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1

Asia and its Actors, their Logics and the Challenges

Gordon Redding

Introduction

One of the significant lessons for an executive going into Asia for the first time, and expecting to do business there, is that the region is highly varied, in some ways much more so than most other regions such as Latin America, the Middle East or Europe. It is possible to argue, for example, that Sweden and Italy provide strong contrasts when first observed, but at least they are both products of a shared Christian civilizational heritage, both members of the same political grouping, both operating at a high level of GDP per capita, and both capable of constructing industries and complex firms with a global impact. Much of Europe's variety is near the surface, and underneath there is much common ground. This is not true of Asia. There the contrasts – on the surface perhaps less obvious than those of Europe – are well below the surface and much more likely to lead to the separating out of different societal formulae. As the famous historian of Chinese science, Joseph Needham, once observed in considering the contrast between China and Japan, the latter is so much closer to Europe and so different from its neighbour that you might just as well tow it away and anchor it off the Isle of Wight.

Asian variety begins with geographical contrasts, and the encompassing of all climate types from the equatorial to the Mongolian. It is manifest also in a rich variegation of religions and belief systems, often mixed together at the individual level to produce a social kaleidoscope of cosmologies. The size of nation-states is also very uneven: as well as the colossus of China and the world's biggest Muslim country in Indonesia, there are the relatively tiny but highly significant city states of Hong Kong and Singapore. Away from the extremes, the middle-size countries such as Vietnam, the Philippines or Korea are large by European standards, with populations respectively of 78 million, 76 million and 48 million. State borders also vary in permeability (as regards the welcoming of neighbours to live), from the hermetically sealed such as Japan or Burma, to the open-frontiered ASEAN states with their highly influential sub-populations of ethnic Chinese, a surrogate

nation in its own right stretching across the South China Sea and its borders.

More influential as a form of variety is the difference in levels of development, it being possible to identify three clusters: rich countries – Japan, Hong Kong and Singapore; reasonably prosperous countries – Korea, Taiwan and Malaysia; and the rest in an array of positions on the lower rungs of the development ladder. The positions of these countries across this total spectrum need to be understood as legacies of their developmental history. Included in such an explanation there would need to be an acknowledgement that not just economic factors, but social and historical factors also have been contributors. The challenge for managers and analysts is how to construct this explanation, and how to derive from it lessons for current managerial practice, and for estimating future trajectories of development. Which industries will be favoured and where, but most critically why? Many of the chapters in this book deal with such questions, and at the same time perhaps illustrate the most challenging aspect of such enquiry – that the target is moving so fast. The speed of change in parts of Asia, and the fundamental nature of such change – especially now in China, is breathtaking. Paradoxically, so too is the resistance to fundamental change in other areas, most obviously and significantly in Japan.

Into this arena have come, over decades, a stream of companies from elsewhere wishing to trade, to buy or sell, to manufacture, to ally with local partners, and to establish their own Asian operations. The pattern of their arrivals and departures has varied, but contains in recent years two major deviations from the historical trend of steady moderate growth. The first deviation was the surge of investment which poured in between 1990 and 1996. It came largely from the USA and was driven by the evolving investor passion – a word used advisedly because of the irrational nature of the behaviour – for ‘emerging markets’. Growth at 8 per cent for 20 years had to be well-founded – or so it was thought – and rarely has ignorance been punished, and connivance ignored, on such a scale. The bubble, much of its inflating being attributable to the investment flow itself, burst with the collapse of the Thai currency in July 1997, and the money either flowed out as fast as it had come in, or evaporated in an orgy of write-offs, mainly in property values. This economic *tsunami* has left two legacies: caution by outsiders, at least among those who remember; and reform by national governments to raise standards of rationality and prudence in the allocation of capital.

