

## Best Kept Secrets of the Chinese Managers

From the moment Nixon landed in China, business pundits have preached the need to establish a presence in the Chinese market in expectation of the rise of China's middle class. Thirty years later, China's middle class has arisen and, just as the skeptics predicted, the riches have failed to materialize. The golden toothbrush theory—sell one to every Chinaman and you'll be richer than Gates—will be remembered as one of the most costly fallacies in modern business history, ranking alongside the collected body of dot-com wisdom. Given this failure to transform base consumer goods into gold, how can we explain the Fortune 1000's continuing enthusiasm for China?

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Our corporate leaders aren't stupid; they obviously know something the naysayers have yet to realize, something that's going to change the world: China is more than a market, it's the spawning ground for a management revolution. The success of the past generation shows the party cadre to be the most effective managers the world has ever seen. That's not empty superlative; check the numbers: record quarterly trade surpluses with the United States, each larger than the last; consistent year over year growth; inflation kept in check without runaway unemployment—these are the kind of results that make Jack Welch jealous! And they've hit more than just economic homeruns: China's brash entry onto the world stage and deft handling of the United States has surprised even the most optimistic observers. No matter the benchmark, the sino-managerial elite has proven itself a world-class team, and the competition has taken note. You know you've arrived when talent poaching becomes a threat to your bottom line, and this is certainly the case with China.

Of course, many firms may not be able to afford a potentate from the PLA. In fact, in these challenging times even a tractor factory manager may be out of reach. For those feeling a budget pinch, we've surveyed the literature and interviewed the people who know, cut through the hype and discarded the fluff, and here's what remains: the wisdom of the Orient, ready for application by busy managers everywhere. In just a few minutes, you, too, will know why the best minds in business remain long on China, Inc.

### **Don't reinvent the wheel**

Not-invented-here syndrome has been the undoing of many great firms. Success breeds insularity, and the highway of business history is littered with the wreckage of once powerful organizations that stopped being paranoid and drank the Kool-Aide. In the past, China's leadership was guilty of the same sin, evidencing an almost religious faith in the premise that nothing useful originated beyond the Great Wall. This short-sightedness produced the long, slow erosion of the balance sheet that culminated in the radical shareholder revolt of 1949.

The current management team, on the other hand, enthusiastically embraces new ideas and products—particularly those with military applications—no

matter their place of origin. Contrast dynastic China's failure to adopt gunpowder as an armament—a gaffe still studied in business schools as the textbook example of a failure to recognize a revolutionary application of an existing technology—with the current team's ferocious determination to upgrade China's military through the acquisition of American know-how. China's leaders believe the firm's future profitability rests upon the speedy deployment of advanced missile, satellite, and nuclear technologies, and their efforts reflect this make-or-break attitude. In addition to the traditional methods of corporate espionage, China has spent millions of dollars attempting to influence shareholder votes in America, a gambit that has paid off handsomely in the form of lax security at American research labs, ready access to the inner chambers of America's corporate headquarters, and extremely favorable terms for the licensing and transfer of desired technologies.

### **The only organizations that fall are those that never realize they've stumbled**

The events of 1989 showed just how sure-footed China's managers have become. A vocal minority in the boardroom, with the support of a few disenchanted managers, provoked a proxy fight over the future direction of the organization. China's leaders initially failed to recognize the factors prompting this putsch, but as events unfolded they realized that this was a problem of their own making: the upper ranks had failed to keep the front line in the loop on critical decisions shaping the firm's future, leaving the troops in the trenches susceptible to the appeals of a few disgruntled underperformers.

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China's management team fought back, deploying the full resources of the organization in a massive P.R. campaign targeting undecided shareholders. Sensing that the tide of battle had turned against their cause, the troublemakers sought assistance from an outside suitor, going so far as to hold press conferences against a backdrop of the competitor's corporate logo.

Unfortunately for the wreckers, existing strategic relationships made any direct assistance from this white knight impossible, and in a short time the proxy struggle was quashed.

The speed and confidence with which the Chinese leadership reacted to this challenge is a testament to their abilities, and their follow up actions revealed an executive team able to learn from past mistakes. Reforms included a reshuffling of the executive ranks intended to bring young blood into the boardroom, and a renewed commitment to close communication between management and labor; these initiatives quickly paid dividends in the form of increased employee satisfaction and gains in worker productivity.

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### **Keep your eye on the ball**

Too many organizations lose sight of the forest through the trees, and allow themselves to be distracted from the pursuit of long-term goals by immediate concerns. China's leaders have skillfully avoided this tendency, a fact evidenced in their foreign policy successes. Take the case of Hong Kong: by all accounts, China's directors never believed the British government would cede sovereignty over the territory; instead they expected, at best, shared administration and a recognition that changing demographics must eventually lead to a de facto transition sometime in the twenty-first century. Despite this pessimism, the Chinese continued to agitate for the return of the city-state, and the length and passion of their campaign moved the U.K. government's position far beyond what any disinterested observer thought possible. By keeping Hong Kong a front-burner issue, even in the face of near universal doubt as to the possibility of a shift in British policy, the Chinese reaffirmed their reputation as masters of strategic positioning.

China is employing this same approach with Taiwan. Since its split with the renegade province, China's leaders have repeatedly stated that reunification is a primary policy goal. No matter the venue—the Security Council, international conferences, or even the Olympics—China never hesitates to reiterate its claim that Taiwan is a region in rebellion, not an independent state. In spite of the consistency of this message, China's allies and apologists in the West continue to argue that her intentions towards the island can be moderated, and that a peaceful state of coexistence is a possibility. These fellow travelers will likely continue to proclaim China's flexibility in this matter until the very moment PLA forces take control of Taipei.

