, 2009, we were having breakfast in the Beverly Hilton hotel in Los Angles, he sighed with emotion and said that there were too many valuable things about the development of Chinese enterprises that needed to be written, but no professors in business schools were doing that. Xiaoguang's remarks made us feel obligated to write a book on the transformation of Chinese enterprises. This book is surely far from his expectation, but he inspired the birth of this book. We hereby express our appreciation to the friends and fellow researchers who inspired and encouraged us to write this book.

We also want to thank all the chapter contributors of this book. For this book, they sacrificed time needed for writing academic papers, and they also gave up valuable time with their families. We started discussion on the outline in June 2009. After three rounds of discussions, we finalized the general content and chapters to be written by everyone. After that November, we met almost for a whole night once a week to discuss the first draft. Being more accustomed to writing academic papers, we suddenly found it quite difficult to write a book. Many members experienced harsh criticism during the meeting, and then they went back and rewrote for the next discussion. The whole process was complicated and stressful, but every chapter of the book was polished, and every writer understood better the real situation of Chinese enterprises after criticizing and being criticized. After so much discussion and repeated editing, we cross-checked the book once and once again. In this process, we understood the merit of teamwork as well as the importance of open communication to team-building.

In addition to the contributors of the book, PhD. candidates Wang Song, Xie Yunhui and Li Yuan, postgraduate student Zhou Ni, and undergraduate students He Yuan, Fu Yangpeng and Wang Yaxin, from Guanghua School of Management also participated in every discussion, during which they offered important insights. When the draft was finished, He Yuan and Fu Yangpeng from Guanghua School of Management and Wang Lingyun from Xiangtan University did proof reading on some chapters, and corrected some mistakes we didn't notice.

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We are aware there are many limitations in this book. This book was written by different persons; therefore the language styles may differ. The practices of Chinese enterprises are as colorful as a kaleidoscope; it is inevitable we may ignore some aspects. As management practice is developing over a long time, research on management can only focus on "yesterday". However, we have the courage to present this book to you and look forward to receiving your comments and suggestions.

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