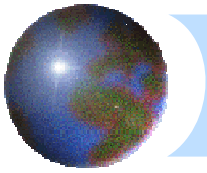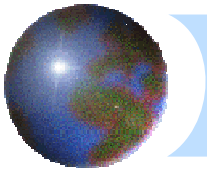# THE MODERNIZATION OF MANAGEMENT IN CHINA: THE CHALLENGE OF MANAGING PROFESSIONAL EMPLOYEES
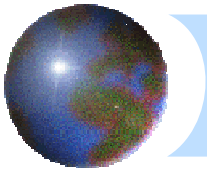
Paul S. Hempel

A Look at Traditional Chinese Management
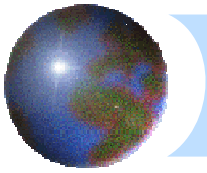
Traditional Chinese Management

- Authoritarian - Tells workers what to do
  - No worker autonomy, emphasize control
- Limited use of formal rules, procedures
- Centralized information
  - Lack of trust in professional employees
- Punish risks/failures
- Emphasize harmony

Note: These are also characteristics of most small family-owned business worldwide.

Managing Knowledge/Creative Workers:
Standard (Western) Recommendations

- Provide autonomy
  - Workers have information managers lack
- Encourage (reasonable) risk-taking
- Shared responsibility
  - not just emphasize control
- Encourage diverse perspectives to enhance creativity

The Dilemma

- Traditional Chinese Management appears inconsistent with needs of a modern professional company
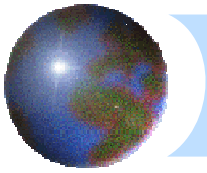
- So, what are Chinese companies doing?
  - Acting like Western companies?

      or….
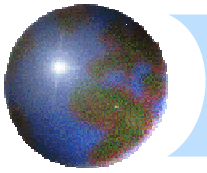 - Have they found a "Chinese" way?

Does Traditional Chinese Management fit the needs of knowledge work?

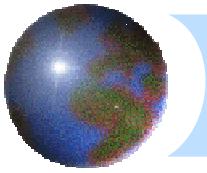# Traditional Chinese Management and High-Tech Taiwan

- Conducted in-person interviews of GM or HR manager of 20 indigenous Taiwanese SME
  - 10 high-tech firms
  - 10 old-sector firms (construction, etc.)

Taiwanese Tech Companies:
Management Style

- "Because [the business] was a family clan, it had a culture which is absolute devotion. Family members must take the lead. This group of people lead and influence the rest of the employees."
  - General manager, construction company A

- "The management style of our company is democracy with a certain degree of autocracy. We do not want to be too democratic, but not too autocratic either."
  - General manager, electronics company

Taiwanese Tech Companies:
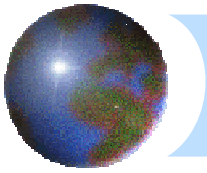# Hiring based upon *Guanxi* (關係)

- "We Chinese should always consider this."
  - General manager, shipping company

- "We have to consider that our own people also want promotion, so if we hire a person recommended by someone, our own people might think this person is hired because of *guanxi*.
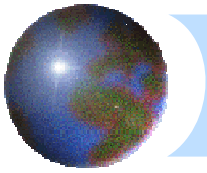 - HR manager, telecommunications technology company B

Taiwanese Tech Companies:
Harmony in Work Relationships

- "We emphasise harmony. Of course, emphasising individual displays of achievement has its merits, but I am afraid that it would create confrontations among staff."
  - Owner, accounting company

- "Chinese people tend to take work related arguments as personal attacks. I spend a lot of time mediating relationship problems. It is a big part of my job."
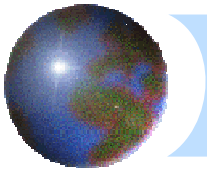 - HR manager, telecommunications technology company A

Taiwanese Tech Companies:
Personality and Moral Character

- "Moral character is very important… Every company is the same. We all very much emphasise moral character, but we have difficulty in identifying them [applicants]."

  - General manager, shipping company

- Personality is a very important criterion. Even if your professional knowledge is very strong, if you can not work with others we will not consider hiring you.
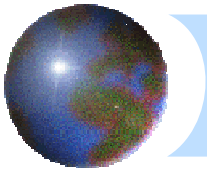
  - Administration manager, multimedia company

Taiwanese Tech Companies:

Basic Findings

- "Old Sector" companies conform to traditional Chinese management

- High-tech companies are more "Western" (i.e., empowered, etc.), while still "Chinese" in some ways
  - Required by nature of work
  - Demanded by employees
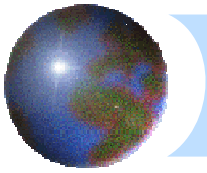
Similar problems require similar solutions??

