

1 Introduction

This book is concerned with the management of enterprises in China. Its setting is the world's largest country which is in the midst of a momentous programme of economic reform. The reform is leading to what one commentator thought could be 'the greatest economic miracle ever' (*The Economist* 1992a: 58) and is generating an unprecedented level of interest on the part of foreign investors.

China is now one of a mere handful of socialist countries left in the world, in company with Cuba, North Korea and Vietnam. Not only is it a giant among these but it is rapidly becoming a colossus on the world's economic stage as well. The conjunction of socialism and swift economic development lends China a special interest. Its state socialism gives rise to an amalgam of economic and political institutions which mould the country's system of industrial governance and which determine the criteria for managerial decisions and actions. At the same time, its economic development has been markedly hastened in the past fifteen years by policies aimed at decentralizing that system of governance, introducing market forces, and opening up trade and investment relations with the rest of the world. It is now generally agreed that China's system of industrial governance must continue to reform away from its original state socialist model if the pace of its economic development is to be sustained.

This is also tacitly accepted by those in China who have pushed forward the country's programme of economic reform since its inauguration in December 1978. The changes already accomplished and their consequences for business and management in that country are considerable. The severe retrenchment initiated in the Autumn of 1988 after the economy overheated, and the tightening of political control over enterprise management following the June 1989 Tiananmen Square incident, now appear to be relatively short-term deviations from the longer-term path of economic reform.

Much has been written on China's economic reform and its future prospects (e.g. Tidrick and Chen 1987; Nolan and Dong 1990; Hussain 1992; Fan and Nolan 1994). The reform has been directed towards applying market forces to economic transactions, the controlled opening of the Chinese economy to

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foreign investment and trade, and the decentralization of economic administration from central government down to provinces and large municipalities. Within the broad frame of these developments, the reformers have intended to transform factories into enterprises and to charge their managements with responsibility for their performance, permitting them an accordingly greater autonomy over enterprise policy and other areas of decision making. While it has experienced problems, many of which still remain, the Chinese economic reform has been remarkably successful. It is today held up as an alternative to the all-at-once, root-and-branch 'big bang' approach to post-socialist economic reform which many Western advisors have advocated for Eastern Europe. The Chinese model is one of reform by incremental and experimental innovation, with the state retaining a major role in the overall regulation of the economy and probably a significant stake in the ownership of industrial property as well.

China is therefore a test case for socialist and post-socialist economic reform, and indeed for economic development in general. It also provides a challenging application for competing theories on management and organization, all of which derive from Western experience. Different perspectives purport to throw light on the nature and sources of interpretations and practices in and around organizations, variously adopting culture, institutions, political ideology, economic rationality and industrialization as their main theoretical points of reference. Investigations of Chinese management promise not only to provide information of direct relevance to those who are active in that economy, but also to illuminate the relevance of Western thinking on management.

The title of this book expresses its basic objective: to further our understanding of Chinese management during the age of reform. More precisely, the book concentrates on developments in the management of state-owned enterprises following the decision in 1984 to apply the reform to such enterprises on a national scale. The book's main justification lies in the fact that there is still a dearth of information available on what the Chinese economic reforms have actually meant on the ground – at the level of managing enterprises. Little is known, for example, about the extent to which managers have been allowed to assume authority over business and organizational decisions, or how freely they have been permitted to engage in market transactions. There is equally the question of whether they are sufficiently trained and experienced to assume such new responsibilities. Another important matter requiring clarification concerns the contribution to Chinese management development that is being made by foreign direct investment through Sino-foreign joint ventures.

