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## Chinese Cultural Values and their Implication to Chinese Management

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### **Abstract**

In the past few decades, the economic growth and development of the Chinese and Overseas Chinese of East and Southeast Asia are very significant and highly remarkable. Although the causes of economic growth and success are complex and likely to vary from one country to another, the significance of cultural values has been emphasised by many researchers. Literature review and field research have revealed the causal link between Chinese cultural values and its managerial practices. However, the success is very much confined to family business enterprises. As the business grows from small to medium or large size, the weaknesses of a Chinese family organisational practice start to reveal their strengths.

### **Background**

The Overseas Chinese or "hua chiao" is a term commonly used for Chinese in Southeast Asia. In a broad sense, "Overseas Chinese" refers to all Chinese who have departed from Chinese soil for the purpose of living and working abroad. The Chinese migration to Southeast Asia, particularly those who arrived between 18<sup>th</sup> century and mid-20<sup>th</sup> century, was mainly for economic reasons and concentrated in economic activities related to employment and trade. Their prime motivation was to make a decent living (Chan & Chiang, 1994).

The Industrial Revolution in the 19<sup>th</sup> century coupled with the opening of the Suez Canal in 1869 accelerated the penetration of the western countries in Southeast Asia and Asia at large. The economic boom in Europe not only expanded domestic demand for a wide range of products but the demand for raw materials as well. As such, the abundant natural resources and agriculture products of Southeast Asia were of considerable interest to western colonial industrialists. As a result, the development of medium and large size western enterprises was fairly rapid. The development created a demand of "intermediaries" to bridge the gap between the colonial exporters and the regional buyers.

The opportunities that arose out of the economic transformation initiated by the western colonial industrialists were very quickly taken up by the Chinese immigrants instead of the local or indigenous people. There were

several reasons for this. These included high adaptability of the Chinese immigrants in foreign lands, the Confucian values system that the Chinese immigrants brought along with them (such as the ability to withstand hardship, working under extremely harsh and alien conditions), the attitude of the Chinese who behaves as an opportunist and by default, the risk taking nature of Chinese immigrants.

Initially, the Chinese immigrants were extensively involved in trading activities, using the savings they had accumulated. It would usually start off as a sole-proprietorship endeavour. When the Chinese traders accumulated more funds, they built wider business networks and gathered enough experiences and market information, before gradually moving into industrial and manufacturing activities, either by themselves or in partnerships with members of family or kin. The gradual withdrawal of western colonials after the World War II further created new opportunities for the Chinese businessmen.

From trading activities, the early Chinese traders gradually diversified into resource-based economic activities such as rice milling, tin dredging, rubber processing, and many others. As a result of urbanisation, coupled with the favourable macro-economic environment, the Chinese businessmen gradually moved into construction and property development, financial and banking services, and other down-stream manufacturing activities especially those of low and medium levels of technology. In addition, the availability of cheap labour and raw material supply coupled with effective mobilisation of capital fund had further made the transformation from trading to industrialisation activities a reality. In fact, the progression from partnership to public listing seemed to be a natural progression for many Chinese businesses. However, it has been noted that many Chinese family-owned enterprises, still remain as small or medium-sized enterprises (SMEs).

### **Components of Chinese Family Enterprises**

The Chinese family business enterprises share certain common characteristics of other ethnic group of family business enterprises in terms of management. From a sociological point of view, the family is the basic unit of society. In the Confucianist society, the family is the centre of all relationships. From an economic point of view, the business enterprise is an economic entity. Besides acting as a social being, the Chinese entrepreneur needs to apply a more pragmatic approach in ensuring the survival and success of the family enterprise.

These dual phenomena have made the Chinese family business management style both paternalistic and yet pragmatic. However, at times,

conflicts or contradictions may arise between the family and the business whereby the Chinese entrepreneur needs to be flexible with business matters but remain stern with the family matters. In order to reconcile the conflicts, the Chinese entrepreneur needs to learn to balance business principles and the interest of the family by carefully integrating the cultural values of the family into the management of the business.

Chinese cultural values are often seen as an important factor in determining Chinese business organisational and managerial practices. Several studies such as those by Bond & Hwang (1986), Lockett (1988), Redding (1980, 1982 & 1990), Silin (1976), Tan (1990) and Tan Hock (1989) had been conducted to relate Chinese cultural values with managerial practices

The influence of Chinese cultural values on managerial practices is so significant that it has created the distinguishing characteristics of the Chinese managerial system (Limlingan, 1986, and Redding, 1982). The unique characteristics of Chinese organisations include highly centralised decision-making, low structuring of activities, paternalistic style of leadership, strong emphasis on collectivism and group behaviour, and strong family management and ownership. The influence of Chinese cultural values on organisational and managerial practices can be briefly classified into People Management, Organisational Structure, Leadership Style, and Business Orientation and Strategy.

