

Vesna Milićević¹, Vladimir Lovrić², Aleksandar Marković³
^{1,3} University of Belgrade, Faculty of Organizational Sciences,
² Vomit Group

Challenges of Contemporary Chinese Business and Management¹

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The work is an attempt to analyse certain specific features of modern Chinese business and management. It starts with the impact of culture upon Chinese management, especially upon the affirmation of the strategic approach. The focus is on the dynamics, opportunities and challenges of the modern Chinese business doing in the context of extraordinarily high macroeconomic indicators and evident development prospects on a global level. A special section of the work is devoted to the digitalization and the development of a competitive e-business.

Key words: Chinese business, culture, strategic approach, Chinese management, e-business.

1. Introduction

A dramatic economic success of the People's Republic of China in recent years, long manifested in the world's highest growth rate of the gross domestic product (GDP) of 9%, highlighted the success of the Chinese business and management. Research into the specific features of Chinese company management today is an especially interesting area of study within comparative management.

China covers an area of 9598km² and has a population of over one billion – 1320 million inhabitants (according to the data of 2008) [1]. It sprawls from Siberia to the Equator and from the Pacific Ocean to the centre of the Euro-Asian continent. The cities with the largest population (according to the data of 2007) are the following: Shanghai – 12 million, Beijing – 9.3 million, Chongqing – 8.8 million, Guangzhou (Canton) – 6.9 million, Chengdu – 6 million and Tianjin – 5.8 million [1]. The gross domestic product amounted to CNY 30,067 billion in 2008. Important social changes during the 20th century must certainly be taken into account. A large and a fast growing Chinese market offers numerous business opportunities and its role in the international business in the 21st century is increasingly important.

2. Cultural impacts upon Chinese management

The Chinese civilization is the oldest civilization in the world that lasted continually. The impact of culture upon the Chinese management is very important especially because a specific mixture of the traditional and the new in this culture has significant implications in managerial decision making. Therefore it is worth pointing out the relevant regional differences in the fields of economy, culture and management that are largely characteristic of Beijing as a capital city and a political centre, Shanghai as a commercial centre, Guangzhou which lies in the south, not far from Hong Kong, characterised by an important economic expansion, as well as the cities in Western China, such as Chongqing and Chengdu.

In business circles, China is today often marked as a “workshop of the world”, where human resources play a specially significant role. An adequate illustration in this context is the thought of Chen Pu (12th century): “If a work is well planned, you will certainly succeed. This is a general rule. It rarely happens that a man who works diligently gets nothing. And there is no harm in doing the best you can” [2]. It has to be remembered,

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however, that the Chinese civilization has always been characterised by a spirit of invention and a technical superiority in certain domains. The Chinese invented the weaving and spinning techniques; they were successful in the production of silk, famous for their bronze, smelt iron and steel, for the exports of hardware products into South Eastern Asia; the history of Chinese ceramics is one of the most famous in the world, and the production of china reaches its climax in the 12th century. Until the 19th century China was the world's leading exporter of then luxurious commodities: silk, ceramics, china, tea, products from laquer, luxury furniture; it had accomplished engineers, artists and craftsmen [3].

It is necessary that the characteristics of the Chinese culture important from the management aspect be thoroughly studied. The impact of culture upon the Chinese management is of special importance, especially that of philosophy. The economic thought of the Chinese philosophers reveals a difference between the notions of the "root" and the "branch". The "root" meant arable farming, whereas the "branch" denoted "trade" in the sense that farming must always precede the exchange of goods [3].

Traditionally present in the Chinese culture are the Confucius' (551BC –479 BC) ideals . His recommendations concerning the rule of a stable state and a harmonious society, given about two and a half thousand years ago are still vital today and influence the life of the nation. This is especially so with his ideal concerning the importance of the family. As regards the virtues of an individual, Confucius pointed out the philanthropy, *zen*, that includes love for others, i.e., the sympathy for the people around the man, and the righteousness, *yi*, that includes what should be done in a certain situation out of moral motives [4]. He considered the life worthy of man a continual and never finished process of learning and education. Confucius highlights five general duties, obligations that are essentially the pillars of all other social relations, as well as three moral qualities through which the duties are carried out. The five duties are the following: those between the ruler and the subjects, those between the father and the son, those between the husband and the wife, those between the elder and the younger brother and duties among friends, while the three generally recognized qualities are wisdom, sympathy and courage [5]. This is the background from which the hierarchy of rights and duties and the respect for authority stemmed. Also crucial are the socialization which includes the behaviour in accordance with one's role in the society and the collectivism, characterised by the participation in intensive social interactions. This is well illustrated by an old Chinese saying: "Man should not look at his picture in the water, but in the eyes of other people" [6].