### **Never be afraid to take risks...**

China's growing economic influence has fueled adventurism beyond her traditional sphere of influence in Southeast Asia, and she is now a major player in many of the world's most politically sensitive flashpoints, including Iraq, where Chinese engineers are deploying advanced anti-aircraft radar systems and other poison pills over the objections of an American led coalition. Outside the realm of media scrutiny, China pursues opportunities in such far-flung locales as the oil fields of central Asia, the diamond mines of west Africa, and Castro's Cuba.

### **...But know when to cut your losses**

It is no surprise these initiatives sometimes meet with resistance from China's competitors. The first—and still the most forceful—demonstration of the business community's reluctance to simply roll over and play dead before the advancing Chinese juggernaut was the Korean Conflict, when China's full-court marketing press was opposed by the United Nations acting in its role as the anti-trust authority of last resort. The Korean conflict came to an end when China's leaders, desperate to close the books on an operation fast becoming a major drain on the bottom line, agreed to enter arbitration, the result of which was the partition of the Korean peninsula into North and South markets, an arrangement that continues to this day.

The Korean experience showed that China's leaders understand that business reality often necessitates the acceptance of less-than-desirable outcomes, and sometimes even requires partnering with corporate competitors. This understanding was revealed most recently in the relatively complacent reaction of the Chinese government to the American bombing of the Chinese embassy in Yugoslavia. While the incident provoked Chinese mobs to sack American properties in scenes reminiscent of the Boxer Rebellion, China's leaders responded in a markedly more subdued manner. While they did launch a series of diplomatic protests and targeted commercial retaliations in response to the strike, the measured tone of these actions showed that China's board of directors recognizes that the occasional bombing of an embassy is simply the price of participation in the grand game of global politics. In fact, some scholars now argue that the leadership's handling of this crisis was a masterful balancing of the need to appease nationalist sentiment at home—passions which, if not properly channeled, could turn against the current executive team—with the realities of Realpolitik.

### **Always grab the low hanging fruit**

Tibet is a resource-poor land offering little strategic advantage to firms participating in its market; because of this, China's leaders calculated that her competitors would not contest a push into the region. This suspicion was confirmed when regulatory authorities offered only token criticism in response to the Chinese sales force's entry into the mountainous kingdom. Fifty years after the operational launch, Tibet's integration into China is nearly complete, despite the efforts of Tibet's former CEO, working in conjunction with consumer rights groups like Amnesty International, to raise a shareholders suit.

This willingness to cultivate seemingly insignificant marketplaces, coupled with an eagerness to exploit the missteps of its competitors, explains one of China's most highly publicized triumphs in recent years, the acquisition of a key corporate component of the Panama Canal. Over the past twenty years, China has built a worldwide network of subsidiaries involved in the global transshipping business, and when the opportunity arose to acquire a controlling interest in the canal operation it was a straightforward matter to use these holding companies to screen the Chinese government's participation in the winning bid. This acquisition gave China enormous strategic leverage over world trade—and Western hemisphere shipping, in particular—and must be counted as a significant win, one worthy of mention in the annual report.

### **Your people are your most valuable resource**

At all levels of the organization, China Inc. adheres to a doctrine emphasizing the importance of employee relations. This commitment is expressed in the corporate motto, "A worker's paradise," and is evident in the enormous sums the firm spends on a network of training camps and resort-like facilities for the continuing reeducation of its human resources. These learning centers serve two functions: they offer displaced workers an opportunity to

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refresh their oftentimes aging skill sets, and they provide a forum in which these employees can discuss grievances with management representatives. This attention to the needs of individual employees, no matter their role within the organization, fosters intense loyalty, and this loyalty is further fueled by China's meritocratic policies with respect to promotion and retention. Advancement within the organization is largely dependent upon peer evaluations, self-reviews, and performance on examinations measuring a range of technical and social skills.

This willingness to reward individual achievement is coupled with an equally forceful commitment to a Darwinian model for allocating corporate resources. China's business units are in constant competition with each other, and the most successful groups are lavishly rewarded, as teams and as individuals. Given the dog-eat-dog nature of this model, it's no surprise that passions sometimes grow so enflamed they spill over into physical confrontation: recall the stories of Red Guard units clashing during the Cultural Revolution, a time when internal policy disputes were settled in hand-to-hand combat involving thousands of fanatical participants.

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The success of these pro-worker policies is most apparent in the actions of former employees. Retiring staff and even the downsized—dissidents, criminals, and others one would normally expect to hold a grudge against the firm—routinely treat the occasion of their discharge as a final opportunity to contribute to the greater good of the organization, with organ donations being the most common expression of loyalty and goodwill.

### **Any plan is better than no plan**

Too many critics confuse China's continued willingness to pay lip service to its communist, central planning past with the day-to-day reality of its corporate operations. Few large firms can manage the kind of 'turn in place' that Microsoft accomplished in response to Bill Gate's demand for an "internet revolution" in 1995; in general, organizations as large as China revise their overall corporate strategy in small, incremental steps. The process is one of slow revision, and is marked by sometimes-subtle shifts in resource allocation, with change dependent, in large part, on achieving the right mix of talent in the boardroom. In light of these realities, it is no surprise that China's executive team continues to voice its commitment to the communist style of corporate organization, despite that methodology's proven track record of failure; what matters are the policies her leaders pursue, and these show every indication that China will continue to lead the world in innovative business practices.