A Key to the Differences

Interviewee: "She [the boss' wife] interferes a lot. We will not confront him or her, but we try to make him see how these things would not work. They still have the old style idea that they are reluctant to release any power to us…"
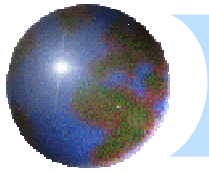*Interviewer*: "But you said your competitors are not like that."
Interviewee: "*Because they are all technical people, not business people*."

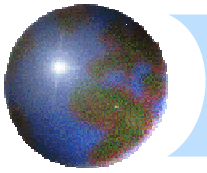Head of Sales for a small telecommunications technology company

The New "Chinese" Management

- Moving toward a responsibility culture
  - Bosses recognize that they must let the experts use their expertise
- Giving professionals / experts greater autonomy proved difficult to implement
  - Conflict during employee decision-making
- Emphasize "merit", not *guanxi* (關係)
  - Professionals quit if their merit not recognized

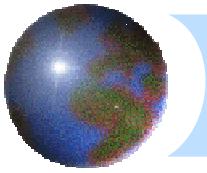# A Closer Look at Technology companies in China

Does Empowerment Work in China?

- **Just what is empowerment?**
- Structural Approaches
  - Decentralization, participation, employee ownership, etc.
  - *A characteristic of the organization!*
- Psychological Empowerment
  - Empowerment as a motivational construct
  - *A characteristic (perceptions) of the workers*
    - Vast majority of published work uses this!!!

Team Psychological Empowerment
The Four Dimensions

- ⬥ Impact
  - ⬛ Work significant and important to organization
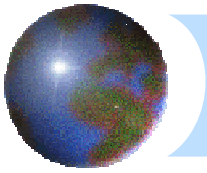- ⬥ Potency
  - ⬛ Collective belief that team can be effective
- ⬥ Meaningfulness
  - ⬛ Team experiences its tasks as important
- ⬥ Autonomy
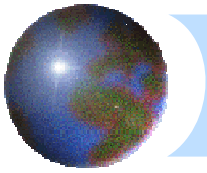 - ⬛ Team experiences freedom, independence, & discretion at work

The Psychological Research

- Empowerment as motivational construct
  - Many practices can lead to this state
    - Efficient to focus on perceived empowerment
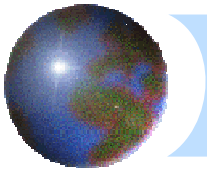- Emphasis upon *perceptions*, not upon actual practices (objective reality?)

The Structure Research

- Decentralization
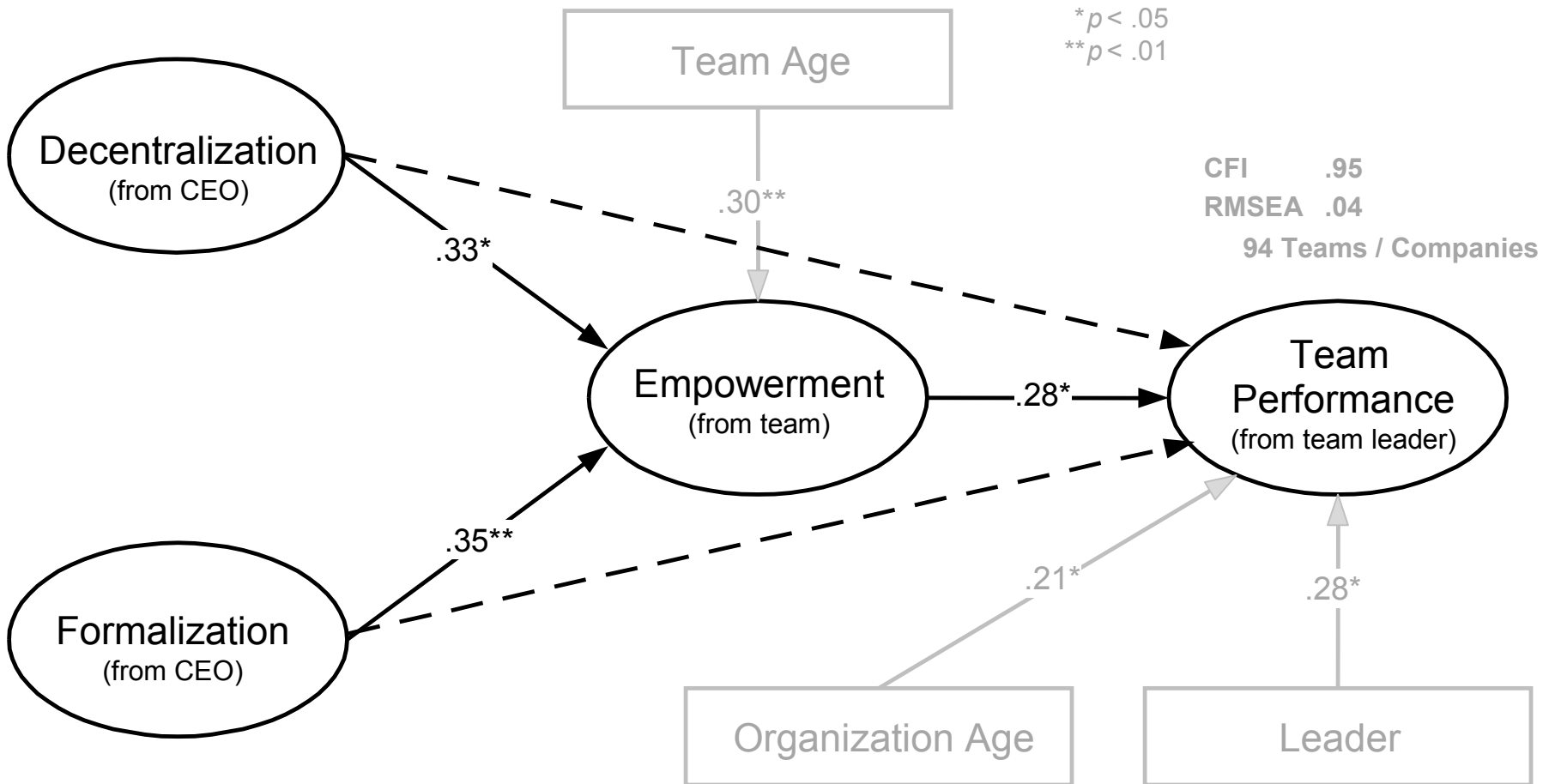 - Organizational level (CEO … team) various decisions are made
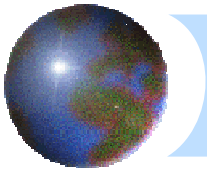 - Decentralization increases empowerment
- Formalization
  - Use of formal rules to govern decision-making in organization
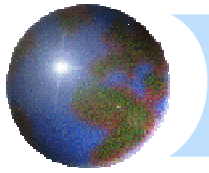 - More formalization is seen as limiting empowerment – *formalization is a constraint*

