# THE TRANSFER OF WESTERN MANAGEMENT TO CHINA: CONTEXT, CONTENT AND CONSTRAINTS

*Management Learning*, (1998) 29:2, 201-221

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## ABSTRACT

This paper examines the issue of transferring Western management knowhow to China, focusing on the context, content and constraints of the transfer. A model of the transfer of management knowhow is developed which contains five closely-related stages: selection, adaptation, application, evaluation and integration. Factors which influence management transfer are identified as environmental, organisational, and cultural and behavioural; while cultural constraint are discussed in detail. It concludes that China cannot depend on the West for the solutions to its problems but develop its own indigenous knowhow by blending the best of both East and West.

## INTRODUCTION AND PREVIOUS RESEARCH

A turning point in the contemporary Chinese history occurred in 1979 when China embarked on a long journey of transforming its economy from a centrally-planned system to a market-oriented one. Following this economic reform has been the introduction and transfer of management knowhow from foreign countries, mainly the West. What changes have taken place in China after 17 years of economic reform? Can Western management theory and practice be transferred to and applied in China's Socialist Market Economy? If they can, and how? This paper intends to address these questions by examining the context, content and constraints of the transfer of management knowhow to China. It starts with a brief review of existing literature on management transfer. Following an historical introduction about changes in market and marketing in China, a model of the management transfer is developed. Key factors which influence the transfer are identified and discussed. [1]

The debate around whether management knowhow is universal or culture-bounded is not a new one (Negandhi and Estafen, 1965). Research attention on the issue of cross-cultural transfer of management knowhow has been growing steadily since 1960s. Research in the field can be classified into two types of study: the applicability and transferability of Western (mainly American) management knowhow to the developing countries since 1960s (Gonzalez and McMillan, 1961; Cranch, 1974; Cavusgil and Yavas, 1984; Akaah and Riordan, 1988; Kinsey, 1988; Jaeger, 1990); and the transfer of Japanese management knowhow to both developed and developing countries since 1980s (Fukuda, 1983; Ishida, 1986; Ho, 1993).

Gonzalez and McMillan (1961) are perhaps the first authors to question the universalism. They find that the management knowhow is culture-bound and *American philosophy of management is not universally applicable*. Oberg (1963) emphasizes the importance of

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[1]The author wish to acknowledge the valuable comments made by two anonymous referees of *Management Learning*.

cultural differences in the transfer. From his empirical research he concludes that *Cultural differences from one country to another are more significant than many writers (on management theory) now appear to recognize . . . If management principles are to be truly universal. . . they must face up the challenge of other cultures and other business climates.* Farmer and Richman (1964) also stress the importance of external environmental factors on the managerial efficiency. According to their model, four types of external constraints have impact on the transfer of management knowhow:

- *Educational characteristics*
- *Sociological characteristics*
- *Political and legal characteristics*
- *Economic characteristics*

Cavusgil and Yavas (1984), in their study of transferring management knowhow to Turkey, observe that shortage of qualified local managers who understand modern management concepts and knowhow impeded the developing countries in utilising foreign investment and technology. Consequently the transfer of management knowhow is seen as necessary and complementary to the transfer of technology. They identify thirteen variables which appear to impede the transfer of management knowhow. The major variables are:

- *Political instability*
- *Economic instability*
- *Educational background of colleagues*
- *Social background of colleagues*
- *Negative attitudes toward modern techniques*
- *Resistance to new ideas*

Jaeger (1990) states that the uncritical use of Western management theories and techniques in developing countries could contribute not only to organisational inefficiency and ineffectiveness but to the resentment and other negative feelings associated with the perception of being subject to 'cultural imperialism', i.e. being forced to adopt and accept practices which run counter to deeply held values and assumptions of the local culture. He then compares the characteristics of developing country cultures with those of developed country cultures. However, nations in the developing country category themselves are so diversified that each national culture warrants separate research attention.

Studies on the transfer of management knowhow to China are few and far between. From their experiences in training Chinese managers to use American management techniques, Lindsay and Dempsey (1985) find that traditional Chinese culture and modern socialist development have merged to produce unique forms of management behaviour which do not match Western models. Livingstone (1987) warns of the facile application of Western marketing techniques to China. He emphasizes that in any non-Western developing country, *marketing techniques are not textbook formulae or cookbook recipes which could be applied indiscriminately to conditions anywhere*. In their discussion of transfer of human resource management (HRM) in Sino-US cooperative ventures, Von Glinow and Teagarden (1988) identify four major impediments:

- *A closed versus an open society*
- *HRM legitimacy*
- *The technology acquisition versus absorption issue*
- *The need for management infrastructure creation*