The second deviation from a steadily rising curve of foreign arrivals has been the new passion for China, dating especially from the 1980 reforms of Deng Xiao Ping, but boosted massively by the mid-1990s reforms of Zhu Rongji. In the 25 years since the Deng reforms, the US\$550 billion of FDI flowing into China has exceeded by ten times the total equivalent going into Japan since 1945. This statistic, more than most, shows up the contrast between Japan and China, and the quite different relations they establish

with global business. Japan did not want FDI; they could do it themselves, and did so. China wants it and needs it. The comparison stands for many other contrasts in the background of international business as it affects Pacific Asia.

It needs also to be acknowledged that the study of international patterns of business must take account of patterns of connection and exchange within Asia itself. Of note here are three major features. Firstly, the Japanese transfer of its manufacturing base into the rest of the region has been significant in affecting the economies of other countries. It has also been a trend of quite long duration and steady progression. The second high level influence has been the capacity of the Korean *chaebol* to drive into export markets, and to pay less attention to their home market – a design principle less evident in Japan. The Korean ability to construct organizations and brands with global reach, and to challenge forcefully an earlier Japanese dominance in certain sectors, will continue to reshape the region's patterns of business. The third intra-regional flow of influence is that between the regional ethnic Chinese and their psychological home base of China. The economic success of this ethnic group in the countries surrounding the South China Sea, especially since the migrations from China in the late nineteenth century, pays tribute to their capacity for network capitalism, business discipline and entrepreneurship. These skills, plus accompanying capital, have been flowing back into China in an ever-widening stream and have had a major impact there on the emergence of its now vibrant private sector.

The trend which, above all others in present times, is capturing the attention of policy-makers in business, is the emergence of China onto the world stage as a serious player, and a force to be reckoned with. Its impact is essentially founded in three features. It has an immense supply of labour capable of being trained to high levels fast, and this supply is as near endless as any society has ever contained – even though current labour shortages are showing that the situation is not as open-ended as it once appeared, and that alleviation of the hardships of life in the country is slowing down labour migration. The second feature is the achievement, under stable political conditions, of a high degree of empowerment of local officials in the realm of economic action. This has meant *de facto* the encouragement of a new class of entrepreneurs, made up of local government officials competing between administrations for the progressing of their own townships or cities or villages, in alliance with business people from any source – local, Overseas Chinese, or foreign, and using access to state funds in the banking system. The third feature in China is the historically sudden emergence, and now dominance, of the private sector, as traditional Chinese instincts for trading, family or partnership business, and networking, return to the environment within which they evolved in earlier times.

There is much over which China still needs to struggle, especially its system of capital allocation, its weakness in growing a large body of professional managers for large organizations, and the circumscribed nature

of the society's information base. Because of these handicaps, it is likely to find a route of its own for its economy to follow, borrowing selectively from the experience of others but not copying any overall design from elsewhere. This journey, taken – in Deng Xiao Ping's memorable phrase – 'by crossing the river feeling the stones under your feet one by one', will determine the future of the global business world more than will any other experiment being contemplated anywhere.

There is one further feature of the international business scene which marks a change of landscape, and affects all global business. During the twentieth century, but over the past 20 years especially, the world has looked on as economic power has undergone a massive shift towards increasingly large multinational corporations, with more and more monopolistic or oligopolistic control over capital, technology and scientific knowledge capable of being commercialized. To be told that the economy of China is no bigger than the balance sheet of J P Morgan is both shocking and instructive. To be told that the profit per employee of the Bank of China is US\$400, whereas that of Citicorp is US\$55,000, is to see a startling implication about managerial efficiency. To explain these facts requires an acknowledgment that the world of the established great global companies is even more strikingly new and high powered than most people have realized. For two decades they have been pressurized, by the accumulating influence of shareholder value concerns, to downsize, de-layer, outsource, focus, make alliances, consolidate, re-engineer, organize virtually, and above all else grow – by merger if necessary – to be in the top three or leave the industry. Pushing these new forms of coordination has been the information technology revolution, and its latest manifestation – the digital revolution within it.

