



G20: China

As subscribers to our newsletter will know, throughout 2014 we will continue to look at the G20 group of major economies. Our attention this month returns to China.

China, officially the People's Republic of China ('PRC'), is located in East Asia, with the capital city in Beijing. It is the world's most populous country, with a population of over 1.35 billion. It exercises jurisdiction over 22 provinces, five autonomous regions, four direct-controlled municipalities (Beijing, Tianjin, Shanghai, and Chongqing) and two mostly self-governing special administrative regions (Hong Kong and Macau). President Xi Jinping came to power in 2012-3 as the hand-picked heir of predecessor Hu Jintao, and is expected to lead China for the next decade. Nowadays China is one of the world's top exporters and is attracting record amounts of foreign investment. In turn, it is investing billions of dollars abroad.

Business leaders in China are well known for controlling companies from the top. What is less well known is how much they will decentralize, which helps them quickly react to moves in their market. In China the need for adaptation is constant, and it involves keeping pace not just with the market but also with differences in the development of each province and the power of local officials.

Some scholars, such as Harvard Business School's Paul Lawrence and Jay Lorsch, have linked companies' management systems to the economies in which they grow. Stable, complex markets, their thinking goes, require structured organizations and managers capable of tackling several dimensions, such as functions and customer types, simultaneously. Rapidly changing markets favour loosely structured management systems, which can process new information quickly, and managers who can act independently. Chinese companies (barring state-owned enterprises) tend to fall into the second camp. They are high in energy and nimble.

China's business leaders manage people very differently. In the west, the ideal boss is a "resourceful democrat". He sets the vision and strategy for the business but empowers subordinates to implement it. He encourages two-way communication with his employees and allows bottom-up input in decision-making. In China, the ideal boss is a "benevolent father". He is like a parent who supervises his children on everything that needs to be done. He believes in discipline, attention to detail and manages his people at a micro level. He also spends lots of time caring for the personal welfare of his employees and regards it as part of his job. For example, loyal employees can be rewarded with generous incentives, trips outside China, housing, and education for their children.

There are benefits and disadvantages to this style. The Chinese style can be very efficient and get quick results. The direction is set at the top, and the role of the employees is to carry out instructions. This saves time in negotiating and brain-storming. However, the Chinese generally discourage two-way communication and ownership at the lower level. Coupled with their preferred group-orientation, accountability can get blurred. The parental style can also put a lot of stress on western employees who are not used to being "micro-managed" and who may feel that they are not fully trusted to manage their own work.

In Chinese enterprises, humanism has been identified as an important value of a good-natured manager. Under the teachings of Confucius, humanism refers to courtesy, magnanimity, good faith, diligence and

kindness. At the workplace, the downplaying of self and upgrading of relationships are highly valued. Collective human relationship in the Chinese enterprise, with a high sense of cohesiveness within the hierarchy, is common observed. Subordinates' public expression of alternatives or overt self-interest should be kept to the lowest levels. It is said that Chinese management is more relationship or people-oriented as opposed to performance-oriented. Seniority and good conduct of behaviour such as reliability and trustworthiness, instead of good performance, play a more important role in promotion.

Currently, the most sought-after employees in China are those with entrepreneurial flair, adaptable to changing markets. However, turnover is a real problem for employers and something that affects business productivity. A Hays web poll conducted at the end of 2012 highlighted candidate movement, particularly around the one to two-year mark of employment. Of more than 400 candidates surveyed, the web poll showed that 41 per cent change jobs as often as every one to two years, while 39 per cent change every two to four years. Only 20 per cent stays with an employer for five years or more. Hays believes there are several reasons behind this turnover trend. Over the last 20 years China has had a good macro economy, attracting many multinational corporations and other investors. This has in turn resulted in high demand for talent in the job market and it's been more obvious in the tier-one cities (the large densely populated cities with economic, cultural and political influence). But it is now starting to have an impact on tier-two and three cities (the provincial capitals, sub-provincial cities).

The *China Daily* reports that China will need 70,000 globally experienced managers by 2015, a significant increase in the four to five thousand they currently have. This talent shortage, combined with leaders looking for better career opportunities, leads companies to poach ready-now talent from other organizations. Moreover, most companies have invested relatively little in talent retention and are weak when it comes to coaching, feedback, and training.

Finally, wealth is a prime source of power, as well as self-esteem and status for Chinese leaders. Business leaders are therefore willing to work long hours. This willingness could also be attributed to their personal values of patience and endurance with a long-term perspective. Additionally, the Chinese place strong emphasis on family welfare. Striving to expand the family's wealth and glorify their ancestors make Chinese leaders work diligently and live frugally for the family.