

S. Gordon Redding

The Spirit of
Chinese
Capitalism

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S. Gordon Redding

Professor of Management Studies and Director, University of Hong Kong
Business School, University of Hong Kong, Hong Kong

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Redding: The Spirit of Chinese Capitalism

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For Philip and Peter
and for the
family of Han Hwa

Preface

The title of this book pays tribute to Max Weber and suggests that what is being attempted lies in the shadow of *The Protestant Ethic and the Spirit of Capitalism*. That is so, and Weber's influence is humbly acknowledged. In doing so, however, it is important to state that much has happened in the worlds of practice and theory since 1904 when Weber's thinking first appeared. The cynic might observe that we still have no clearer understanding of the linkages between societal values and economic activity despite the best part of a century's research but at least we have a far richer set of conceptual frameworks with which to think about organizations and societies. This book is, in a sense, a test of whether these extra frameworks can produce more enlightenment or whether we really are stuck with Bonini's paradox that our models, as they get closer to the real world and thus more complex, begin themselves to be as incomprehensible as reality.

The simple notions guiding this book begin with the idea that the way managers see the world affects economic systems via the organizations those managers create. Secondly, this is especially so when the managers are owners at the same time. It is even more so when they come from a society with a strong set of values about cooperation and authority.

The particular group of interest here is a set of owner-managers among the Overseas Chinese people of Hong Kong, Taiwan, Singapore, and Indonesia.

Those are the countries in which long conversations were held with 72 senior executives about their belief systems. At the same time, research from Malaysia, Thailand, and the Philippines is brought into account, to produce a hopefully comprehensive picture of how, and more particularly why, the Overseas Chinese operate as they do, to dominate the economies of the countries surrounding the South China Sea, and in turn to play a significant part in international business generally.

That this set of people is economically important in world terms is occasionally acknowledged. It is however difficult to align recognition with their true significance, as their impact is spread across so many national boundaries that they cannot as a total be represented in any national statistics. Even adding together Taiwan, Hong Kong, and Singapore is grossly inadequate, as it leaves out so much going on in Malaysia, Indonesia, Thailand, and the Philippines, to say nothing of China, or of Vancouver, Toronto, New York, San Francisco, London, Sydney, etc.

This book begins with some attempt to place their power in perspective, and then to examine its origins and its workings. That they produce large numbers of

successful business people is beyond doubt; how and why is still remarkably obscure, as if they had deliberately avoided publicity. The number of books on them is minimal, and detailed research in short supply. They get on with it quietly, but to remarkable effect. As their influence and their power continues to grow, it is becoming increasingly important that their approach be understood, and long overdue.

Such understanding as may emerge from this still somewhat pioneering introduction, rests on the work and help of many people. Especially instrumental in this project has been the support of the Institute for the Study of Economic Culture, at Boston University, and the encouragement of its director Peter Berger. Many of the ideas were formulated and sharpened in meetings under its auspices, and the practicalities of writing were made much easier by a period of six months residence at the Institute in Boston. During that period Maria McFadden and Susan Leftwich were most helpful and Brigitte Berger most hospitable. So also were the staff of the Boston University Library.

During this period I also benefitted from visits to the Fairbank Center for East Asian Studies at Harvard, and would like to record my thanks to its director Rod McFarquhar and the staff of the Widener Library.

That leave was from the University of Hong Kong where I have been teaching Chinese managers since 1973. To those managers, and especially the DMS and MBA classes, as well as to the university generally, a large debt is owed and gratefully acknowledged.

Working with me on this project, conducting fieldwork in Taiwan and Singapore, have been Dr. Michael Hsiao and Dr. Theodora Ting Chau, and their contributions are also gratefully acknowledged. It is sad to record that Mr. Lie Han Hwa, who began the fieldwork in Indonesia, died during the work, and this book is dedicated to the memory of his polite intelligence and helpfulness.

Among the many people at the University of Hong Kong who have assisted in the project have been my research assistant Monica Cartner and departmental staff Diane Law, Vienna Li, Henrietta Yim, and Christina Siu. Sirwinnie Cheung, Toto To and Sabrina Li of the Mong Kwok Ping Management Data Bank have also provided invaluable support, as has the Data Bank facility itself. My colleagues Gilbert Wong and Simon Tam have provided many stimulating conversations and Arthur Yeung provided valuable help with Aston data. Wang Gungwu provided early and welcome encouragement in hosting a workshop at Australian National University. The Indevo company provided welcome help for one part of the study.

In Hong Kong also, I have greatly benefitted from the encouragement and practical help of George Hicks, and from the friendship of a large range of practising businessmen, notably among them Stan Cheung and Peter Tsang.

