

### NEW CHALLENGES FOR CHINESE LEADERS

Emerging markets multinationals have become serious competitors in a range of industries with thousands now actually owning Western firms. Such acquisitions, like Mittal Steel's purchase of Arcelor and Geely's investment in Volvo, have sparked national debates but do the original national and cultural identities of organisations really make any difference in today's globalised and interlinked world?

**Professor Nandani Lynton** of China Europe International Business School in Shanghai argues that cultures of origin – of companies and of executives – matter indeed. Although economies are linked and supply chains are global, culturally-based patterns of thought change very slowly.

This essay looks at the Chinese context in order to understand some of the special challenges facing Chinese executives in the years to come.

### **CHINESE TENSIONS**

China is the heavyweight growth engine even among the BRIC economies. Since the global financial crisis, China has outstripped predictions and already surpassed Japan as the second largest economy after the United States. The OECD reckons that, by 2025, China's GDP will make up 25% of total global GDP, with the US at 18% and Europe at 10%. This growth means an unprecedented number of Chinese executives will make their presence felt in the world of business.

Although it is still the workshop of the world with its low-cost manufacturing and processing base, government programs and FDI regulations and restrictions show China's determination to upgrade into R&D and high-tech. While pushing indigenous innovation is one way up the value chain, another is to acquire technical knowledge and know-how through acquisition. Since 2008, Chinese companies have increasingly bought European companies that hold patents and bring specialised engineering and research capabilities in a range of industries but particularly automobiles and components, pharmaceuticals, machine building and hi-tech.

As they become international, Chinese executives face new challenges and pressures. Not just the Chinese economy but also its infrastructure, urban landscapes and work environments have developed breathtakingly fast. Nonetheless, cultural patterns change only at glacial speed, partly because they are interwoven. Today we see old tensions in Chinese culture played out in new contexts.

This article looks at some of the issues for Chinese leaders as they become international. I have organised my thoughts around four cultural tensions that emerged from the GLOBE study research as introduced in my article with M. Javidan in the Harvard Business Review in November 2005. We used the findings on Chinese values - which best reflect a culture's ideals and aspirations - to predict how Chinese executives' agendas and challenges might evolve. 6 years later, the tensions remain, but the challenges have shifted.

### **SHARING THE POWER**

The first tension inherent in Chinese business culture is autocracy versus empowerment. Chinese culture is deeply hierarchical, assuming large status differences and deferential behaviour by those below to those above on the organisational and social ladder. This tension has been



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sensed at different points in Chinese history and has been moved into the work arena since Western models of flat organisations began entering China.

In order to grow beyond the image of low cost producers and adaptors of existing technology, Chinese companies on the global scene will ultimately depend on their creativity and new product development. Their biggest challenge will be to develop creative groups in their organisations and encourage and reward innovation, creativity, and intrapreneurship in the face of several long-standing cultural obstacles: autocratic structure and a reliance on one's circle of close personal relationships.

If Chinese companies are going to reduce their autocratic culture - and thereby allow for sharing of information, knowledge and decision-making, the type of environment in which innovation and creativity thrive - then executives will need to behave less like benevolent autocratic and paternalistic leaders and more like developing and empowering coaches.

Chinese companies typically have a personal, paternalistic management style and centralised authority. This structure, which follows Confucian principles of hierarchy and responsibility, are found in government, in state-owned companies and in private firms. It is effective for making decisions and quick implementation, but is not conducive to decentralising decision-making in overseas operations or to managing different workforces in other countries.

Making a transformation to decentralised authority and empowerment of local

operations will be hard for most Chinese executives and the people they work with due to the cultural practice of deference to those in positions of authority and little experience of cascading responsibility. But, if they can make the change, then Chinese companies will find that empowering more staff will actually relieve Chinese executives who typically sacrifice their personal time and use their connections to assist staff and further business interests. THE CHALLENGE FROM GEN Y

Today the challenge is acerbated by demographics: the younger Chinese generations resist hierarchy. Generation Y, born in the '80s and currently representing 41% of the workforce, is pushing to change patterns of management.

- These generations are making new demands in the workplace. They demand to know what their superiors have to offer as role models, sources of expertise and learning, and as people.
- They have high aspirations, which led to the recent strikes in factories in south China and to a severe shortage of applicants for low-skilled service positions in the urban centres.
- Adapting to these generational changes demands a new management style, a more supportive, transparent and coaching approach rather than the traditional command and control version. Recently, internet reporting indicates that even the Chinese military is changing its approach to the new generation of recruits.