An attendant feature of this macro change in the world of the MNCs has been the reorganizing of supply-chain structures now possible in the new world of rich and fast communicating. Some observers of the automobile industry, for instance, see a trend whereby the key consolidators of supplies of components are reducing at a fast rate, and will have gone from around 10,000 in 1990 to less than 100 by 2010. Each of the survivors expands into a new service function in an industry which sees its basis for organizational structure responding radically to the new information world.

The end-result of these processes, all of which are driven by the urge to greater efficiency and productivity, is that the set of several hundred major multinationals now control most of the world's available capital, most of its useful technology, and most of its applicable scientific knowledge. In itself this is not a basis for assuming disaster. It is, however, a context against which the entry of new members to that very exclusive club is much more difficult than ever before. The level of this raised plateau will be too high for most newcomers. The implications for the global ambitions of firms based in China are severe (Nolan, 2001).

Challenges to understanding

Research in international business has a job of explanation to do for practitioners by considering issues such as those above, and at the outset of this collection of studies it is worth reviewing the state of the field, so that the works presented may be seen against the background of attempts being made by others. Note will also be taken of some of the more intractable problems in international business research, some of which have posed difficulties for scholars since the discipline emerged. Recommendations will be made about the research agenda.

There have been two primary approaches in international business theorizing, those based primarily in economics, and dealing mainly with *material* facts, and those based in sociology and dealing with *culture* and *institutions*. The former approaches have tended to use a quantitative method and to treat problems by the application of natural-science-inspired logics. Many of the presuppositions are based in industrial economics, and are traceable to the work of Adam Smith and David Ricardo. Dominant in this approach is the work of Michael Porter. His focus on comparative advantage at the state level, or on the workings of sectors and districts, is reminiscent of Ricardo whose work he aims to update by additionally accounting for technology, factor quality and methods of competing (Porter, 1990: 173). He has, however, in recent writings, shown a willingness to acknowledge the role of culture (Porter, 2000), and he has, moreover, acknowledged the possible significance of social features in determining the intriguing tendency for the leading competitors in a wide variety of industries to be based in one or two countries (Porter and Wayland, 1995). Nevertheless, he limits the implications to the need for modifying 'economic culture' so that it enhances national competitiveness by encouraging hard work, saving, initiative and education.

The alternative to the economics approach comes from sociology, and reflects the 'visceral distaste' (Zukin and DiMaggio, 1990: 2) of sociologists for the neo-classical model, and the implication it carries for universal applicability. Much effort here is devoted to the study of culture, or of values (see for instance, Hofstede, 1980; Inglehart, 1997), and much is concerned with the workings of institutions and their influence on economic behaviour. Particularly crucial contributions have come from the work of Granovetter (1985), Whitley (1992, 1999) and Fligstein (2001) in illuminating the interface between the societal ground base and the world of organizing.

Further progress now, however, is dependent on coming to terms with the challenges of integrating the two main approaches into a unified field of *socio-economics*. In a significant review of theorizing about organization cross-nationally, Child (2000) made a distinction between high and low-context approaches, noting that high context included cultural theory,

cultural information theory, and institutional theory. Low-context examples are economic universalism, technology-based theory and psychological universalism/methodological individualism. Turning back to Weber for guidance, Child noted the latter's advocacy (and practice) of an approach combining what he termed the *material* and the *ideational* components of explanation. The former include the raw facts of economic life, such as prices, supply and demand, technology – the common currency used by economists as inputs to their rationalizing. The latter brings into the account the world of ideas, of preferences, of the mental shaping of patterns of response. It is culture in action, but it also allows for the fact that individuals make choices, and so it avoids the notion that outcomes of social influences can be determined while ignoring the actors' capacities to intervene.