Much has been said and written about the intentions of the reform at the enterprise level, both by foreign authors (e.g. Warner 1987) and in Chinese sources such as articles in the official English-language weekly *Beijing Review*. Many papers have been written by non-Chinese authors on the basis of quick, one-off and generally superficial studies which concentrate on one aspect of

Chinese management attitudes or experience. These reports often employ a questionnaire-based methodology, the validity of which is particularly suspect in this context (Shenkar 1991 contains several such examples). These studies may be stimulating in terms of their propositions, and collectively wide ranging in the issues they address, but are rarely informative in terms of their results. Many articles have also been written on the reform by Chinese authors. Some of these present useful case-study material, but they do not usually permit the reader to assess the quality of the sources of their information (e.g. He Wei and Wei Jie 1992). It is also rather rare for them to present a broader comparative picture. There are a few studies, or collections of papers, which are not so limited in their methodology, depth or comparative coverage, although at the time of writing (1993) they are no longer up-to-date in their material (e.g. Walder 1986; Laaksonen 1988; Child and Lockett 1990; Campbell, Plasschaert and Brown 1991; Jackson 1992).

This book focuses on management within Chinese enterprises, particularly state-owned enterprises, and in joint ventures with foreign partners most of which also involve state-owned enterprises on the Chinese side. Rather unusually, it is able to draw upon information which the writer obtained directly from such enterprises working in collaboration with Chinese colleagues. Moreover, much of this information was collected at two points in time during the economic reform process, firstly in 1985 when the reform had been newly extended to urban industrial enterprises throughout China and then between 1988 and 1990. Close contact was maintained with the enterprises in the intervening years. During this four/five year period the reform had deepened.¹ It is therefore possible to provide some indications of how the intentions of the reformers have been practically implemented across a variety of areas including enterprise leadership, decision making, the management of transactions, the role of senior management, personnel practices, reward systems, and the management of joint ventures. While the chapters to follow draw upon this original research as much as possible, they also refer to relevant investigations which others have conducted in order to extend the collective knowledge base and to compare findings.

The greater part of the writer's research in China was concentrated on six state-owned enterprises in Beijing. The China-European Community Management Institute (CEMI), where he worked part-time from 1985 to 1988 and full-time in 1989 and 1990, had developed close and continuing relations with these enterprises through extensive project work conducted by Master of Business Administration (MBA) students, and by means of executive courses and consultancy. This core group of six enterprises with which CEMI started to collaborate in 1985 subsequently grew to eleven, and comparative information is available on some topics for this larger group. Table 1.1 provides a profile of the six core enterprises as of 1985 and 1989/90.

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Table 1.1. *Profile of six Beijing enterprises, 1985 and 1989/90*

Enterprise*	Date of foundation	Total employment		Official size category	
		Oct 1985	End 1989	1985	1990
Audio	1955	848	850	small	medium
Audio-visual	1973	2,200	2,820	medium	large
Automotive	1966	3,883	5,620	medium	large
Electrical					
Switchgear	1955	718	630	small	medium
Heavy electrical	1956	1,869	1,905	medium	medium
Pharmaceutical	1973	957	913	small	medium

* Pseudonym to indicate product area but disguise identity.

These enterprises had been introduced to CEMI on the basis of their management's interest in working with an institute which was a repository of Western ideas and knowledge. They were headed by reform-minded directors. While the six enterprises varied in size and product area, none of them represented the category of extremely large, state-owned firm which is found in basic industries such as chemicals, iron and steel and petrochemicals. It should also be recalled that these are all state-owned enterprises, and do not represent the rapidly growing collective and private sectors of Chinese industry. In short, the six firms cannot be taken as typical of Chinese enterprises, or even of state-owned firms.

Nevertheless, much of the micro-level thrust of the reform has been directed at 're-vitalizing' state-owned enterprises and, in this respect, the Beijing firms provide test cases for an evaluation of its progress. The small and selective nature of our main sample is also a limitation imposed by the wish to conduct intensive research within each enterprise. Nevertheless, for some purposes (such as the study of individual earnings) the unit of analysis changes and the sample sizes increase substantially. The size limits of the sample do not anyway prevent its constituent firms from being used as focal points for understanding the economic reform and the process of its implementation over time. Indeed, as was argued earlier, the present need is for non-superficial studies of Chinese enterprises and their management, and intensive engagement with the six firms offers an important opportunity in this respect.

Certain sections of this book also draw upon studies conducted in thirty-four joint ventures between Chinese state enterprises and foreign equity partners from Europe, Hong Kong, Japan and the United States. In these studies, Chinese and European colleagues conducted interviews with the senior Chinese and foreign managers to explore the way the joint venture was being

managed, changes that had been introduced and problems experienced. Reference will also be made to a number of other studies which have also been made on Sino-foreign joint ventures.