### **Field Survey**

The findings in this article were based on my field research and consultancy work with the Chinese family business enterprises in Singapore, Malaysia, and Indonesia. The research instrument used includes mail questionnaires, structured and semi-structured interviews, as well as observation and group discussions conducted over the last 10 years. Statistical analysis has revealed that there is a significant correlation between Chinese cultural values and managerial and organisational practices in both Singapore and Malaysia (Sheh, 1993). Recent interviews with several Chinese chief executives of public listed companies in Singapore, who have successfully transformed their organisations from family managed to professionally-managed organisations, revealed that these leaders are also very value-driven.

### **People Management**

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 (De Bary, 1960). Through continuous emphasis and practice of humanism, this value will ultimately develop into a more cordial, relaxed and friendly relationship among fellow employees.

At the workplace, the downplaying of self and upgrading of relationships are highly valued. Collective human relationship (Mun, 1988) in the Chinese enterprise, with a high sense of cohesiveness within the hierarchy, is commonly observed in the Chinese enterprise (Redding, 1982). Subordinates' public expression of alternatives or overt self-interest should be kept to the lowest level (Silin, 1976). These cordial relationships and high tolerance among fellow members in the Chinese enterprise have become part of the dynamics of relationship management.

It is said that Chinese management is more relationship or people-oriented as opposed to performance-oriented (Lockett, 1988). Seniority and good conduct of behaviour such as reliability and trustworthiness, instead of good performance, play a more important role in promotion (Sheh, 1993). Hence, seniority in promotion and internal promotion are commonly practised in the Chinese enterprise. However, in larger Chinese enterprises, the use of objective performance criteria and the installation of a comprehensive performance appraisal system are commonly observed.

### **Organisation Structure**

As most of the Chinese businesses are family-oriented with strong emphasis on hierarchical order, there is a natural tendency to mix family matters with business matters. It is common to observe that the "organisational" hierarchy resembles that of the "family" hierarchy (Sheh, 1995). In practice, most of the Chinese organisations do not have a formal or explicit organisation chart, but it implies that the management position is based on the individual position and seniority in the family hierarchy.

In terms of structuring of activities, there is low specialisation of task with practically no clear job description and work procedure. Moreover, reporting relationships are interchangeable and at time ambiguous, thus resulting in role conflict. In the Chinese organisation, there is hardly any formulation of written policies and rules. Thus, there is marked tendency to treat all past decisions as a matter of policy. Although rules are not explicitly spelled out, the Chinese leaders have high expectations of the subordinates' good conduct of behaviour such as obedience, reliability, and trustworthiness.

### **Leadership Style**

As most Chinese enterprises have evolved from family-owned business,

paternalism and nepotism are noted as dominant characteristics. The paternalistic style of leadership is particularly dominant in Chinese enterprises as observed by management researchers like Bond & Hwang (1986), Redding (1990), Silin (1976), and Tan (1989). This practice of paternalism is made immensely practical in the Chinese enterprise when it is reinforced by the emphasis of "familism" and ordering relationship. The basis of Chinese familism is reinforced by the moral values and obligations demonstrated by the paternalistic leader. This places the Chinese organisational leaders as guardians and providers of the subordinates' welfare. To a large extent, the Chinese enterprises also provide life-time employment to their employees. As long as the subordinates do not commit any major faults, the Chinese leader does not normally discharge subordinates merely based on unsatisfactory performance.

In addition, the emphasis placed on the value of familism and moral obligation has resulted in recruiting of family members and relatives into the Chinese enterprises particularly those of smaller-scale enterprises (Chong, 1987; Redding, 1982). Hence, nepotism is much practised in the Chinese enterprise. However, this practice is normally observed in small and some medium size Chinese family business enterprises. As for larger Chinese enterprises, the recruitment of professionals (non-family member) is more commonly observed.

A Chinese business leader keeps an eye on the distant horizon while always paying close attention to the past and present. The ability to view future events is critical because it provides the organisation with a broad perspective. Being a futurist, the Chinese leader is good at identifying and exploiting business opportunities. In fact, in the mind of the Chinese entrepreneur, he sees the business like an empire that his children will eventually inherited (Redding, 1982). Based on this rationale, the Chinese entrepreneur normally would re-invest his earnings.

From the cultural point of view, the Chinese place strong emphasis on family welfare. The ceaseless striving to expand the family's wealth and glorify their ancestors (Myers, 1989) made the Chinese leader work diligently and live frugally for the family. In the Chinese community, accumulation of wealth has been identified as a yardstick for individual and family glory. Wealth is also a prime source of power, as well as self-esteem and status for the Chinese leader. The leader is therefore willing to work long hours (Thong, 1987, and Sheh, 1995) and yet remain enthusiastic and dynamic. This great sense of achievement has developed into high entrepreneurial spirit, which brought about significant economic successes for many Chinese family businesses. This great sense of achievement (high achiever) is still found

among the present Chinese leaders.

