

From Market Despotism to Managerial Hegemony: The Rise of Indigenous Chinese Management

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INTRODUCTION

Through examining executive rationale on why firms exist, Redding and Witt's (2015) paper serves as a window through which we can view varieties of capitalism and management models in several societies. However, though rationales are the socially constructed, historical patterns of material practices, they are after all ideational factors. The economic action and organizational practices, as Redding and Witt acknowledge, are often the result of the interplay of the material and ideational forces in society. Meanwhile, as the studied five economies are all relatively mature economies, executive rationales are rather stable, which is not the case for China. This commentary thus examines the evolution of Chinese management along with the shift of political economic parameters.

I argue that Chinese management, particularly in private firms, has gradually evolved from market despotism to managerial hegemony in the last several decades, building on the concepts from Michael Burawoy (1985). Based on his investigation of western advanced capitalism, Burawoy identifies two generic types of management: the despotic and the hegemonic. A despotic regime, characterized by *coercion* in the workplace, is conditioned by workers' dependence on wage employment for their livelihoods. State interventions such as regulating industrial relations and providing social welfare remove the basis for coercion and give rise to a hegemonic regime in which *consent prevails over coercion* (Burawoy, 1985: 125–126). This commentary identifies the key management practices in the two paradigms and their underlying driving forces in China in the past decades.

MARKET DESPOTISM

The initial stage of Chinese management after China's thrust toward a market economy witnessed market despotism with its generic characteristics. Under

despotic regimes, workers are closely monitored by management; wage is tied directly to output targets (e.g., piece rate prevails); rules and regulations are oriented toward control, discipline, and punishment, with military style of management as its extreme; workers are frequently exposed to the discretion of management and even abusive treatment; low trust exists between workers and management; high turnover rates are typical; etc. (see Lee, 1995, for a vivid description).

The key driving forces that uphold such despotic regimes are *the whim of market* and the *lassie faire state in labor protection*. At the early stage of China's market reform, the huge labor supply (particularly unskilled labor) coupled with the eagerness of peasants to escape from poverty created favorable conditions for employers to dominate workers. Moreover, the existence of migrant workers cuts or loosens the bond of traditional kinship, neighborhood and friendship, thus exaggerates despotic mode of management (Zhang, 2008).

The prevalence of market despotism is also conditioned by local developmental state. After market reform, Chinese local governments were motivated to develop the economy with unprecedented enthusiasm, generated by fiscal decentralization and intergovernmental fiscal-sharing contracts (Montinola, Qian, & Weingast, 1995) as well as career incentive to local officials based on their economic performance. Consequently, local governments made a priority of making friends with employers at the expense of workers (Zhang, 2008). In some extreme cases, local government even sacrificed workers' interest to attract investors when regional competition became intense (Zhang, 2008). Low cost labor from low wage, low welfare, and low human rights somewhat undergirds the Chinese miracle of 'workshop of the world'.

MANAGERIAL HEGENOMY

The turning point first appeared in 2003 when *the shortage of migrant workers* occurred. The leverage then started to somewhat tilt toward workers. The change in the labor market becomes critical factor shaping management practices. Meanwhile, the *shift in government policy and state regulation* constitutes another important parameter. Recognizing social tension and labor unrest generated by the unbridled market expansion, the Chinese central government under the administration of Hu Jintao raised a new ideology that focuses on creating a more 'Harmonious Society'. In line with the policy shift, a progressive Chinese Labor Law was implemented in 2008, with the key purpose to protect employees' interests. In addition, other factors also bring challenges for management. With the entrance of labor force by new generations, the coercive way of management becomes unacceptable. In addition, the upgrading of industry and the emergence of knowledge workers also drives change in management practices.

These new parameters in environment create conditions for change. Management can no longer rely entirely on the economic whip of the market. Workers must be motivated and persuaded to cooperate with management. Under

such circumstances, various attempts and experiments made by management arose to adapt to the new environment, with the purpose of aligning employees' interests with that of organizations. Such efforts include but not limited to: various incentive pay such as profit-sharing plans; in-job training and off-the-job programs; certain degree of job security and various welfare; respect and protection of employee dignity; worker autonomy, empowerment and even share leadership; etc. It is also under this background, corporate culture emphasizing value consensus between management and employees became fashion in many Chinese companies (Zhang & Zhang, 2014).

Among various attempts to craft new patterns of indigenous Chinese management, managerial philosophy and value play important roles. Business leaders, with their unique experiences, philosophies and values, exert influence on their organizations in rather idiosyncratic ways. The sources of ideas and management models differ dramatically among different leaders (Zhang & Zhang, 2014). Here I just sketch several famous examples to illustrate such experiment and exploration. Though these cases have their uniqueness, they nonetheless represent the efforts by management to build consent and trust under new conditions, which may shape the direction and style of new indigenous Chinese management.

Huawei, a giant of telecommunications equipment supplier, is famous for its profit sharing. Almost half of its employees worldwide have shares of the company. Two main reasons explain why the founder of the company – Ren Zhengfei – initiated such a measure. The first comes from his personal experience during the great famine when the food in his family was strictly partitioned to ensure that everybody can survive, which cultivated his spirit of sharing. The second reason lies on his deep observation on human nature and rational calculation: only when the company shares the wealth and success with employees, will those knowledge workers be loyal and committed to the company.