They view the transfer of HRM technology as an integral part of the import of technology and the former could contribute to absorbing transferred technology. From his survey of a group Chinese executives, Chan (1989) lists five critical barriers against applying marketing concept: *bureaucratic settling, management's lack of familiarity with marketing, socialist orientation, centrally planned economy and inadequate market information*. Zhuang and Whitehill (1989) note that the fast growth of international joint ventures in China requires Chinese managers to be able to understand Western business practices and behaviour, thus promoting the transfer of management knowhow. However, they conclude that China would not completely adopt Western management practices and solutions to Chinese management problems would be uniquely Chinese in nature. While these previous studies discussed the transfer of management knowhow, they has not addressed the cultural issue to any extent. A welcome exception is a recent article by Easterby-Smith, et al (1995) in which a comparative study is carried out in matched Chinese and UK companies which investigated the sensitivity of HRM to culture. The observed differences are then analysed as a product of either *cultural* factors or *contextual* factors. They conclude that HRM is dependent on the cultural assumptions underpinning it. Those areas of HRM most affected by cultural differences are the least likely to be transferred as cultural factors are far less mutable. These strong cultural factors will limit the adoption of Western HRM in China. In the following sections, both contextual and cultural factors will be discussed.

## CONTEXT: MARKET AND MARKETING IN CHINA

The past 17 years have seen great changes in the Chinese economy and market. Since 1979, China has been undergoing a fundamental transformation from a central-command to a market-led economy. At its 14th congress in October 1992, the Chinese Communist Party approved the "*Socialist Market Economy*", thereby signalling that the Chinese government had finally abandoned orthodox Marxist economic theory in favour of the Western style free market economy. With the development of this new market system, 400,000 state-owned enterprises (SOEs) will be transformed from "government production units" to independent economic entities and millions of cadres will become, for the first time, managers and businessmen with real decision-making power.

The development of the market system in China has undergone three stages. From 1949 to 1979, China practised a rigid central-command economy (Richman,1970; Joy,1990). The decisions concerning products, prices and distribution were all made centrally by government bureaux. The State set production targets for each enterprise, distributed its products, allocated supplies and equipment, assigned personnel, took over profits and covered losses. Under such state planning, a SOE was no more than a plan-unit or production workshop with the sole objective of fulfilling state output quotas. Problems with the system have been well documented (Mun,1984; Holton,1985; Lockett,1988) and since the market was virtually non-existent in the planned economy, the concept of marketing, as understood by Western scholars, was regarded politically as 'bourgeois decadence' or economically as 'unnecessary and useless'.

The second stage started in 1980 when urban industrial reform was initiated. The State began to recognise the problems with the planning system and to loosen its control over the economy by reducing mandatory plans and replacing them with guidance plans. SOEs were granted more, though still limited, autonomy over market-mix decision making (Joy,1990). An important factor contributing to such reform was the emerging forces of non-state sector (rural township and village enterprises as well as private enterprises) and foreign-funded enterprises. Reform during this period was incomplete as the whole central-planning system remained still untouched. The official views on marketing swung from *almost blank condemnation to enthusiasm tempered by nervousness* (Livingstone, 1987).

In 1992 China adopted the '*Socialist Market Economy*' which heralded the third stage. A series of major reforms have been put on the agenda. Firstly: the separation of government bureau from the control of enterprises, thus SOEs could become independent economic entities; secondly, development of new markets including those dealing in commodities, finance and capital, labour and technology, pricing regulation (*Beijing Review*, 8/3/1993). Although the Chinese economy is still dominated by SOEs, a great change in the economic structure has taken place in 1992 when, for the first time, the output from non-state sectors has accounted for more than half (52%) of GNP. During the economic transition, SOEs appear to be slowly transforming themselves from production-oriented to production/sales-oriented, and becoming more responsive to markets. Changes that have taken place during the reform are summed up by three tables. Table 1 depicts the changes in the macro environment. Table 2 shows the changes in the management system of SOEs. Table 3 focuses on the changes in marketing. Although major dimensions of the reform have been covered in the three tables, they are not exhaustive. It should also be noted: a) the demarcation of three stages is for analytical purpose, and there is no clear cut boundaries in reality; b) the market economy in China is still in the very early stage of evolution, and the transition may take up many years to complete. Therefore, the changes for the third period are far from fully realised but based partly on the forward projection; c) there exist great variations between different regions and industrial sectors.

(Insert Tables 1, 2 and 3 about here)

Holton (1985) predicts that *a market-oriented socialist system is conceptually possible*. After years of exploration, China has finally adopted the market economy. However, it is still not clear what is exactly meant by *Socialist Market Economy*. What are the characteristics of such system? There is no ready model in the world to copy so that Chinese government is left with only solution: groping for stones to cross the river. The basic contradiction remains that market economy is based on the private ownership while socialism insists on public ownership: how are they reconciled? It is not known at this stage what kind of role or to what degree that state planning will play in the new system. It can be argued that state planning may still be needed in some key industries which have dominant influence on the national economy before the market mechanism is fully established. Otherwise it could collapse and reform could fail. The pace of transformation to the market economy has varied greatly from different regions and industrial sectors. Special Economic Zones and open coast areas are in the bandwagon of reform, while inland provinces lag far behind. Among the state-controlled sectors, consumer goods industries such as food, domestic appliances are well ahead of heavy industries such as steel and petro-chemical, where large SOEs concentrate and the transition will be much more complicated.