The fusing of these two sets of influences, as proposed by Child, finds echoes in a number of attempts at moving theory forward. One of these attempts has been the study of institutions, a central concern in the discipline of socio-economics. Here the rational-actor model gives way to a more complex form of explanation in which institutions are independent variables. The definition of what counts as an institution tends to be widening and includes in some accounts issues that other scholars would treat as cultural. An easy way out of this categorizing dilemma is to accept a difference between formal institutions such as legal systems, labour markets and so on, and informal institutions such as beliefs and norms governing power, trust and so on. As DiMaggio and Powell (1991: 9) note, 'sociologists find institutions everywhere'.

Within the cultural area a number of scholars have followed an insight of Weber (1930: 26) that the rationalism of Western culture was 'specific and peculiar', and that alternatives in other cultures might have origins in underlying religious formulations of how reality is constructed. He spent much effort in unpacking the core concept, and recent studies (Biggart and Delbridge, 2004; Redding, 2005; and Fligstein, 2001) have pursued this insight. Biggart and Delbridge have analysed the emergence of different systems of exchange consequent on these varying mental universes. Redding has pursued the idea of variation in espoused ends and means as the bases for economic action, and Fligstein has identified the 'conception of control' held by key actors as an important input to the shaping of capitalisms.

Another enriching explanation is visible in the school of thought known as 'co-evolution theory' (Lewin and Volberda, 1999; Lewin and Koza, 2001). In this the organization is seen as shaping and being shaped by its environment in a dynamic interaction through time. This facilitates much greater sensitivity to national context, and has provided revealing studies (for example, Carney and Gedaljovic, 2001) based on Asian examples.

It must be stated, however, that the discipline overall is still deeply and negatively affected by the dominant research paradigm of micro-studies,

quantitatively analysed so that they read like science, and weak in dealing with surrounding context. This, especially, is a failing in international business theory. The point was made forcefully by Bruce Kogut in a keynote address to the first Emerging Research Frontiers conference of the *Journal of International Business Studies* in 2003. The inability to handle context then became the theme for that conference. It is worth now examining briefly the challenges to understanding which this failure poses. Of these there are five, and they are:

- 1 Mechanics or biology?
- 2 The second-order nature of social science?
- 3 What is missing from accounts of context?
- 4 How to handle complexity?
- 5 Appropriate units of analysis.

Mechanics or biology?

The essence of this debate is disagreement on how to account for cause and effect. In many studies there are implicit assumptions that human behaviour is atomistic and discrete, and that people may be treated as having similar motives, the understanding of which may lead to prescriptions of efficient responses for the organizing of their interactions. It is then convenient and enticing to study the imputed logics via abstraction, mathematical models, and reconstructions of scenarios in game theory. Complexity is thus vastly reduced.

Challenging these assumptions are the difficulties posed by three features of the social world. Firstly, the connections between social phenomena are complex, multiple and reciprocal. Secondly, the phenomena themselves are not stable, and change through time. Thirdly, social systems are not closed, and new influences are likely to flow in from outside to disturb and rearrange the connections.

Although many social scientists use a framework based on a systems view of the world, there is great variation in how that system's workings are explained. The great economist Alfred Marshall pointed to this dilemma years ago when he advocated that the proper metaphor should not be *economic mechanics* but *economic biology* (Friedman, 1953). This would then allow much greater complexity to be acknowledged.

The second-order nature of social science

The subject of social science is social behaviour, that is, people in societies. All people behave according to how they see the world around them. These perceptions of reality are therefore a filter between action and its explanation, and the filter has to be dealt with, not ignored, for the simple reason that

events have different meanings to different people. It is not phenomena which influence people but the meaning of those phenomena to them. In consequence, social science needs to account for events as defined via meanings. What complicates research is that there is 'competition over meaning', as different values are brought into the interpretations. So, too, does language shape meaning, in that it provides the categories used for thinking about things.