Daoism (or taoism) in philosophy is based on the notion of *dao* (tao) that literally means "the way" and is important from the aspect of the impact of the Chinese culture upon management, and this goes especially for daoist dialectics. Of special importance for the understanding of the daoist thought is the "Way Power Book / Dao De Jing" written by Lao-Tze in the 6th century BC, where *dao* is understood as an all-comprehensive first principle - "Dao gives birth to all things" and *de* (power) "nurses all things" [7]. The duality of all things "under heaven" is stressed, expressed in the following thought: "All things hide (in themselves) *yin*, cherish *yang*". *Yin* refers to shadowed, passive, whereas *yang* means light, active. *Yin* and *yang*, only together, make a whole. The binary unity of *yin* and *yang* is considered to be characteristic of all the aspects of Chinese life. A well known symbol ☯ shows their simultaneous opposition and complementarity. The process of creation of all phenomena is considered to be cyclic, as an infinite creation and disappearance, in which everything changes into its opposite after it has been fully completed, and this also refers to the economic cycles in the modern period. The implications of this philosophy are also valid in case of business negotiations: even if they do not agree, both negotiations can be considered basically right [8].

Generally, the Chinese civilization is characterised by a parallel existence of a plethora of local forms, however, by a certain hierarchical order, too, the order that allows for different cultural types to be brought together and reconciled and for stability to be achieved. From the aspect of management, too, the notion of "ritual" as a correct and proper behaviour is also important. Also characteristic is a tendency to achieve a social harmony as well as harmony with nature.

3. Specific features of Chinese management

Chinese management is characterised by the importance ascribed to strategy creation and implementation. This is related to a classic work, *The Art of War*, written by Sun Tzu over two and a half years ago [9]. In studying the Asian management systems, Sun Tzu's strategic thought is especially brought into relation with business competitiveness. Also characteristic is the Chinese expression "Shang Chang Ru Zhang Chang", translated as "Market is a battlefield" [10]. In modern Chinese management, Sun Tzu's approach

is related to business negotiations. In case of foreign managers, only well conducted long-term relations with Chinese partners will result in creative, mutually beneficial business negotiations. The initial negotiations are often the zero sum (*Linghe Tanpan*) negotiations. Only after mutual trust has been established can negotiations on important further commercial relations begin [8].

From the aspect of success in business doing it is very important that foreign managers should be familiar with the well established interpersonal relations characteristic of China. *Guanxi* (personal relations) means building relationships outside the family, ones based on establishing trust, and this is specific because it is limited to partners connected through personal obligations, doing favours, developing friendships, helping and supporting each other. This essentially results into a positioning into the social network on the basis of a specific long-term reciprocity. Reference to one's *guanxi* during business negotiations is of paramount importance.

As regards personal behaviour, an individual has to have a "face" (*lian* – cheek), which is often linked to reputation (*mianzi*) which can be acquired. *Mianzi* defines the position of an individual in his/her social network and is the most important measure of social value. Especially important in business is interpersonal harmony (*Renji Hexie*) [8]. It is well illustrated by a Chinese saying "A man without a smile should not set up a shop". Generally speaking, harmony between business partners and patience are essential. Politeness and positive feelings are also desirable. The Chinese avoid saying "No"; instead of a direct denial, they will change the topic, stop talking, ask another question or give an ambiguous answer with subtle negative associations, e.g., "it seems not to be bad". Also important are the changes in intonation, in facial expression and the body language. Expressing negative emotions is not desirable in business communications.

From an economic aspect, it is important to stress the Chinese passion for saving (*Jiejian*) [8]. The economy of the People's Republic of China in the recent period has been characterised by high savings rates, which can partly be explained by the earlier periods of economic instability. This is in turn reflected in the role that pricing has in business negotiations. In addition to negotiating the issues related to the quantities of goods to be delivered, for the products themselves, the post-sales service, terms of payment, warranties, the central point of disagreement can well be the sales price.