**Needs for new management knowhow**

These rapid changes have waken up Chinese managers from their comfortable dreams of yesterday's planned economy, and made them to face the great uncertainty in today's environment about how to use the newly-gained autonomy and cope with competition. Like a non-swimmer being suddenly plunged into the "sea of market" by the force of reform, Chinese managers become bewildered and rush in a desperate search for new management concepts and techniques as their previous knowhow has become increasingly obsolete and inadequate in the new marketplace. They are very keen to learn management knowhow from the West, and interest in experimenting new management approaches has greatly increased during the past decade or so. However, the old system and diehard habits will not be easily changed in a short time. The problems observed by Bentley (1994) in another transitional economy exist also in China:

> *The entire economic system of Hungary suffers under the marketing gap, namely the lack of market orientation. Most companies are still product oriented, ... There is still a complete lack of attention towards the presentation of the product, the quality of packaging, of the service, of the promotion, or simply the basic effort to attract the interest of a potential customer. This results in the high level of success of many imported products and in the difficulties of placing Hungarian products on Western markets, ...*

Strategic management and marketing are the subjects that are particularly needed but perhaps least understood in China as the government acknowledged that the majority of Chinese managers lacked marketing knowledge and had no experience of operating in a real competitive marketplace (Chen, 1993). To make the situation even worse, there is an acute shortage of qualified marketing educators and inadequate training programmes (Zhou,1991; Siu,1994). It will be an arduous task to re-educate and retrain Chinese managers (*Marketing Herald*, 1/1994:p26) as they have to learn from the basics. When asked by the author about recent experience of teaching marketing to a group of MBA students in China, an English professor could not hide his disappointment: "it was too difficult. They simply could not understand some basic concepts and showed little enthusiasm in discussion." However, these MBA students are an elite class in China. In learning of new concepts and methods from the West, Chinese managers have to re-examine their whole value system and practice which they had followed for the past forty years. Of primary importance is the applicability and transferability of Western management knowhow in China, and this will now be examined.

## CONTENT AND PROCESS: A MODEL OF THE TRANSFER

Management knowhow is defined here in three levels as shown in Figure 1.

1. Management thoughts and philosophy ("the Core")
2. Concepts, theories and models ("Middle layer")
3. Analytical methods, techniques and practice ("Out layer")

A model of the transfer is presented in Figure 2, which consists of five closely-linked stages: selection, adaptation, application, evaluation and integration. The first two stages relate to the *content* to be transferred while the next three stages relate to the application of the content: the transferring *process*. Management transfer is a process of learning, and also a process of *knowledge formation* (Hedlund and Nonaka, 1993) or *reformation*, through which knowhow is reinterpreted, re-contextualised, re-conceptualised, refined, adapted and advanced. Integration as the final stage of the transfer has the ultimate objective: developing indigenous management knowhow which combines the best of both Western and Eastern systems. The transfer of management knowhow is not complete until the received and learned knowledge of the fundamentals of management are actually applied in the way that will lead to effective managerial behaviour consistent with a given environmental-cum-cultural setting (Gennaro,1969). The remainder of the paper focuses on major elements in the content part of the model as elucidation on the process requries empirical evidence. It is believed that this model will be useful in analysing the transfer of any management discipline, but discussion here will mainly refer to marketing instead of management knowhow in general.

(Insert Figure 1 and 2 about here)

**Transferability**

The first question to be asked is whether Western management knowhow can be transferred to the Chinese context. Transferability should be distinguished from "applicability", which is associated with the former but different. Applicability may refer to MNCs which apply their management practice in a foreign environment without actually transferring it to local recipients. On the other hand, applicability may be used to describe the degree of usefulness of Western knowhow after transferring it to the foreign recipients. Except for the unpleasant experience of transplanting economic systems and management from Soviet Union in the early 50s, management transfer from foreign countries is a relatively new experience for Chinese managers compared with technology transfer. When China first announced the modernisation (industrialisation) programme at the end of the Cultural Revolution in the middle of 1970s, it intended to import only advanced technology from the West, but excluding management knowhow which was then branded as "bogus science and bourgeois evils". More than a decade of reform and economic development have gradually created a relatively relaxed political climate in China despite several setbacks, and acceptative attitude towards Western knowhow. This makes the introduction of Western management knowhow to China now politically possible. On the other hand, the emerging market economy and increasing foreign-invested enterprises created a mass demand for Western management knowhow and the pre-condition in which these knowhow can be applied.