Missing elements

Discussions of the contexts of economic action, as well as avoiding the question of meaning, regularly also avoid the questions of *interest groups*, and rarely bring into the account the influences of *history*. Interest groups are collections of people with a common interest who act to promote and defend it, usually inside a society, but increasingly now in the global arena, as for instance with the anti-smoking lobby, or environmentalism. Such groups can often have a significant effect on an economy and its organizations. You cannot understand China without taking account of the role of the party in controlling the execution of policy. You cannot understand the USA without seeing the power of 'management' in alliance with government in establishing an economic system from which it benefits. You cannot understand France without coming to terms with the residual power of unions in the negotiating of the social contract, even more so in the case of Germany. The power nexus of Japan seems remarkably little disturbed by the 15 years of slow-down.

The influences of history on current business systems are commonly acknowledged but rarely specified. In his magisterial review of economic history, *The Wealth and Poverty of Nations*, Landes (1998) concludes that culture makes all the difference, but is not in a position to explain how. Studies that have specifically done so are rare, and examples are Hamilton's (1994) account of the role of 'civilization', Eisenstadt's (1996) account Japanese civilization, and Jacobs' (1985) account of Korean patrimonialism.

How to handle complexity

To do business in another part of the world is to encounter and deal with difference, and – by definition – difference cannot be understood without comparison. Thus the challenge of comparing is built into almost all research in this field. This raises the question of how comparison may be properly done, a matter which is more complex than it first appears. The essential dilemma is that of uprooting. If you study a phenomenon, take it out of its context and compare it with a notionally similar phenomenon elsewhere (also out of its context), then you finish up with a comparison between two things, perhaps 'job satisfaction', or 'trust networking', neither

of which is then being studied within its own societal frame. This produces 'facts' but not understanding.

Maurice (1989) and Ragin (1987) have argued cogently for the comparison of social wholes rather than of components extracted out of context. The core of the case is that understanding is best pursued by acknowledging the interconnections between different levels of analysis – the individual, the organizational/institutional, and the societal. The flows of influence between these layers are multiple, connected between themselves, and reciprocal. Understanding can only be closely approached by the acceptance of a complex adaptive system as the frame. As so much influence on behaviour stems from factors identifiable with societies, particularly culture and institutions, society becomes the most plausible envelope with which to begin studying phenomena. Understanding may then be improved by the comparison of wholes, inside each of which a more contextualized account may be constructed of the phenomena of interest. Ragin argues that a fusion is then possible between the qualitative and quantitative approaches, as it is possible to apply Boolean algebra to construct patterns of covariance between elements within the complex system, and at the same time to use a form of large case narrative account to build the comprehension of events. The work of Whitley (1992, 1999, 2003) in comparing and explaining business systems illustrates the power of this approach.

Appropriate units of analysis

The societal effect is most easily thought of as the set of influences which stem from the institutions and the culture of a society. In the majority of cases, a society overlaps with a nation-state, and factors such as the legal system, financial system, educational system, shared history, political structures and government policy are conveniently bounded and understandable. In some cases, however, a society may not overlap with a state. The case of the regional ethnic Chinese is that of a people with a shared culture and heritage, and a commonly adopted formula for running a business, but doing so across the boundaries of several nation-states. This phenomenon may be analysed within the envelope of one society defined ethnically (see for example, Redding, 1990).

In another sense, the boundary might well be inside a state, when a state has distinct business systems inside it, the analysis of each being an improvement on the averaging of their combination. An example here would be the separate analysis of the business systems of the Yangtse Delta around Shanghai, and the Pearl River Delta around Hong Kong and Guangzhou. The first of these is largely state-industry-based, and the second is largely private-sector-based, and the separation of their descriptions is justified.

In the end, the question of unit of analysis is answered with a judgement about major determinants in the surrounding fabric of society, and with that in mind, I now turn to a framework within which to make such a judgement.