Research Results

Team Age

*p < .05
**p < .01

Decentralization
(from CEO)

CFI   .95
RMSEA .04
94 Teams / Companies

.33*

.30**

Empowerment
(from team)

.28*

Team
Performance
(from team leader)

.35**

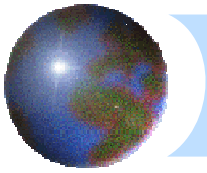Formalization
(from CEO)

.21*

.28*

Organization Age

Leader

Empowerment in China

- Empowerment is relevant to China
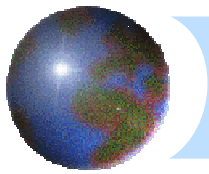- Abandoning traditional Chinese management (decentralizing and formalizing) lead to improved performance
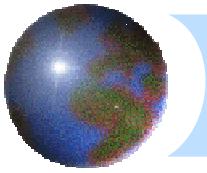
Who Benefits from Organizational Success?

Traditional Approaches to Rewards

- State Owned Enterprise
  - NO incentives, small promotion increases
- Family Owned Enterprise
  - Moderate salaries, profits go to family
- Recently, compensation is tied to:
  - Individual performance
  - Team performance
  - Company performance

Do Rewards based upon Company Profits increase Performance?

- ◈ Standard view – **NO!**
- ◈ *My* performance is only a small part of overall company performance
  - ⊞ I don't see how my effort will lead to a reward for me
- ◈ Profit-based rewards do increase identification and other social outcomes

Effects of Rewards Based on Profits

Rewards only appear to lead to higher company performance in decentralized companies