**Suitability / Appropriateness**

The first stage of selection, decides which elements of Western knowhow are transferable and which are not, or at least not at the moment. This has not been widely recognised. Transferability depends on the relevance and compatibility of Western concepts to the Chinese context. As Western management knowhow is deeply rooted in its own socio-cultural soil, wholesale import of Western knowhow is impractical since the content must be suitable to the new environment and local circumstance. There exist huge gaps between Western industrial countries and China: Western economy is in the post-industrial stage, with well-developed infrastructure, complete market mechanism and a buyer's market; whereas China is in the early stage of industrialisation, with an under-developed infrastructure, embryo market systems and very low personal income. It is obvious that post-industrial models are not suitable to the Chinese context. This may explain why an English professor failed to draw any conclusion from his research in China in early 1980s when he conducted a survey on job-enrichment and job-enlargement in SOEs. What Chinese employees stated they were interested in nothing but more bonus and better housing since their basic material needs had not been fully satisfied. It can be hypothesised that there may exist an *International Management Knowhow Life Cycle,* corresponding to international economic development stages and product life cycles. For example, while Western companies have evolved to the fourth stage of planning: integrative strategic management, most Chinese SOEs are still at the first stage of financial planning, or do not have any planning at all. The transition to a real market economy in China may take a very long time. During this period, the Chinese economic system may be characterised as a mixed one: planned state sector mingled with a free private sector. Even at the completion of the transition, the final shape of the system would look more like the economy in Singapore, rather than those in the West. In short, what Chinese managers need is "*appropriate*" knowhow: *useful, acceptable and affordable* (Terpstra, 1991), which can be used to solve their problems.

**Sources of Knowhow**

In their search for management knowhow, Chinese managers have three different sources to choose, each having distinctive characteristics:

- Western (i.e. Western European and North American)
- Japanese, and
- Overseas Chinese, .

Which is more compatible with the socio-cultural settings in China and easier to be transferred remains an open question. Overseas Chinese management practice has found its way in the open coast areas where investment from Hong Kong and Taiwan is concentrated. Arguably, overseas Chinese have more to offer because of the same cultural roots and language. Chinese leaders' admiration for the Singaporean model and calls for catching up with the Four Little Dragons (Taiwan, Korea, Hong Kong and Singapore) are very excessive. However, it is very doubtful whether overseas Chinese could offer substantial management knowhow to Chinese managers in the transition to a market economy. First, overseas Chinese enterprises *lack almost all characteristics of modern management themselves* (Hofstede, 1993; Redding, 1990). Second, most overseas Chinese business operate in a totally different way from SOEs in the mainland. The majority of overseas Chinese firms are still small-scale family businesses, good at production but weak at marketing, and facing the challenge in a new international environment. In addition, both tangible and intangible cultural differences exist between overseas Chinese and mainland Chinese, and most Western studies on Chinese culture have so far been confined to overseas Chinese (Hofstede, 1980; Yau, 1988).

Is Japanese management knowhow more relevant to China? It all depends. Japanese management knowhow has been very popular in China since early 1980s due partly to cultural similarity and partly to its economic influence. The Japanese model seems to offer the Chinese government a different and preferable path to modernisation than Western model by stressing economic growth and de-emphasising political democracy (Lewis and Sun, 1994). Some characteristics observed in Chinese SOEs may appear to be similar to those of Japanese companies, for example, "iron rice bowl" or life-time employment, but in fact they differ in all important aspects. Contrary to the common belief, Redding and Pugh (1986) find that the differences in organisation between Chinese and Japanese firms were even greater than between either of them and the West. Furthermore, although some concepts were originated in Japan, most were borrowed and adapted from the West. So why shouldn't Chinese managers learn from the West directly? Comparing the Chinese perception of American and Japanese management models, Wang (1986) observed that many Chinese managers were dissatisfied with the current management system which bore some analogy to the Japanese one, and viewed the American approach as "ideal". However, this is in contradiction with the more common phenomenon of "learning from Japan" (Lewis and Sun,1994), and needs to be further tested empirically. In addition to the three external sources, the traditional Chinese management knowhow is widely regarded as a treasure and should be explored systematically to serve the present times (Ye, et al,1987). In a nutshell, no matter which source Chinese managers borrow from, adaptation holds the key to the success of the transfer.

## CONSTRAINTS: FACTORS INFLUENCING THE TRANSFER

Learning consists of absorbing, digesting, adapting and applying. Adaptation and application are the most important stages in the transfer of management knowhow. Adaptation has to be made both conceptually and contextually because a) Western management knowhow is defined on the basis of Western assumptions and norms which are fundamentally different from their Chinese counterparts, and b) Chinese SOEs operate in a environment that differs from the Western one in almost every aspect. The purpose of adaptation is to identify those which would be inappropriate in the Chinese environmental /cultural setting and modify them to fit to the Chinese context. Factors which influence adaptation and application as well as the whole management transfer process can be divided into three categories:

- Environmental factors
- Organisational factors
- Cultural and behavioural factors

Environmental factors include political instability, economic uncertainty (Cavusgil and Yavas, 1984), openness of the society and management infrastructure (Von Glinow and Teagarden,1988). Organisational factors refer to incompatible organisation structure or management systems, availability of reliable data and information, and shortage of qualified managers.