The book divides into four parts. Part I sets out some key elements in the context of Chinese management. Following this introduction, chapter 2 discusses three factors which together have an important bearing on management in China, namely the country's position as an industrializing and modernizing economy, its system of industrial governance and its culture. Chapter 3 concentrates on the development of the economic reform, including the restructuring of economic management and the opening up of the economy.

Part II contains seven chapters, each of which addresses a different aspect of managing the Chinese enterprise and how this has been changing under the reform. Chapter 4 considers the question of enterprise leadership, particularly the relationship between enterprise directors and party secretaries who represent respectively the administrative and political lines of authority which permeate all Chinese public organizations. Chapter 5 examines the extent to which the reform has led to the decentralization of decision making to enterprises and whether it has also encouraged a greater delegation of decision making responsibility within them. This assessment is made by reference to decisions on a wide range of issues. Chapter 6 focuses on the process whereby decisions are reached in our sample of Chinese state enterprises: a total of sixty decisions are used to draw comparisons across different categories of decision issue and also between early and later stages in the reform.

Chapter 7 presents information from several sources on how input and output transactions are managed in China. This provides some indication of the extent to which Chinese managers are now able to carry out transactions themselves through market relations rather than being subjected to the administrative control of higher authorities. Chapter 8 considers the still very limited evidence we have on how senior Chinese managers carry out their jobs, and whether this appears to differ markedly from patterns that have been noted in Western countries. Chapter 9 turns to that area of policy and practice which in Western parlance is normally identified as human resource management, a concept which remains foreign to China despite some significant developments in activities such as training. Chapter 10 draws upon the writer's research into the structure of earnings for various categories of Chinese managers and employees. It also examines whether there has been a shift under the reform from a configuration of traditional influences on earnings to the use of criteria to reflect levels of responsibility and performance as advocated by the reformers.

Part III turns to joint ventures in China. These are regarded by the governmental authorities as extremely important channels for inward investment and its corollaries of modern technology, high standards of management and the development of an exporting capability. Chapter 11 concentrates on the

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establishment of joint ventures in China, including a brief review of the legal framework governing them, questions of complementarity between the partners, and the process of negotiating their formation. Chapters 12 and 13 then examine the management of Sino-foreign joint ventures. Chapter 12 focuses on the key issue of control, including conflicts between partners which both occasion and arise from the question of control; it also reviews the problems which foreign managers have experienced in China. Chapter 13 focuses on the more dynamic properties of the Sino-foreign business relationship including changes which have resulted from foreign involvement and the process of adjustment between the partners.

Each of the above chapters contains a short concluding section on its particular theme. Part IV which contains chapter 14 endeavours to stand back from the detail in order to address three issues. First, the extent to which mainland China has developed a business system, in which firms have become economic actors relating with one another through markets. Second, the kind of analytical framework by which the character of Chinese enterprise management, operating within this context, may be better understood. Third, how well Western 'tools' for making sense of management and organization can be applied to China and what comments can be offered on Western perspectives from a knowledge of Chinese management.

Some of the material in this book has previously appeared in other forms. Chapter 4 derives from Child and Xu (1991) and chapter 5 from Child and Lu (1990). A part of chapter 10 draws on Child (1990b) and a part of chapter 14 on Child (1990a). Reference is also made at relevant points to other publications on China by the author and his colleagues.

This book builds upon many hundreds of hours of original research which it would have been completely impossible to have accomplished without the help of many friends and colleagues in China and elsewhere. A particularly large debt of gratitude is owed to Dr Lu Yuan, my former student and now colleague at the University of Cambridge. He worked with me on many of the investigations reported here and his own research into decision making in Chinese enterprises is of a path-breaking nature. His research is summarized in chapter 6 and will be published shortly. Special mention must be made of Yan Ping who has always been generous in giving her time, knowledge and encouragement to my activities since we first conducted fieldwork together in Spring 1986. She has become a good friend and colleague. I have also benefited from working with Xu Xinzong, who studied with me for his MBA, during which time we were able to conduct the investigation into the managerial role of party secretaries reported in chapter 4. Dr Chen Derong has contributed a great deal towards developing my insight into the Chinese system and into the Chinese people themselves. The same is true of the friends I have made through the academic link between my former university, Aston, and the People's University of

China, which was funded by the British Council and the Chinese State Education Commission. Here I should mention Professors Shi Liming, Fu Hanfang, Wang Xinming and Zhu Fudong. In recent years, Professor Chen Zhicheng of the Beijing University of Science and Technology has offered me both insight and personal support for which I am most grateful.