Decentralized Companies

Company Performance
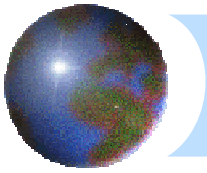
Rewards don't appear to be associated with higher company performance
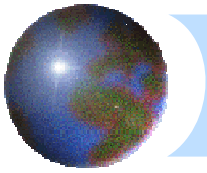
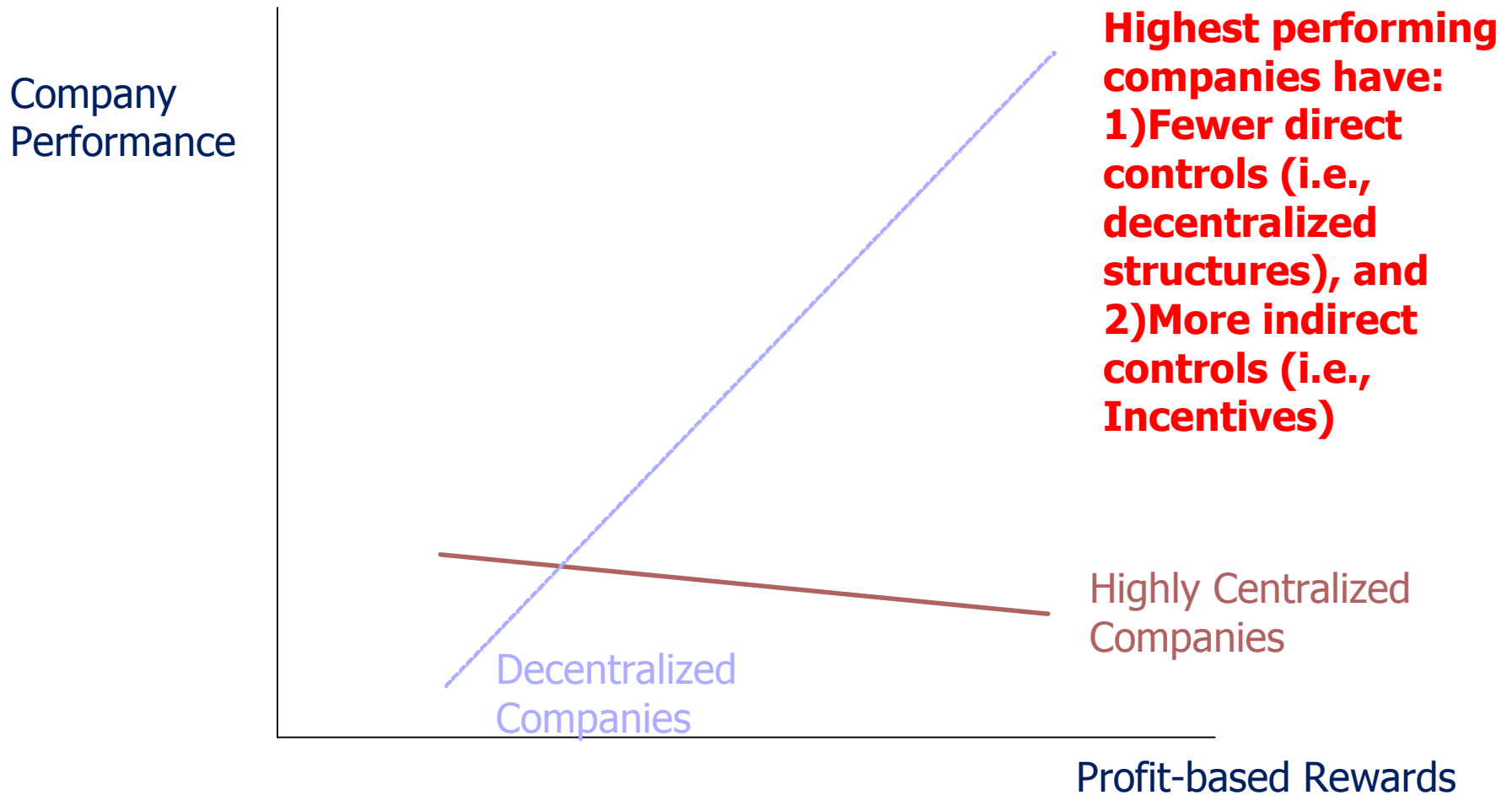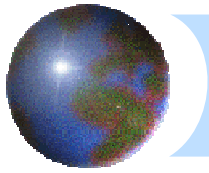Highly Centralized Companies

Profit-based Rewards

What's Happening?

- Highly centralized companies leave little freedom for professional employees
  - They have little influence on org performance
- In decentralized companies, these employees can use freedom for their own objectives
  - Tying pay to company performance makes sure professional employees use freedom to meet company objectives
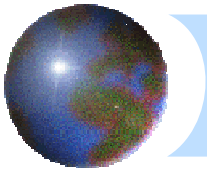
Effects of Rewards Based on Profits

Company Performance (y-axis)

Profit-based Rewards (x-axis)

Highest performing companies have:
1)Fewer direct controls (i.e., decentralized structures), and
2)More indirect controls (i.e., Incentives)
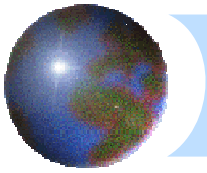
Decentralized Companies

Highly Centralized Companies

Punish Failures, or Learn From Mistakes?

Mistakes, Punishment, and Creativity

- Creativity requires experimentation (and failure)
  - Chinese companies traditionally punish failure… and thus discourage creativity
- If the company encourages *learning from mistakes*, does this help enhance creativity?

The Effect of Relationships

- Interpersonal relationships are critical in the Chinese context
  - Do relationships influence responses to mistakes and failure?
- Social ties come in two types:
  - Expressive – based on emotions
  - Instrumental – based on exchange of resources