The generosity of the Euro-Asia Centre, INSEAD and, in particular, that of its founder and director, Henri-Claude de Bettignies, has always been of great help in facilitating my study of Asian business, and conversations there with

Philippe Lasserre and Hellmut Schutte have provided consistent stimulus and help.

There are many other contributors of ideas, including researchers and academic colleagues in Asia and the West, and large numbers of managers whom I have talked to and visited over the past seventeen years throughout East and Southeast Asia. They will remain anonymous here, but their help is greatly appreciated.

The respondents in this study who were kind enough to join the interview process were promised anonymity. This was necessary to protect confidences and to tempt out their versions of the truth. I regret, therefore, that I cannot thank them by name. I would nevertheless like to thank them by initial, whereby they can in turn decide whether to disclose their involvement. This is thus a gesture of sincere thanks for the universal courtesy, frankness and sincerity of:

<i>Hong Kong</i>	AC, AC, PC, SC, WC, CF, AH, RH, SH, WH, AL, CL, CL, FCL, GL, HLL, JL, ML, NL, PL, SL, TL, HTL, KWP, KNT, KYT, PT, RT, ST, TT, DW, PW, JY, NY, VLW, YCW,
<i>Singapore</i>	JNC, SG, FHH, KPH, MCL, CHL, AM, JT, TWT, SPT, WST, KKT,
<i>Indonesia</i>	BHH, IYS, TU,
<i>Taiwan</i>	SSB, FC, YMC, NC, BTH, TH, MHH, DK, HK, CHL, JL, GTL, BL, AS, RT, CKW, AW, CTW, YLW, CW.

The book has benefitted greatly from the advice of many academic colleagues. Most significant has been the detailed and helpful scrutiny of Gary Hamilton, but similar debts extend to Peter Berger, Bob Dernberger, Richard Whitley, Bod Tricker, Brian Stewart, Bob Garratt, Adam Lui and Stewart Clegg. Derek Pugh's instrumental help in facilitating the organization structure research is also gratefully acknowledged. Nevertheless, and particularly in a study in a new field, it is important to state that final responsibility remains my own.

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Chapter 1

Introduction: The Overseas Chinese as an Economic Culture

It is a common observation that on returning to Hong Kong after a short absence you will find yet another tall building which was not there before. This somewhat complacent cliché takes on more force when you realize that that is what actually happens, and that it is possible to see the growth taking place, not so much like watching the grass grow but more like the speeded-up film of a flower opening.

The growth of the economies of East Asia is a new phenomenon not just in the sense that it is happening for the first time in the region, but more significantly in the sense that no previous burst of economic activity has been so dramatic anywhere in the world, recently or historically. Europe's economic growth unfolded slowly, North America's perhaps more dramatically but still not in the same league table as that of East Asia which has for three decades maintained annual growth at figures between seven and ten percent.

The search for an explanation of such events must come to terms with three sets of questions. Firstly, what kinds of business people and what kinds of businesses are operating in the region and how different are they from those in other areas? Secondly, how do such organizations manage to generate such apparent effectiveness and efficiency? Thirdly, what else, as well as managerial behavior, has to be brought into account to explain what is going on? This book attempts to examine such questions for the Overseas Chinese, particularly from the standpoint of their own theories of management. This chapter begins by placing the Overseas Chinese in perspective within the region, and in doing so to explore the notion of economic culture.

The use of the convenient phrase East Asia (first made familiar in Orwell's *1984* where he described the area as distinct for the fecundity and industriousness of its peoples) carries with it an implication that the region is homogeneous. At a superficial level it is. These are the "chopstick" cultures, and their peoples are universally mongoloid, as well as being universally in debt to ancient Chinese civilization, just as Westerners are to Greece and Rome.

To understand economic life, however, requires acknowledgement of substantial variations within the region. More particularly, given the managerial power of Japan and the vast amount of attention recently given by Westerners to understanding it, it is necessary to observe that Japanese and Chinese ways of

doing things, despite common cultural origins, are now very different indeed. As Joseph Needham once observed, Japan is as different from China as if it had been towed away to Europe and anchored off the Isle of Wight.

The performance figures point to three leading contenders for respect and attention in understanding East Asian success. The first and most obvious is Japan, now so well studied that further analysis would be redundant here. The second is South Korea, currently developing very fast and still relatively little studied.