Modern Chinese culture is influenced by three sources in descending order: Confucianism, communism ideology, and only recently, Western values. Confucianism is basically a non-competitive culture, emphasising harmony, tolerance and moderation (Waley, 1988). This is in sharp contrast with Western management philosophy in the cut-throat competitive market economy. Communist ideology, on the other hand, has long negated the role of market and marketing in the centrally-planned economic system. All these influences, despite of their profound impact on management practice and the transfer of management knowhow, have so far not been well understood. Some major cultural factors are discussed below.

**Ideological and political constraints**

Although China today is much more open and politically relaxed compared with the dark ages of the Cultural Revolution in the middle of 1960s-1970s, the rise of consumerism and worship of Western commercial culture cannot disguise the fact that China, under the communist one-party rule, remains politically a totalitarian state and still, by and large, a closed society. Political ideologies which run counter to many of Western values still prevail. There were, in the middle of 1980s, heated debates in China on whether Western management disciplines, such as organisation behaviour, were bourgeoisie pseudo-sciences and should be boycotted. Culture-bond knowhow such as marketing faces more ideological obstacles as marketing has no place in the orthodox Marxist theory which emphasises production and disdains distribution based on the notion that the creation of economic utilities is largely confined to the production sector. It will not be easy and certainly takes long time for Chinese managers to change their old thinking. As long as the Chinese government continue to pursue two contradictory goals: to experiment capitalism economically and to maintain communism politically, there are always inherent conflicts between the free market practice and hard-line communist ideology. This causes enormous confusion and anxiety among Chinese managers. They still regard "political correctness" as having higher importance than organisational effectiveness or efficiency (Lindsay and Dempsey,1983). Misgivings of being persecuted in next political campaign make playing-safe a major concern ideologically. On the other hand, the painful memory of the past one hundred years when China was humiliated in wars with and subsequently suffered from Western powers, will make Chinese managers take extra caution in borrow Western ideas.

**Language**

Language presents the first barrier to the transfer of Western management knowhow to China as the majority of Chinese managers cannot speak a foreign language. It is difficult to translate foreign concepts and theories into Chinese because different meanings exist in two cultures for the same words such as market, enterprise and profit. A SOE in China is traditionally regarded as an administrative unit, or a subordinate unit of the bureau with the main function of fulfilling production quotas and providing employment and welfare; showing no analogy to the Western concept of an economic or legal entity for the conduct of business. Even if the Chinese equivalent of an English term can be found from dictionary, the actual connotation and extension of the translated term could be very different from the original. For instance, the key term *marketing* itself cannot be adequately translated into Chinese. Without universally accepted translation in Chinese, three most commonly used are:

- Discipline of market;
- Discipline of selling;
- Discipline of operating and selling.

Moreover, "marketing research" is translated as "sales investigation" or "market survey" in Chinese. There are other more difficult cases in which Western terms are almost untranslatable.

**Socio-cultural Factors**

Social and cultural factors have to be taken into account before any adaptation is made. Culture generally refers to some commonly held beliefs, values and perceptions, and behaviour patterns. In contrast with Western tradition of mercantilism, Chinese culture under the influence of Confucianism has belittled the importance of commercial activities as well as businessman as a profession. Placed on the bottom rung in the Confucian social hierarchy after workers, peasants, soldiers and students, merchants were taxed arbitrarily, treated with suspicion and as inferiors by mandarins, and suppressed by the imperial bureaucrats, who frequently banned foreign trade by merchants as a corrupting influence. This national mentality has been further strengthened under the communist regime since the propaganda machine spared no efforts to revile capitalists and market economy, and by the centrally-planned economy in which production not marketing was regarded as the utmost important. The legacy of the past is so immense that its impeding effect on marketing cannot be underestimated. There are other popular believes which may hinder the application of marketing, for example:

- Nine out of ten businessmen are unscrupulous.
- Firms only advertise the products they could not sell.
- A good product needs no advertising.
- Advertising tells all lies

An article on the People's Daily (13/12/1992) stresses the need to preserve the Chinese cultural tradition under the market economy. It criticises the practice of discount and bargaining being dishonest and run counter to socialist moral codes. This shows that the transfer of Western management knowhow has to overcome the resistance from both traditional values and ideological propaganda.