A Chinese leader possesses great self-confidence and continuously instil high expectation and confidence in his followers. The leader believes that his successes are the result of right combination of events and people. He is confident that given the right synergy, everything is possible. It is just a matter of right timing.

### **Business Orientation and Strategy**

The Chinese leader is also enthusiastic in whatever he does and never gives up easily in all his ventures. He demonstrates perseverance, patience and is quick to act but yet patient enough to wait for the results. Persistence enables the Chinese leader to exercise extreme endurance, particularly at the inception of the business as well as during difficult periods. Patience refers to a long-term perspective. Chinese leaders are also noted for their long working hours (Thong, 1987), which could be attributed to their personal values of patience and endurance.

In the business context, the emphasis on the virtue of thrift means that one has to be frugal in the use of limited resources (material, capital, and human resources). This has resulted in improving productivity and overall profitability. This value of persistence has enabled the Chinese leaders to exercise extreme endurance, particularly at the early inception of the business where existence and survival are the key objective. During that period, the family members practically work without pay for years just to ensure the survival and long-term success of the family business. The emphasis on family and to protect the "good name" of the family business, have made the Chinese work diligently and live frugally for the family. This has contributed very much to the early high success of many overseas Chinese business ventures. However, in today's organisations, although working hard is important, working smart should be emphasised.

In business, the Chinese tend to play the game of "face" and "guanxi" to strengthen business relationships. In Chinese society, the perceived nature of face, the circumstances of granting and refusing face as well as reactions to losing or granting face have exerted a strong influence in the individual behaviour and in the business context (Sheh, 1995). The importance of "face" has gradually spread into protecting the good name of the business, the family and the individual self-image. It was observed in the Chinese business that in order to protect the good name of the business and family, the Chinese will not easily wind up the family business even if it has been proven to be non-profit making. In business undertakings, the Chinese leaders normally exercise extreme high degree of patience in protecting the good name of the

family business. Between 1950s and 1970s, most Chinese businessmen in Southeast Asia did not rely on banking facilities to finance their businesses. It was a loss of face to be frequently seen in the banking hall (Sheh, 1995). But today, that scenario has changed.

In the Chinese community, *guanxi* is strongly emphasised. *Guanxi* can be defined as special relationships two persons have with each other. To some people, *guanxi* refers to connections or good relationship. In the Chinese business networking, cordial *guanxi* is a necessary connection in ensuring that such networks operate reliably (Sheh, 1995). The use of *guanxi* is still commonly observed in the Chinese community in countries like Malaysia and Indonesia. However, in Singapore, the Chinese businessmen are gradually replacing *guanxi* with the ability to serve or deliver.

In today's rapid change environment, organisations have to struggle between the battle for survival and the battle for excellence. Some of the cultural values have to give way to modern management theories and techniques. While it is important to change and adopt new management techniques in order to survive or excel, it is still important for the Chinese leader to retain at least the shadow of some of the traditional values like perseverance, patient, honesty, integrity, trustworthiness, morality and working hard, just to name a few.

## **Conclusion**

As the Chinese family business organisations grow, the weaknesses of Chinese family business management will start to override the strengths. In order to ensure continuity of the family business, it is essential for the management to change from being family managed to professionally-managed.

One of the key characteristics of the Chinese organisation is the inter-relationship between management, ownership and entrepreneurship. As the organisation grows, the real challenge is to maintain its entrepreneurship and flexibility while still being professionally managed. In order to move from family management to professional management, it is essential to separate management from ownership without any significant loss of entrepreneurship.

To survive in the new millenium, these are some of the key issues the Chinese enterprise need to consider:

- (a) Separate family matters from business matters by practising a comprehensive and reliable accounting system. Personal finance and company finance should be accounted for separately.
- (b) Redefine the business direction, corporate vision and mission

- statement as well as developing a set of corporate core values.
- (c) Create a comprehensive organisation structure with clear line of responsibility for each position in the hierarchy.
  - (d) Develop an effective and equitable performance appraisal and reward system.
  - (e) Use proper channel of communication (open and two-way communications) and upgrade meeting effectiveness.
  - (f) Create a learning organisation by continuously develop management capabilities and upgrading of skills.
  - (g) Adopt a more participative or democratic leadership style.

As the entire transition process may take several years and it can be a painful transformation, the Chinese transformational leader needs to be intelligent and yet patient enough to complete the entire process.

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