Joyea, the hidden champion of the automated packing machinery industry, is managed with a strong humanistic flavor: wages are prepaid; rules and policies are made by those who are affected; no regulation on travel expenses exists as long as the employee considers necessary; various welfares are provided such as free meals, free laundry and hair cut; etc. Such management largely comes from the founder – Wu Liping's personal philosophy: Wu believes that everybody has the need to be respected, and the function of management is to create an environment for the positive side of human nature to be realized. Wu learned these from Maslow and believes in theory Y by McGregor.

Tecsunhomes, a construction company that specialized on building Western style villa, is run more like a Western company, since the founder of the company – Nie Shengzhe – had western experience. Besides emphasizing reliability, rule orientation, and strict process which all undergird rationality and scientific management in modern West, the company also emphasizes respect, dignity, and equality. For example, every year Nie will bring his workers to a five star hotel to have annual session, letting workers feel dignity and pride as a laborer. The

company does not have explicit performance evaluation; instead, it largely relies on each employee's self management and internal motivation to achieve growth.

THE ORIGINS OF MANAGERIAL PHILOSOPHIES

In the burgeoning new paradigm of Chinese management, the origins of various managerial philosophies deserve special attention. In general, three general sources need scrutiny and empirical investigation.

The first origin is historical and cultural traditions. China's long historical tradition must somehow affect leadership roles, interpersonal relationships, and management style. As early as 2,000 years ago, various main philosophies that shaped Chinese thinking and behavior thereafter had emerged, including Confucianism, Legalism, and Daoism. These thoughts provide competing ideas on human nature (e.g., human goodness versus human badness), governance philosophies (e.g., rule by virtue versus rule by law), interpersonal relationships (e.g., individualism, relationalism, collectivism), etc. (Chen & Lee, 2008). Adopted by (key) actors (particularly rulers) in different manners (substantially or symbolically) and at different historical moments (times of peace and prosperity or times of chaos and turbulence), these thoughts constituted Chinese cultural tool box for practice and even became taken-for-granted values and habits. However, what still matters today are not authentic classic thoughts per se, but the materialized thoughts and/or institutionalized practices. Such materialized thoughts and institutionalized practices were the result of interplay between thoughts (ideational) and key structural/historical forces in Chinese history (material), which were embedded in and reflected by authoritarianism, familism, paternalism and personalism. These institutionalized practices determine how power is operated and legitimacy is gained, how order is achieved, how interpersonal relationships are dealt with, etc., which affect practice on a daily basis. One convenient way through which we can capture how tradition works is to investigate how people are brought up, what they learn, etc.

The second source is the recent tradition of socialism. Despite its underlying continuity with Confucian and other traditions (Chen & Lee, 2008), socialism represents a significant departure from the past (such as its focus on egalitarianism, denial of family value and kinship, omnipresent and intrusive state, etc.), which formed the recent tradition and source of legitimacy. The socialist tradition directly affects management practices in SOEs in various aspects including why firms exist, workers' rights/claims and various stakeholder relationships. Even for privately owned firms, the influence of socialist tradition is nontrivial as well (Zhang & Zhang, 2014): some private business owners were previously SOE managers and thus unconsciously borrow management practices from SOEs; some private firms looked for available models of organizing and management from SOEs at the early stage of reform when available models were limited. One convenient case to examine the influence of socialism is to see the heritage of work unit system (*danwei*),

which can be exemplified by various organizational welfares, such as providing or subsidizing employees with housing, child care and schooling, health care service, etc.

The third source of ideas comes from the outside world. China's open policy led to close interaction between China and the outside world. The aforementioned Nie Shengzhe and Wu Liping all attribute their values and management philosophies to western influence, while Nie had overseas learning and working experience, Wu learned humanistic ideas from books coupled with his own personal experience. A key research question here is how the western influence helps build trust within the organization vertically and horizontally, considering that impersonal trust is almost nonexistent in Chinese tradition.

To explore the origin of these philosophies, we need more ethnographic work as Redding and Witt suggest. We need to know how business leaders are raised up, how their learning histories and critical feedback mechanism at critical moments/events shape their mentalities and philosophies.

RESEARCH IMPLICATIONS

It should be recognized that indigenous Chinese management is still at its initial stage of trial and formation. Varieties of management models/practices co-exist across industries, geographic communities, and organizations. The interaction between structural factors (e.g., political and economic factors, industrial conditions, community norms, organizational strategies) and managerial agency largely explains such differences. In general, structural factors largely determine how the organization would treat employees. However, managerial agency cannot be ignored, as shown by Tecsunhomes. As a construction company, coercive management style still prevails in the industry. But because of the leader's mentality and philosophy, Tecsunhomes adopts a humanistic management. Therefore, only when we understand the interplay of the structural factors and managerial agencies, can we better capture management practices in organizations. In other words, a combination of Marxian structural determinism and Weberian cultural autonomy will lead to fruitful results.

The implications for further inquiry are multiple. For instance, what are the unique characteristics of Chinese management compared to that in the Western countries? What are the concrete sources and combination of ideas and management practices underlying Chinese management? How do various managerial practices originated from different sources differ from each other? Will Chinese management gradually converge around certain key models with competition and institutionalization process, or will different management models persistently coexist? How is the configuration between environment, strategy, structure and management practices in China's context? Answering these questions can definitely contribute to indigenous Chinese management study.

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