Marketing is new not only to Chinese managers, but also to Chinese consumers. Consumers have an important role to play in the transfer process. They have been exposed to the Western-style marketing approach only recently, and need time to get used to it. The key index of the effectiveness of any new marketing technique adopted would be the response from the consumers because they are the target receivers of marketing, the ultimate judge of success. As consumer goods in China become increasingly a buyer's market and consumers more sophisticated,  it would put greater pressure on companies to learn and adopt a new marketing approach.

**Hard and Soft**

Marketing, like other management disciplines or functions, connotes technical (hard) and social or behavioural (soft) elements. This is in line with the distinction made by Hedlund and Nonaka (1993) between *tacit* and *explicit* knowledge. Soft elements are normally tacit while hard elements are more explicit. Functions like production, R&D, innovation, finance and accounting, have more hard elements; whilst other functions such as organisation, marketing and HRM have more soft elements. Hard elements are less subject to the influence of cultural and environmental variations and can be applied immediately with little or no adaptation; soft elements are more culture-bond and context-specific, and require more adaptation during the transfer. Empirical evidence can be found in a recent study by Easterby-Smith et al (1995). Unfortunately it might be difficult to distinguish the hard from the soft in practical cases as there is no clear-cut boundary between them like the one shown in Figure 1, and they could be intertwined, particularly at the application stage. It should also be noted that the definition of hard and soft elements may be different under the different cultural backgrounds (Jaeger,1990). In terms of priority it would be easier to start the transfer with those subjects which have more hard elements. As most Chinese managers in SOEs come from a technical or engineering background, they in general tend to be a quick learner of hard elements but rather slow, indifferent or even resistant to soft elements. They have never worked or lived in a real market situation until very recent years, and have little knowledge about marketing. Livingstone (1987) describes marketing in China as a *fuzzier concept* in *an alien culture*, initially causing more anxiety to the students than more overtly quantitative (hard) disciplines. There may be far greater value for Chinese managers first to learn and apply some *tools and techniques* of marketing rather than the total body of marketing knowledge as it exists in developed countries (Cavusgil and Yavas, 1984).

**Conceptual Barriers**

There are two opposite types of preoccupation among Chinese managers, both of which present barriers to the transfer of Western management knowhow. The first view rejects the need to learn from the West. It argues that China has had good theories of management since ancient times. For example, *the Art of War* by Sun Tze was more than two thousand years old and has been said as a foundation for the Japanese business and marketing strategy. A senior research fellow from the Chinese Academy of Social Sciences is an advocate of the view. He has told the author recently that Chinese are born marketing genius and do not need to learn marketing from the West. The second view favours total and indiscriminate transplanting of Western practice regardless of the apparent differences in socio-cultural environment and local circumstances. It believes that anything that is foreign (Western) is good even the moon shines brighter in the West. Both views are one-sided and harmful to the transfer. In his book *the East-West Pendulum*, George (1992) provides interesting accounts on the different attitudes between Chinese and Japanese towards the West learning in the last century. Japanese people, managers in particular, had been very good at learning from West while preserving their own tradition. This may offer a part explanation why in the past one and half centuries, reform/modernisation programmes were successful in Japan while several similar attempts failed in China. Such an ambivalent mentality to foreign cultures is still deeply imbued among Chinese people. A slogan in the last doomed modernisation drive of the late nineteenth century said:

*To keep Chinese learning for fundamentals,*
*to take Western learning for practical needs.*

Interestingly, this was echoed more than one hundred years later by a Western scholar. Casting his doubt over the validity of Western management theories in non-Western environment, Hofstede (1993) proposes for a dialogue between equals in which

*the Western partners acts as the expert in Western technology and*
*the local partner as the expert in local culture, habits and feeling.*

However, his view has not been shared by some Western academics who still believe that Western theory and practice are superior on all aspects and universally applicable. They toured China, Eastern Europe and other developing countries to preach Western management without adequate knowledge of local culture and society. This arrogant and ignorant attitude would benefit nobody. Developing countries and countries in economic transition cannot depend on Western management in the long term but to develop their own management systems which combine the best of East and West. To this end, the transfer of management knowhow from the West should be selective and cautious.

**The Role of MNCs**

The move towards a free market in China is of significance to foreign firms, particularly to Multinational Corporations (MNCs). By the end of 1994, there are in China 220,000 foreign equity or contractual joint ventures, and wholly foreign-owned enterprises (MOFTEC, 1995). By investing in China, MNCs have brought not only capital and technology, but much-needed management knowhow. With more and more MNCs operating in China, they could contribute to the transfer of management knowhow by acting as a role model to Chinese managers. Many authors highlighted the role of MNC in the international transfer of technology and the impact of investment upon economic development in the developing countries, more specifically, referring MNCs as *change agents* and *development agents* (Quinn, 1969; Thorelli, 1966 and Johnson, 1970). In addition to these two roles, MNCs can play a more important role as the *teaching agents*, or *tutors*. Since most Chinese partners in large and medium-sized joint ventures are SOEs, MNCs can demonstrate to their Chinese managers how Western management practice work in a first hand experience. The Chinese government has also called on SOEs to learn management practices from exemplary international joint ventures (Li,1992). The applicability and adaptation of Western management knowhow is the crucial element in the successful operation of these joint ventures, as there exists between Chinese and foreign management practices a wide gap which may cause potential conflicts in joint ventures (Fan,1996). There are three different approaches to tackle the issue (Child, 1991):