### INDEPENDENCE

The second tension identified by the GLOBE study is government reliance versus self-sufficiency. For fifty years after the establishment of the PRC, Chinese industry was state-owned and collective, providing cradle to grave care for its workers and guiding all aspects of their personal and professional lives. Although the institution replaced the more personal family structure, this way of caring for people built on long Chinese traditions of bearing responsibility also for the private lives of your subordinates.

The economic reforms and opening of the '80's and '90's brought downsizing and closure of many state owned enterprises (SOEs), with ensuing unemployment, disappearing pensions and medical care. At the same time, institutions such as factories, hospitals and universities were told to earn their operating budgets rather than relying on government financing. This was difficult

for organisational leaders who were torn between wanting to care for their staff and the need to make profit-based decisions.

In the last decade it has seemed that 'capitalism with Chinese characteristics' was very like capitalism anywhere. Private companies grew to be the most productive part of the economy; entrepreneurs went from being reviled to being welcomed into the Communist Party, and the world's wealthiest lists now include many Chinese. Increasingly, however, it is clear that the lines between private and government ownership and influence are still not clearly drawn.



# Chinese executives need to behave less like benevolent autocratic leaders and more like empowering coaches

### THE CHALLENGE OF TRANSPARENCY

Today, following the financial crisis, Chinese SOEs are experiencing a new heyday. However, even those on Hong Kong and Western stock exchanges have mostly carved out a chunk of the business to list, leaving the core non-transparent. Many private listed firms are also internationally seen as unreliable in their reporting.

- While SOE and private companies in China rely on government support in different ways, it often leaves corporate governance a grey area.
- The interconnections with government and financial institutions that give SOEs business advantages also leave them open to accusations of being an arm of the government and hence excluded from some acquisitions and contracts in the West.
- Close relationship between business and government leaves firms under suspicion of being corrupt, although often the use of networks is a legitimate part of their structure from the Chinese point of view.

### FINDING A GLOBAL ROLE

The third tension faced by Chinese leaders is national pride versus a global perspective. In correct parlance, China is not an

emerging economy, but a re-emerging economy. According to OECD research, China generated between 25-33% of the entire global GDP in 1820. When Napolean uttered his famous statement: "Let China sleep, for when she wakes, she will shake the world," China was already a major power. For many reasons, including the Opium Wars, uprisings, and invasions, China then fell to a negligible contributor for the quarter century following 1949.

Today, with China raising its voice as the leading BRIC country, taking its place at the table with the G20 and sending business and political leaders to Davos, there is good reason for patriotic pride. However, when those same leaders return to China, they are faced with some suspicion – have they become somehow 'westernised'? Are they still true to Chinese perspectives? And so, in order to prove their purity, these leaders act in a more 'nationalistic' way and become less open to the outside than their peers who stayed home.

### THE CHALLENGE OF GLOBAL EXPECTATIONS

China is unlikely to adopt Western communication style or transparency standards. This makes problems on the global stage; as China's active role has grown, so too has global scrutiny and comment – something the Chinese do not take well. Nonetheless, China is a member of global organisations such as the UN and its engagement is important for all countries.

- The Chinese won their 2008 Olympic bid partly because they hired top international PR firms; more tailored communication would help in addressing global issues too. For example, China's investments in Africa have attracted criticism that they support unsavoury regimes without using funds to pressure for change. Likewise, on climate change, at Kyoto the Chinese showed themselves willing to enact strict regulations but not to having these measured by outsiders. To the West, it can seem like stubbornness, lack of responsibility, or self-interest, while Chinese bloggers write that the world is jealous of China's rise and therefore eager to keep it down. Yet global interaction also means finding ways to discuss such differences.
- Simultaneously, Chinese have difficulty understanding political systems wherein governments really do not control what is expressed in the press, by demonstrators or by the courts. When the Olympic torch was extinguished in Paris, Carrefour was

boycotted in China. The expectation is that political – or business – leaders are in charge of their people and what happens, which quickly sours relationships.

• As Chinese businesses globalise, many are realising that their lack of cross-cultural skills restricts their success. In 2006, the CEO of China Mobile said: "I can find young managers who speak English, but I cannot find the ones who understand my international partners and customers." Encouraging and developing a global mindset is a challenge for Chinese multinationals and for government.