A proposed model for explaining variety in capitalisms

Much of the inspiration for this model derives from the work of Whitley on business systems, and especially the application of it to Asia (Whitley, 1992). I have, however, given more emphasis to culture by separating the informal institutions from the formal, and by the addition of a specific component to deal with ‘meaning’ referred to here as *rationale*. There are also some changes in terms used for the categories. The model is given at Figure 1.1. Although there is an implied causal logic that suggests the

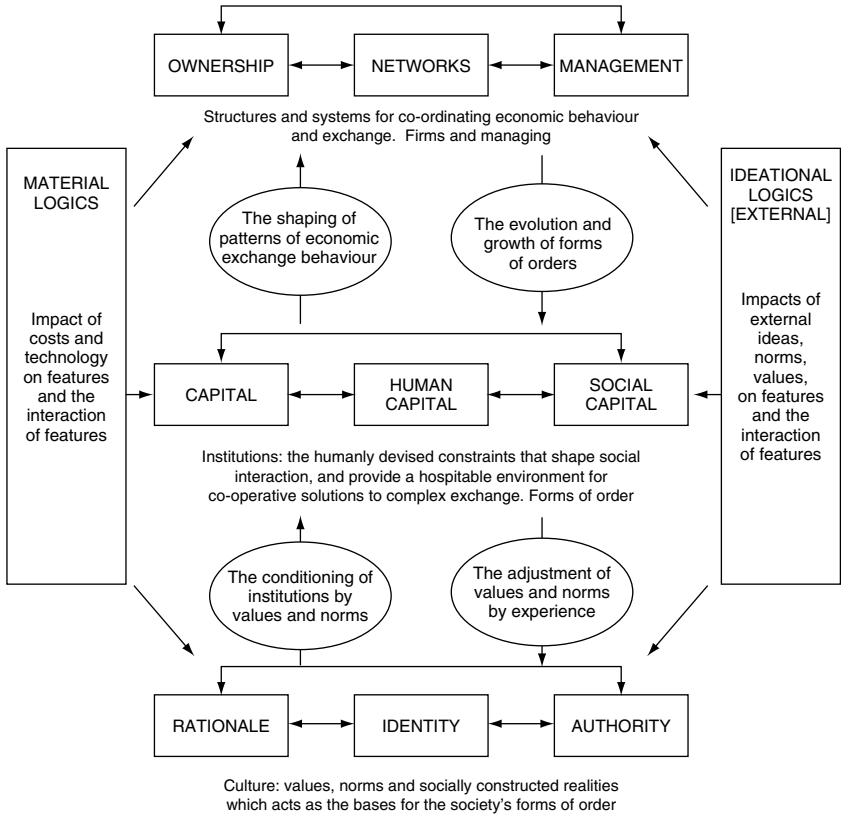


Figure 1.1 Explaining variety in capitalism

culture shapes the institutions and then both shape the business system, this is not intended to be seen as direct linear determinacy. There are many reciprocal flows of influence, as in any complex adaptive system.

The business system is conceptualized, following Whitley's formulation, as a series of three ways of coordinating economic action and achieving stable combinations. The first of these is *Ownership*, and this captures the variation in how organizations are constructed within a framework of dominance or governance. The divisionalized firm, with a holding company at the centre, operating across a range of industries and managed by a cadre of professional managers whose performance is directed towards return to shareholders, is a different kind of animal from a family-owned firm held together with nepotistic connections. Some societies favour huge structures with many interconnections across the economy, as does Japan. Others favour huge firms with a bias towards vertical connections, as does Korea. Others favour small firms able to be controlled personally but networked with others to escape their scale limitations, as occurs in Chinese network capitalism. The category of *Networks* captures these second features of the architecture of coordination.

Management is concerned with the mechanisms with which resources are pulled together into effective connections within firms, some of the greatest variations here being within the realm of manager-worker relations. These may be based on high levels of interdependence between the layers, as in Japan, or on high levels of top-down control, as in Korea or China. The design principle then establishes what can be delegated, how, and with what effect on the nature of outputs.