1. wholesale of foreign practice without any reconciliation with existing Chinese one;
2. accept and work with Chinese practice with little change;
3. reconcile and incorporate foreign practice with a Chinese perspective

The second approach adopted in most joint ventures with overseas Chinese partners seems to work well in the short term. However, it is the integrative approach that is likely to be the most successful in the long run. For those MNCs which do not have joint ventures but market their products in China, the applicability of Western management knowhow is still relevant. The profound cultural differences that exist between China and West may translate into distinctive differences in marketing approach. MNCs have to ask to which extent the marketing strategies and practices proven successful in their home country can be applied to the Chinese context, and subsequently to make necessary adaptations in terms of marketing mix.

**CONCLUSIONS**

This paper set out to examine the transferability of Western management knowhow to China's SOEs. It is concerned mainly with the content of the transfer but not the process, which will be another major area for research. Owing to its exploratory nature, the paper raises more questions than it has answered. Future research is needed along a number of dimensions:

1. Updating our knowledge of the current status of management in SOEs and management education in China is the first step. Table 2 and 3 provide some

guidance for which areas to look at. There is a urgent need to study what changes have taken place and what have not changed; and to identify the similarities and differences in management practice in China and West. Only on basis of this understanding, can one decide which management concepts are compatible/applicable to the Chinese context.

2. Empirical investigations are needed to study the transfer process in different type of organisations such as SOEs, township and private enterprises, and foreign-invested enterprises. For instance, a foreign joint venture may have far less of the political and organisational constraints than a SOE but still faces problems of coping with clashes between two cultures and management styles. It is also interesting to know what kind of role is played by three different impeding factors and the links between them.
3. Further studies need to address the practical problems which may arise during the adaptation and application stages (see Figure 2): how to overcome conceptual barriers, how to reduce the resistance to change, how to reconcile new practice with the existing system, and how to assess the effectiveness and measure performance after the transfer process, to name just a few.
4. Last but not least, basic research is needed to examine the differences between Chinese and Western management thoughts and philosophies (see Figure 1), and how the differences at the core influence the other two layers as well as the transfer process. The hypothesis that it is more difficult to transfer soft elements across cultures than hard elements needs to be further tested.

The transition to a market economy and relatively relaxed political climate in China have produced the demand for Western management knowhow, marketing in particular. However, the transfer of Western management to China is a complex and long term task which is subject to the influence of many factors, among them cultural factor is the most important one. This is crucially important not only to Chinese SOEs, but also to MNCs which are already operating within China or planning to enter the market. As mentioned above, MNCs will be involved either directly or indirectly with management transfer.

Understanding of the context, content and cultural constraints of the transfer process holds the key to the success of cross culture management transfer.

There is little doubt that Western management knowhow is useful, and some of it can be applied in China. However, this does not imply a total Westernisation. Rather on the contrary, it would be the Chinesenisation of Western management knowhow, or *management with Chinese characteristics* as the Chinese jargon goes. It would be naive to believe that by learning Western management knowhow China will fully adopt capitalism, or solve all her problems. *What is transferred from the West is likely to be carefully selected, then redesigned and developed to suit specific Chinese needs rather than adopted wholesale to please Westerners and make them rich* (Garratt,1981). Ultimately China has to develop her own indigenous theory and practice by blending the best of both East and West. How China can realise this goal has to be answered by future research which would benefit practitioners with insights and advice. This line of research should also address the issue of interaction between different management systems as the cross-cultural transfer is never a one-way express.

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| | **Centrally-Planned Economy (1949 - 78)** | **Planned-Commodity Economy (1979 - 92)** | **Socialist Market Economy (1993 - )** |
|---|---|---|---|
| Ownership Structure | State ownership Collective ownership | State ownership, collective ownership, emergence of private and foreign ownership | State ownership still dominant; high growth in private and foreign ownership; pilot privatisation |
| Government Intervention | Direct administrative control | Diminished direct control, more by economic levers | Indirect |
| State Planning | Mandatory plan | Mandatory and Guidance plan | ? Vary in different sectors |
| Economic Legal System | None | Tentative | Enforcement problems |
| Competition within Industry | Quasi-monopoly; no competition | Limited competition | Intensifying in FMCG sectors, more foreign competition if joining WTO |
| Relationship between Demand and Supply | Co-existence of unwanted overstock and serious shortage | Basically a supplier's market | Towards a buyer's market in most consumer goods |
| Consumer rights | None | Emerged | More attention |
| Inflation | Unnoticeable | Moderate | High |
| Urban unemployment | Unheard of until 70's | Moderate | Increasing rapidly |
| Regional Protectionism | Strong | Moderate | Reduced? |
| Foreign Trade Policy | Self-reliance, import for large capital projects only | From import-substitution to export -led | Encourage large scale import and export |
| Income Discrepancy between City and Rural Area | Moderate | Reduced | Enlarging |
| Popular Values and Concerns | Political correctness Collectivism | Shifts from Four -Modernisations and democracy to personal material life | Rise of consumerism and individualism |
| Attitude towards Western Knowhow | Capitalist evils | Transfer of Technical knowhow, wary of "spiritual pollution" | Learn from West; and guard against decadent influences. |