An important issue is that of the relationship between tradition and modernity in the Chinese management today. The impact of the traditional Chinese culture and the value system is by all means very strong and a large number of traditional values survive. There is a unique blend reflected through a coexistence of certain collectivistic characteristics and new, individualist ones, typical of the industrialization process and of what the modern Chinese management terms a notion of social modernization [11]. It is important in this context to highlight diversity as a vital specific feature of management in modern China. We have to bear in mind that certain regions in China each cover an area larger than some countries in Europe or in the world. Certain regions may differ in history, dialects, economic resources and development. North Eastern China was long the industrial centre of the old planned economy, with a large number of state-owned firms and a developed petroleum and steel industries, and three of its regions: Liaoning, Jilin and Heilongjiang are known as *dongbei* (north-east) – the industrially and technologically developed region of the country. Today, North Eastern China is still very important from the aspect of economic development. Important also is its economic connection with the neighbouring countries – Liaoning is known for its close economic links with Japan, Jilin is closely related to Korea, and Heilongjiang has relations with Russia [11]. The diversity concerning the regions can also be viewed through the orientation of managers in the coastal cities, such as Shanghai and Guangzhou. These are more individualistic in their openness to change and in their tendency to satisfy their personal interests in comparison with the managers in more distant and less developed cities such as Chengdu and Lanzhou. Besides, there is a growing generation gap to be concerned with. Thus young managers who spent a larger part of their professional lives in the period of reforms are now more individualistic in their approach in the economy that promotes the forces of market and the society where it is desirable to be rich [8].

4. Modern Chinese business dynamics

The People's Republic of China was founded in 1949 and can boast of a very turbulent social and economic history. Characteristic of China is that it started to open to the world in 1970s. The modernization programme of China was adopted under the leadership of Deng Xiaoping [2]. The reform process followed his vision of "socialist market economy". The Government of the PR China adopted and pursued the "open door policy" and used subsidies to encourage foreign investments. A gradual opening of China to international trade

began in 1978. "Special economic zones" were formed on the coast in which favourable conditions were created for foreign entrepreneurs. Economy was characterised by a fast development of industry and agriculture. In the period following 1978, up to the present day, China witnessed an exponential growth of foreign trade, a large inflow of foreign direct investments, a restructuring of industry with a substantial inflow of foreign capital, technology and professional managerial knowledge. In 1997, China recovered Hong Kong, which retained a special administrative status, and in 1999 it regained sovereignty over the Portuguese colony Macao. Especially characteristic of China is its abundance in resources, technological advances and strikingly high rates of continual economic growth.

Today one can talk of a specific and successful links between tradition and modernization – the values of traditional Chinese civilization and modern development of industry and economy in general, with a strong affirmation of management. Also characteristic is the synthesis of the Chinese and the Western, with an orientation towards specialist knowledge, efficiency and new possibilities for mass communication. The Chinese economic system characterised by dualism resulted in an economic boom. Especially important was the admission of China into the World Trade Organization in 2001.

The analysis has shown that, traditionally, the state firms used to grant a large number of social facilities to their employees, e.g., provision of housing (flats), health care and pensions [11]. In the conditions of command economy the workers were, the same as all the other inputs, allocated to companies by the state. Work units – *danwei* – were organized in which the job security was guaranteed until the retirement day, with the least mobility of labour and with a responsibility (of the state) for a range of services, such as education for the employees' children, health care services, recreation services. Companies of this type suffered too much financial burden and did not encourage efficiency.

The reforms undertaken in the late 1970s increased the autonomy in the domain of state-run company management. Thus in 1980s the companies became accountable for their profits or losses, and were authorised to retain and allocate part of their profits within the state plan. The retained profit could be invested into technological innovations, into the development of new products or it could be used to pay bonuses to the employees. In the mid-1980s, a mixed system of planned and market economy, with changes in the sales price system was introduced [11]. Attention was focused upon the reforms of company management, with special emphasis on the role of managers and the responsibilities for managerial work [10]. Chinese state-run companies also started to establish an autonomous accounting practice. Investment funds were no longer formed by the state only, they were also generated by the firms themselves. Managers took care of a rational use of funds. The cost management was also promoted. Different management techniques came to be implemented. In the third phase of the reform a diversification of forms of ownership was allowed and a system of corporate management was introduced, based on that of developed market economies [11]. This meant the implementation of such a model where shareholders control the managers through transparent market procedures. A large number of state-owned firms were then transformed into joint-stock companies, with the state often remaining a majority owner. The restructuring process allowed for forming a large number of groups of state-run companies with an integrated product and marketing management as well as with a tendency towards an optimum exploitation of production factors. One good example is the automobile manufacturing industry. In addition, state firms were encouraged to enter into joint ventures and cooperation arrangements with foreign companies. In case of mergers and acquisitions the economy of scope is expected to prevail.