The third group is that of the Overseas Chinese. In East Asia, as it is normally thought of, this would include Taiwan and Hong Kong, plus for most observers Singapore. This puts together three countries dominated by people originally from China, all of whom still think of themselves as unquestionably still Chinese. It should however also include very significant numbers of ethnic Chinese in Thailand, Malaysia, Indonesia, and the Philippines.

We must therefore re-focus away from East Asia to a larger sphere which encompasses Southeast Asia also. The Chinese diaspora has been until very recently the region to the south of them, surrounding the South China Sea. The Americans historically went west, the Russians east, the Chinese south. For the Chinese, this is an ancient migratory tradition, and it contains a feature unusual in such migrations: the Chinese who moved have remained in some deep and significant sense still Chinese; the majority of them have not psychologically left China, or at least not left some ideal and perhaps romanticized notion of Chinese civilization. This is the feature which unites them, and which provides them with one of their most distinct strengths—a capacity to cooperate. That it has not often been displaced by other forms of identity, of the kind experienced when, for instance, a Pole becomes an American, says something about the vitality, validity and fundamental good sense of the set of traditional beliefs and values which unites Chinese people. To label this civilizing value-system Confucianism is convenient but simple. I propose for the moment to accept the convenience, and to remove the simplicity later. Directly Confucian ideals, and especially familism as a central tenet, are still well enough embedded in the minds of most Overseas Chinese to make Confucianism the most apposite single-word label for the values which govern most of their social behavior. This does not imply that they are unusually devout, consistent, or narrow. It is simply a convenient label for a complex and changing set of values.

A variation on it is “post-Confucian,” used to extend the idea to other cultures, notably Korea and Japan, and to allow for the idea of modern re-interpretation of the original ideas, and also for variations in interpretation. For the Chinese themselves there is less need to explain re-interpretation, and the simpler notion of Confucianism will be retained.

No treatment of things Chinese, even though focussed on the South China Sea and its borders, and not aiming directly to discuss current events on the mainland, can totally ignore China itself. An understanding of present-day forms of

business behavior among the Overseas Chinese will owe much to Chinese history, both social and economic. An understanding of the Overseas Chinese psyche will owe much to knowing what has happened to China over the last hundred years as well as to its earlier cultural heritage.

It is however important to draw a line and make clear that this book is not about China now, and will only make passing reference to what is happening there. There will be more substantial consideration, at the end, of possible implications for, even possibly strong influence on, a notional future China, but our agenda here is the Chinese as capitalists, not as communists or socialists.

A rather startling justification for such a focus of attention comes from adding up some indicators of economic power. The GNP of China is somewhere in the order of US \$ 300 billion, with 1,008 million people. An estimate of the equivalent for the Overseas Chinese, taking account of their officially unacknowledged power in the ASEAN economies, would be somewhere in the region of US \$ 200 billion GNP, with around 40 million people. With only one twenty-fifth of the manpower, the Overseas Chinese are playing in the same league-table economically as the whole of China. Even though this contrast is heightened by the massive and very fundamental poverty of China, the significance of the Overseas Chinese in world terms may perhaps now be glimpsed. Their significance for China is also now more starkly obvious, even though the question of putting it to good effect is as complex as its import is great.

A further reason for treating them as one group, despite the variety of environments in which they operate, is that the Overseas Chinese have developed one particular form of organization—the family business—and kept to it. Admittedly there are refinements of it, a wide range of sizes and technologies in use, a great variety of products, services, and markets, and an adventurous set of new variations on how to spin it out to larger and larger size, but certain common denominators seem never to be departed from. It remains in essence a family fortress, and at the same time an instrument for the accumulation of wealth by a very specific set of people. It is guarded against incursions from outside influence, and its workings are not publicly known. It is usually run nepotistically, with a benevolent paternalism throughout. Much of its effectiveness derives from intense managerial dedication, much of its efficiency from creating a work environment which matches the expectations of employees from the same culture. It is, in a very real sense, a cultural artifact.

It has, of course, much in common with family business elsewhere, with what is normally described as the first stage of organizational evolution. A question thus arises—what is special about it? Is it not already understandable from the literature on family business generally? The answer as to its special nature is that it retains many of the characteristics of small scale, such as paternalism, personalism, opportunism, flexibility, even to very large scale. It does not follow the Western pattern of professionalization, bureaucratization, neutralization to anywhere near the same extent. Nor does it follow the Japanese pattern of the

powerful but informal trans-organizational bonding found in the *sogo-shosha* or *keiretsu*. It is capable of extending its transactions and influence by complex external networking, but the basis and mechanisms of this process seem quite distinct. It is its own animal, and seemingly unique.