Table 1 Changes in the Macro Economic Environment During the Reform

| | **Centrally-Planned Economy (1949-78)** | **Planned-Commodity Economy (1979-92)** | **Socialist Market Economy (1993- )** |
|---|---|---|---|
| Status in the Economy | Production/plan unit<br>Cost centre | Business unit<br>Profit centre | Independent entity?<br>Investment centre |
| Relationship with the Environment | Closed system | Half- open system | More open |
| Relationship with the State | State-owned and State-run | State-owned and semi-controlled | State-owned? independently-run |
| Decision-making Authority | Centralised, almost none at enterprise level | Limited autonomy, "one leg" in the market | Full autonomy? |
| Control and Leadership | Under the Ministry or Bureau, enterprise party committee | Director assuming responsibility under the party committee | Inherent conflicts between Party and management |
| Management team | State cadres, loyalty to the party | 4 criteria,* most with technical background | better qualified, with management training |
| Economic Responsibility | Almost none | Very limited | Full? |
| Economic Relationship with the State | Surplus handed-over, losses covered | After-tax -profit retained, losses covered | Bankruptcy allowed only to small firms |
| Capital Finance | State allocation | Bank loans | Issue of internal shares<br>Bank loans |
| Business Orientation | Production-oriented | Operation-oriented | Market/sales oriented |
| Performance Assessment | Plan-fulfilment<br>Growth in production | Profitability, sales | profitability<br>market share |
| Strategic Planning | None | Limited | Formalising process |
| Diversification | Single business | Limited diversification | Increasing |
| R&D | Only State-initiated and financed | Little change | Self-initiated and financed; market-pushed |
| Personnel Management | Life-time employment, recruitment assigned and wages fixed by state | Piece-rate and bonus<br>The break up of "Iron rice bowl" | Emergence of labour market, job contracts, performance linked pay |
| Supply | From the State allocation system | Half from the State, half from market | More from market |

* Four criteria: revolutionary, younger age, educated and specialised.

Table 2 Changes in the Management of State-Owned Enterprises During the Reform

| | **Centrally-Planned Economy (1949-78)** | **Planned-Commodity Economy (1979-92)** | **Socialist Market Economy (1993- )** |
|---|---|---|---|
| Marketing Organisation | 'Supply and Sale Section' Sales function only | Mainly sales, and some marketing | Marketing, shortage of qualified personnel |
| Attitude towards marketing knowhow | Antithetical to socialism, useless | Sceptical, concern for "political correctness" | Enthusiastic, sometimes naive learner |
| Marketing Strategy | None | Little, ad hoc | Formalising process ? |
| Market Segmentation | None | Limited differentiation | Increasingly refined |
| Market Research | Non-existent | Primitive | Improving, but lack of reliable data base |
| Product Policy | State plan determining what and how many to produce | Two types of plan: mandatory and guidance | Autonomy, start to diversify |
| Product Design | Out-dated, changes rarely, local standard | Little change | Still at copying stage, Adopt int'l standard |
| Quality | Very poor | Little attention paid | Improving but unstable |
| Price | Fixed by the State | State-fixed price, self and black market price | Mainly free market price, pricing strategy |
| Advertising and Sales Promotion | Advertising prohibited No promotion | Rapid growth, but primitive | Greater use, but still lack sophistication |
| Consumer rights | None | Emerged | More attention |
| Distribution: - Industrial Goods | Central allocation system | Half by allocation, half by direct sales | Shorter channels Still seller's market |
| Distribution: - Consumer Goods | State wholesale-retail system ( three levels) | Break up of state monopoly | Multiple channels |
| Exports & Imports | Through the agents of ministries | Limited decentralisation | Some allowed to deal with foreign firms direct |
| Int'l Marketing | None | Little | Limited |
| Market Competition | Non-existent | Mainly seller's market Focusing on price | Intensifying, emerging buyer's market |
| Marketing Education | None | Just started | In great demand |

Table 3 Changes in the Marketing System in the State-Owned Enterprises