Many of the larger-scale studies reported in this book relied on the fieldwork of several cohorts of Chinese MBA students at CEMI. In this connection, I should like to repeat a point made elsewhere, because it highlights the methodological importance of the contribution the students have made:

A foreigner faces obvious difficulties in securing valid information within Chinese enterprises. Quite apart from the problem of language and meaning, there is also the tendency to provide a mere gloss to someone who is a double outsider – neither of the enterprise nor of the country. The virtue of working with mature, industrially experienced indigenous students lies in their ability to approach more closely to the real situation prevailing within enterprises and to gain the confidence of respondents. . . [The students] had built up an extensive network of informants and had generated goodwill through the practical assistance [previous] projects had afforded. (Child 1990b: 233)

The staff at CEMI, including Jan Bourgonjon the recent Director, were always forthcoming in offering me assistance, both in the four years from 1985 when I was a teacher and then visitor at the Institute and during 1989 and 1990 when I served as its Dean and Director. Professor Max Boisot, my predecessor in that appointment, has worked with unfailing patience to sharpen my analytical appreciation of Chinese mysteries and has offered a particularly insightful critique of my writings. I have also gained considerably from the insight and experience of friends who appreciated the importance of Chinese management and organization many years ago and who pioneered research into the subject – especially Dr Martin Lockett and Professor Malcolm Warner.

Last, but only in chronological time, colleagues and staff in the Judge Institute of Management Studies at the University of Cambridge have been extraordinarily tolerant while I concentrated on completing this book. I am sure that they were as relieved to see it finished as I was. Several of my immediate colleagues in the Centre for International Management gave generously of their time to read and comment on a previous draft, especially Professors Suzana Rodrigues and Malcolm Warner, Sally Heavens and Roland Villinger. Sally Heavens carried out a considerable amount of copy editing, for which I am especially grateful. My secretary, Samantha Cover, offered particularly trenchant comments on the book's readability and later worked womanfully to reproduce several of its more complex diagrams.

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Part I

The context of management in China

2 Economy and system

This chapter looks at three key features of the context for managing enterprises in China. These are the country's status as an industrializing and modernizing economy, its system of industrial governance, and its culture. Each is first described so as to set the scene and then its implications for Chinese management and organization are discussed. In this way, the chapter lays a foundation for understanding Chinese management in terms of its main contextual fundamentals. The subsequent chapter then reviews the major change of recent times that has occurred within this context, namely the economic reform programme.

An industrializing and modernizing economy

Economic overview

Although China is still a developing country, with a per capita national income in 1992 of US\$367, it has already become a major economic power.¹ It is the world's largest agricultural producer and among the eight largest industrial producers. It is the world's third largest economy, calculated on a purchasing power parity basis. China's industrial development was led historically by the textile industry which remains a significant force, but other industries have developed rapidly, often with the help of foreign capital and know-how. China has, for example, become the world's third largest shipbuilder and the fourth largest steel producer. It is also the third largest producer of beer in the world, put under the table only by the United States and Germany.

This significant industrial presence stems from the combination of a huge population, a relatively high share of national income attributable to industry, and rapid economic growth.² China's population in 1992 was 1.175 billion. Figure 2.1 shows the uneven distribution of that population and per capita national income, with the latter being clearly differentiated between coastal and inland provinces. The labour force in 1992 totalled 594 million. While approximately 60 per cent of employed persons are still engaged in agricultural and related work, with only some 17 per cent in industry, industrial activity contributed 50.6 per cent of national income in 1992 and agriculture only 28.6 per cent. In addition, commercial activities contributed 9.2 per cent, construction 6.7 per cent and transport 4.9 per cent.