Nor can this be argued to be a matter of time. The Chinese family business has had plenty of time to develop new forms. Sophisticated Chinese organizations have flourished both in and out of China for as long as Western organizations, perhaps longer. They have interacted with powerful markets for just as long and have been accessible to modern managerial technology had they wished. The fact remains that a traditional form of control is retained, and a particular form of legitimacy seen as appropriate. It is the purpose of this book to examine that perceived legitimacy, to seek its sources and to understand its results.

An underlying theme will run through much of what follows. It is that this special form of organization is peculiarly well adapted to its socio-cultural milieu and is thus not replicable elsewhere where that milieu is different. It is also peculiarly effective and a significant contributor to the list of causes of the East Asia miracle. At the same time, there are certain lessons which may be learned from it, for application in other parts of the world. Just as the West, stimulated by the example of Japan, has been recently rediscovering the significance of organizational culture, so may there be some lessons from the Overseas Chinese about paternalism, flexibility, and networking. Theory Z may be joined by Theory C. Their application will remain frustratingly difficult out of context, and the non-Chinese practising manager will perhaps eventually come to accept that he is likely to benefit more from the process of understanding his adversary than from trying to copy his tactics.

Such understanding is likely to increase in value over the next few decades. The organizations of Japan, Korea, and the Overseas Chinese will inevitably extend their impact on Western companies and markets. Western companies in devising appropriate strategic responses, whether those responses are to compete head-on, or to engage in some form of partnership, will need to understand what makes the other organization tick. This is equally valid within Asia itself, as the Chinese family business is likely to be just as opaque to a Japanese from Komatsu as to an American from Caterpillar.

That it has remained such an enigma is due to a number of forces. Firstly, Chinese businesspeople mind their own business. They have learned to be secretive because they have had to. This is a long-standing historical legacy. We shall see later that many of the environments in which they are accustomed to operate have not been notable for their hospitality to business enterprises or to Chinese entrepreneurs. Such entrepreneurs have developed a well-justified wariness in the face of officialdom and a well-honed set of defensive weapons to ensure their survival in an uncertain world. One of these is to keep information in the family.

A second cause for the relative neglect of them by the world of management theory is their dispersion over so many countries, and the lack of a critical mass

in one place sufficient to justify the luxury of research institutes devoted to their study and perhaps sponsored by an interested government.

Thirdly, their organizations tend to take a low profile in the wider commercial world. You may go into Bloomingdales, or Selfridges or Matsuzakaya, and find an intriguingly large number of labels saying “Made in Hong Kong” or “Made in Taiwan.” They will not however be on garments sporting a brand identity which you could associate with Overseas Chinese. They will say “Yves St. Laurent” or something reassuring in Italian. Except for Wang, it is hard for most people to think of an obviously Overseas Chinese brand name, and that exception itself appears now under threat. The contrast, in this respect, with Japan is dramatic. Overseas Chinese power is thus hidden. They operate in the interstices of the trading world, back down the channels of distribution, making components, manufacturing for others, sub-assembling, wholesaling, financing, sourcing, and transporting. They keep well away from copying the huge organizational hierarchies which coordinate supplies, designs, production systems, marketing needs, and distribution systems to finish up with a Sony TV or a Westinghouse fridge or an Olivetti typewriter. They appear to have an instinct for avoiding such an option, and the significant ramifications of this, and the understanding of why it is so, will become key themes later.

Reference has been made a number of times so far to the organization as a cultural artifact, a response to what form of cooperation a particular set of people either want or are willing to accept, depending on their negotiating position.

Before proceeding further with this assumption lying vaguely in the background, it would be proper to bring it out for close examination, and in doing so take the opportunity to outline the investigative framework which lies behind the research for this book [1]. Needing clarification also is the more general notion of economic culture and where it fits into explaining business success and national economic success. Lastly, it will be necessary to explain what information this book is based on.

Explaining how particular patterns of economic growth develop is fraught with difficulties both practical and theoretical. Significant among the practical difficulties is the tendency among theorists doing the explaining to operate from one discipline, such as economics, or sociology, or history, and to have the greatest difficulty coordinating an explanation across disciplines. It is perhaps understandable that we do not have many theorists truly competent in more than one field, but it is regrettable if they refuse to acknowledge alternative perspectives and insist on the dominance of one theme. I would wish to avoid such intellectual imperialism, and even though the focus of this book on socio-cultural values and organizational behavior will at times make it appear biased towards one standpoint, the occasional tentative venturing into economics, psychology, or history may at least stand as symbolic of a wish to acknowledge the value of alternative perspectives.

Problems to do with theory itself arise because of the complexity of the issues