Generally, the reform of economy system meant the development of a market economy system, reforms in the domain of investments, taxation, price system, labour force. The priority of the reform was the state-run industrial sector and the goal was to improve the competitiveness of state-run companies. Corporate management also suffered certain changes. The separation of ownership from management and assigning a more important role to managers was very important too. The tendency was towards forming company groups (*jituan*) as a type of business networking, and not only in the car manufacturing industry, but also in the fields of electronics and pharmaceutical industry.

The process of reforms in the state-run companies is very complex. Simultaneously with the reforms the development of privately-owned companies and business ventures financed by foreign investors was fostered. The recent period witnessed an increasing presence of the competition from the economies characterised by a low cost of labour force, such as Vietnam and Indonesia. This is one reason of promoting the high technology products.

Although the share of the state sector in the gross domestic product falls from the beginning of economic reforms in the late 1970s, its role is still very important. It differs by individual economic sectors. Thus an increase in competition is evident in the textile industry and electronics, whereas state-run companies are dominant in the electric energy supply, in the supply of coal, oil, steel, chemicals as well as in certain services, primarily in some segments of transport and in telecommunications [11].

Generally viewed, reforms resulted in the conditions in which managers are accountable for the provision of inputs and for the realization of outputs, with the freely formed prices with two exceptions [11]. Important from the perspective of management is the development of a market system, which brought forth a considerable expansion of the consumer market as well as the development of other types of market – production material market, financial market, labour market, technology market, real property market. The transition of state-run companies to a market economy model thus changes their operations environment to a considerable extent [10]. This means that managerial decision making in a majority of state-run companies is about making autonomous decisions as regards the product type and the scope of production.

Also highlighted is the contribution of the market mechanism and individual initiatives in achieving economic growth. Private firms in China are often part of a broader conglomerate where their inter-relations are influenced by family ties rather than defined by law. Generally, business relations tend to be based on trust rather than on legal mechanisms. The business world in China obviously does not include only two separate sectors – private and state sectors; there also are hybrid forms [11]. A boom in service provision industry is also perceived.

Chinese family business has become a dominant form of oversea business organizations and one of the major forms of Asian type of business doing in general [10]. As these companies often record successful growth, largely supported by the influence of the Chinese business culture upon competitiveness, they are faced by the need to hire professional managers. Characteristic of Chinese family business is that power and authority are closely connected to ownership; the business is characterised by autocratic leadership and a personalistic management style, as well as by paternalism, hierarchy, acceptance of reciprocal responsibilities and obligations. The organization of such businesses is often simple and informal. A large number of these businesses are small, concentrated upon production, sales or service provision.

The analysis of the private sector in China in the recent period has revealed that it varies in size, and also includes firms funded and managed by individual entrepreneurs, however, partnerships are also possible, as well as joint-stock companies and *jituan* as conglomerates in industries connected with high technologies and developed human capital. New organizational forms also emerge; they are, as pointed out above, hybrid in character, such as a “spin-off” in high technologies, most often as results of “break-offs”, that is, the development of new commercial ventures of institutes or universities.

Consequences of fast economic growth can also be seen in the area of environmental protection and social inequalities. The tendency to reduce the social and economic inequalities and thus achieve social harmony is evident.

5. Digitalization and e-business development

Digitalization has brought fundamental changes into the Chinese way of living and business doing. A comparison with other countries – users of the Internet shows that the Chinese use the Internet for entertainment and communication to a much larger extent than other nations. They have also transferred a large amount of their commercial activities to the Internet, including a search for and purchase of products, but also the service consumption. The Chinese online growth is practically related to two markets – one includes young people from urban conglomerates (educated, apply new technologies, eager to advance), while the other is one of the rural population [12]. The rural population of users comprises mainly young teenagers whose number constantly increases. People in rural areas are poorer, so the young access the Internet through Internet cafés or mobile phones. The same companies meet the online needs of both the urban and rural users.

In recent years, companies – leaders in the digital service sector in China are identified, such as *Tencent*, that also established the first Chinese institute for research into the Internet, and *Alibaba group*, whose *alibaba.com* sector is a famous company leading in the B₂B e-trade for small business [13] [14]. *Taobao* is part of the *Alibaba group* and the most important company in the Chinese e-trade milieu [15]. The

taobao.com site offers 800 million products, 40,000 of which sell in a minute time [16]. Highly illustrative is the fact that in 2009 *Taobao* was dominant in the Chinese online shopping, with a market share of 76.5% of all online shopping sites [17]. The business success and higher competitiveness are only fostered by the fact that one can find here items at a price 25% lower than prices offered by other sales channels, as well as by the network effects in attracting new offers and by a great consumer trust. Also important are highly developed customer services within the factors of non-price competition which are primarily evident in the biggest world's call centre, as well as a tendency towards improving the sophistication of consumer experience with an emphasis on interactivity.