## Transforming to decentralised authority and empowerment of local operations will be hard for most Chinese executives

### **DEALING WITH DIVERSITY**

The final tension of insularity versus diversity is crucial to understanding several trends in Chinese economic behaviour. The government has long supported the globalisation of Chinese companies, which initially meant the acquisition of resources and a few high profile business deals of which some have fared better than others. Think of Lenovo's purchase of IBM's PC arm against TCL's unsuccessful attempt to revive Thompson.

The past four years have seen a massive increase in overseas investment and acquisitions as well as Chinese firms' organic expansion overseas. However, it is difficult to manage an international company in a hierarchical centralised structure. After all, after decades or more of globalisation, many Western multinationals still grapple with the challenges of balancing central control with differentiated local operations. The international expansion leaves Chinese leaders running complex and far flung organisations, with relatively little experience of how to do it.

A key aspect of globalisation is the need to oversee operations in different time zones and contexts. It means adapting to different markets and consumers and business habits. Yet China's population is 92% Han ethnic group, with a culture that emphasises alignment to group thinking and an educational system that discourages questioning. Therefore, understanding of different cultures and different thinking is low.

A survey of Chinese business leaders published by Fortune China in 2007 showed a large gap between their self-assessments and comparative ranking on global perspective and on understanding and working with cultural differences. When GLOBE asked about leadership attributes, Chinese responded that being 'worldly' or having a global outlook was a negative attribute, one that inhibits outstanding leadership. This reflects the strong reliance on personal networks and inherent suspicion of people outside that circle.

Yet Chinese executives who want to put their companies on the global stage have to develop a global mindset that helps them work effectively with non-Chinese while, at the same time, ensuring they are still seen by their countrymen as faithful to Chinese traditions.

### THE CHALLENGE OF CULTURAL AGILITY

China's homogenous and relationshipbased culture has three traits that impact businesses as they develop internationally.

- It does not welcome outsiders, especially non-Chinese and non-Chinese speakers.
  Yet success in international markets demands the development of local managers in overseas' markets and their integration into the global corporation.
- The network is built on shared duties and does not typically encourage members to think in new ways, to bring in new ideas and or create ways of doing things. Yet global business requires innovation and flexibility.
- Being part of a network means members are preoccupied with maintaining their relationships and position. This can breed both jealousy and extreme equity. In fact, Chinese companies rarely develop managers systematically for overseas postings and they have a high turnover of employees posted abroad. This results from the feeling that it is fairer to divide among more people the opportunities to travel and live internationally.

These cultural patterns inhibit the development of global executives. Even for the younger generation of Chinese

managers, the circle of relationships is the basis for building trust and success in the corporate world.

Yet Chinese organisations must learn to include and trust outsiders - non-related locals who understand their markets. This is urgent because the bright and experienced managers usually sent as expatriates have many career options in China itself and see no reason to miss out on opportunities or to lose their networks at home by going abroad for several years. There is a new trend arising from these dilemmas. Increasingly Chinese companies are acquiring companies overseas and not integrating them. Instead they leave the operations to continue as before, focus on a few financial indicators to track, and use the synergy between the mother and daughter companies for specific effect. For example, in the machine building industry, Chinese SOEs have acquired particular high-end engineering capacity that they use strategically to pitch the sophistication and price of bids depending on the bidding opportunity. Internationally, they use more input from Europe, raising the technological excellence, but also the price. For Chinese domestic projects they fill the need for local content by reducing the European input.

### OUTLOOK

Navigating the new challenges and old tensions will occupy Chinese leaders for the coming future. Luckily they have a deep resource on which to draw.

One of the core competencies of Global Leadership is being able to hold contradiction and nonetheless act in the face of uncertainty. Chinese leaders grow up in a culture influenced by the Daoist view that all life consists of opposing forces that one can learn to use. They play contradictions from both sides, seeking a way of growing beyond a conflict rather than emphasising one side or the other. The acceptance of capitalism as a 'market economy with socialist characteristics' or integrating Hong Kong as 'one country two systems' are prime examples of this way of thinking.

The strong pragmatism of Chinese culture will lead to step-by-step experimental solutions that allow for new types of relationships, exemplified in the current strategy of post merger non-integration. Most likely, spurred by increasing South-South investment and interaction, this is where we will see the evolution of new business models. Stay tuned.

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