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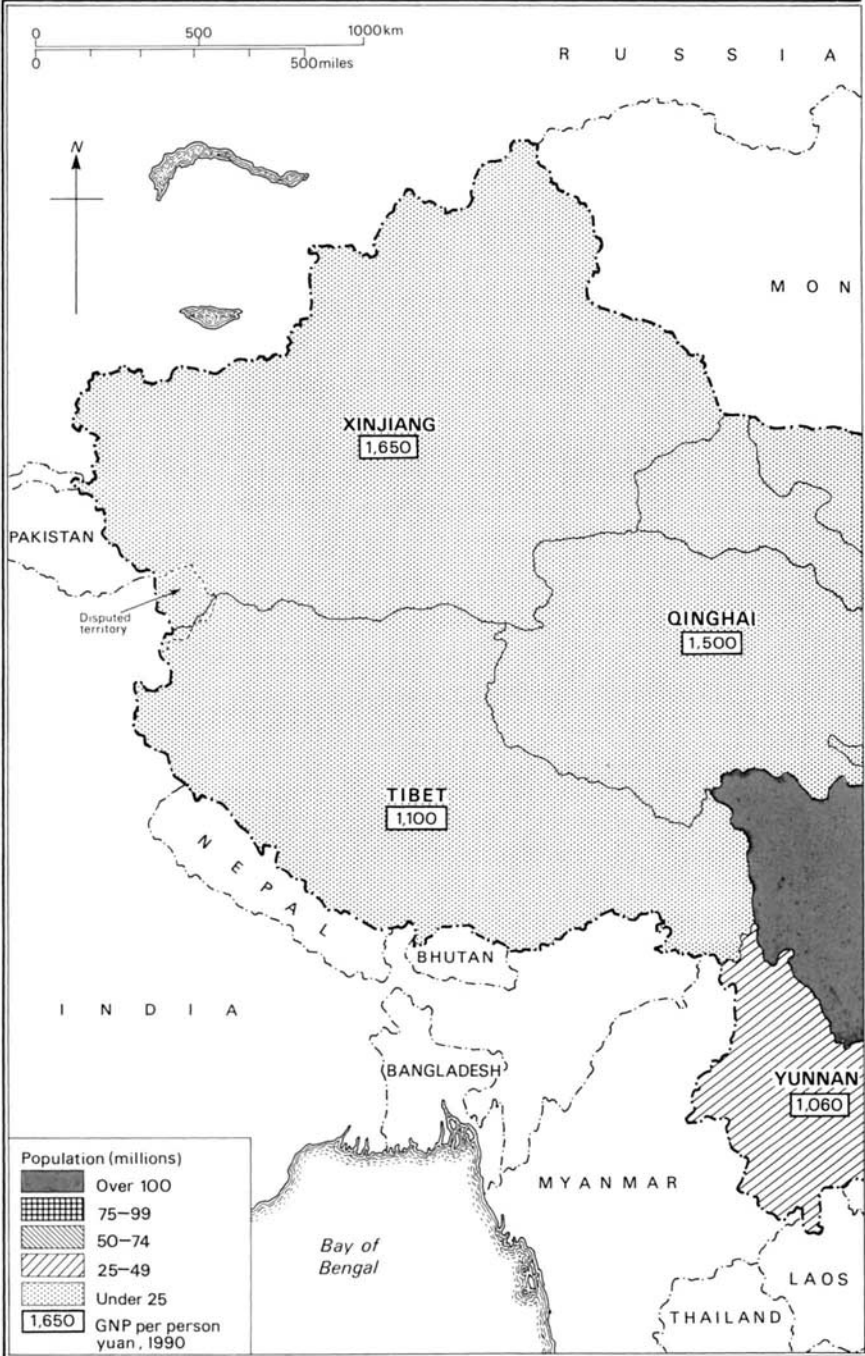


Figure 2.1 China: provinces, population and per capita income, 1990.
 Source: 'A Survey of China: When China Wakes', *The Economist*, 28 Nov. 1992.