A successful business of online giants on the Chinese market was further enhanced by a rapid rise in the number of users, especially in terms of e-commerce, social networking sites, online advertising and mobile Internet. The companies that plan to enter this growing market will have to understand the needs of both urban and rural population.

There were 384 million Internet users in China in 2009, a number much higher than in the USA and Japan together. This number is anticipated to reach 650 million by 2015. The Internet penetration is expected to rise from the present 29% to nearly 50% by 2015. The online content and aggregation market in the People's Republic of China will grow from US\$ 14 billion in 2008 to US\$ 40 billion in 2012. Digital devices and the Internet are becoming increasingly important to the digital consumers in China. The fact is that the users in China spent on the Internet more than 1 billion hours daily in 2009, and a rise is predicted to amount to over 2 billion hours daily by 2015. About 8% of Chinese population shopped online in 2009; this number is anticipated to grow to 19% by the end of 2012. The total number of the social networking site users reached 130 million in 2009 [12].

Conclusion

A paramount importance of the People's Republic of China from the point of view of global business cannot but be recognized. The growth rate of the gross domestic product (GDP) of China of more than 9% per annum over a period of thirty years has been the highest in the world. China is perceived as the world's largest prospective market. In 2010, China was the largest world's exporter of goods. This highlights the fact that, from the aspect of the future business, companies will have to get to know the Chinese market, the Chinese culture and the Chinese customers in order that they should do business successfully and be competitive on both the Chinese and the global markets.

The characteristics of the Chinese economy are specific in the global sense; it is a complex and dynamic economy. The importance of the reformed public sector is typical in view of industrial restructuring, as is the revitalization of companies in private ownership since 1980s and their fast growth that largely contributed to China being regarded as the "workshop of the world". Also present are certain "hybrid" forms of business as well as the orientation towards a high technology sector. An important role here is that of the input of foreign capital and technology.

Especially important is the development of the Chinese management and the implementation of modern management methods and techniques, the knowledge of the world market, the implementation of information and communication technologies, a more important role assigned to logistics and branding. Special attention is paid to corporate social responsibility in the context of sustainable development.

Generally, the changes in the managerial practice and in the domain of corporate management have been important in improving the performance and competitiveness of companies, and in the long run, in contributing to an impressive economic development in global proportions. Modern Chinese business in the production and service provision fields is characterised by a diversity among individual regions, the age groups of managers and the very value system, where a specific mixture of the old and the new is especially evident. Relevant here are new forms of companies and new approaches to management.

Digitization of business and the use of the Internet provided an opportunity to once secluded local manufacturers in China to be contacted and engaged directly by the buyers of their products and the users of their services worldwide. Doing business with China has become highly prestigious, and understanding of the business culture, the specific features of Chinese management and new opportunities in business have become a necessity for companies all over the world. This also implies the need of Serbian companies to reconsider the opportunities and challenges related to a broad domain of modern Chinese business and management.

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About the Author

Vesna Milićević

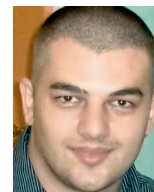
Univezity of Belgrade, Faculty of Organizational Sciences

Dr Vesna Milićević is full professor at the Faculty of Organizational Sciences, University of Belgrade where she teaches at the courses in the area of economics, management and international business. She is the author or co-author of a number of monographs, textbooks and articles in national and international scientific and professional journals. Vesna is an elected member of the Scientific Society of Economists of Serbia. She participated in strategic scientific & research projects as well as in projects and trainings for managers in the business sector.

**Vladimir Lovrić**

Vomit Group

Vladimir Lovrić completed his graduate studies in economics at the universities at Novi Sad and in Belgrade, as well as master studies in the field of management at the Faculty of Organizational sciences in Belgrade. Since 2002 he is engaged in foreign trade and consulting expert for the companies from the People's Republic of China and the south-east Asian countries where he visited periodically for more than three years.

**Aleksandar Marković**

University of Belgrade, Faculty of Organizational Sciences
e-mail: aleksandar.markovic@fon.bg.ac.rs

Aleksandar Marković is a Full Professor at the Faculty of Organizational Sciences, University of Belgrade, Serbia, where he got his MSc and PhD degrees in the field of Computer Simulation. The areas of his research include: e-business management, computer simulation, business simulation, business dynamics. He is editor in chief of the Management journal.