The three ways of achieving coordination are all interconnected, and a change to one is likely to influence others. Thus the system of ownership in the *keiretsu*, whereby there are many cross-holdings of shares, and cross-directorships, is connected with the high state of networking. The stability which that brings contributes also to the ability to commit long-term to employees, and so to invest in their skills to a point where delegation becomes worthwhile.

The business system is embedded in the fabric of societal institutions and culture, and the layer of institutions is seen as having three components. These are conceived as the key inputs required for the workings of the business system. They may be great facilitators, or great handicaps, depending on their condition. They have, in some cases, great influence on the shaping of the business system, as do arguably the US institutions of capital allocation, or the Japanese institutions for human capital. Each of them is in some way a resource, and so they are seen as forms of capital – financial, human and social.

Capital, in the financial sense, varies in the way its allocation is institutionalized, by having different channels through which it flows. In some cases it flows mainly through the banking system, as in Japan or Germany.

In others it flows mainly through the stockmarket, as in the USA. Its allocation also varies in the objectivity and rationalism with which allocation decisions are made, in the priority interests which its use serves, and in the freedom or otherwise from government control which is exercised in moving it from one use to another.

Human capital institutions are essentially those of the labour market and the education and training system, providing as they do the quantity and type of skills needed in the business system, and shaping the relations within which its use is established. *Social capital* is the collection of foundations upon which trust is, or is not, established. It also shapes the nature of the trust, in simple terms determining how much is dependent on formal institutions such as law, open reliable information and so on, and how much on ties of personal obligation, these latter varying between societies in their architecture.

The base layer of Culture contains three major elements. *Rationale* is an acknowledgement that the purposes underlying behaviour, and the means seen as legitimate for the achievement of those purposes, are not universal. In fact they vary substantially between societies. This allows access to the world of 'meaning', and brings new insight to the analysis of why certain responses are chosen. The other two cultural platforms are the values, norms and ideals which support the two main principles of societal order: how to relate to others horizontally and vertically. They are termed here *Identity* and *Authority*.

Two external influences are the final components of the picture. Always, potentially or actually capable of significant effects on the societal system as it evolves, are the *Material* and *Ideational Logics* coming in from the outside world. The material issues here are those of economic forces such as price, and technical forces such as new inventions. The ideational forces would include concepts such as democracy, freedom, free-market competition, anti-corruption, pop culture, consumerism and so on.

Any full account would also need to incorporate the influences of history and of state policies and behaviour. In most societies there have been, in their history, crucial formative influences on present-day systems. These may be events such as the Meiji Restoration, or the MacArthur reforms in Japan. They might also be people, such as Mao Tse Tung, King Chulalongkorn, or Margaret Thatcher. The role of the state is also an obviously significant feature in many societies, especially in Asia where strong states commonly design economies from the top, and direct the development process.

The workings of a business system

As a complex adaptive system, overlapping (usually) with a society, the keys to a reading of its workings are complexity, evolution and emergence. The

idea of complexity contains the idea of multiple, complex patterns of determinacy. All the parts are in constant interaction. What happens in the world of organizations in the business system both reflects the institutions, and has an influence on the reshaping of those institutions. The same two-way process results in the culture being in constant living interaction and response, capable also of changing within itself over time. There are virtually no simple direct lines of cause and effect. Everything is connected to everything else.

Evolution occurs in conditions where change and adaptation take a system in a visible direction. This has occurred dramatically in Asia in recent decades, as countries have actively sought prosperity. They follow 'trajectories' which are shaped by their own circumstances. But it is not simply a matter of path dependence, as specific events or chosen policies also come into the picture to explain the pattern of evolution. Both sets of forces – the historical legacy and the specific interventions – are at work. It would be possible to argue, for instance, that the Chinese experience of totalitarianism, the absence of civil society of a form which induces trust between strangers, and the Confucian emphasis on family as core unit of identity, all conspired to encourage the fast rise of the private sector in China since 1980. But the account would be incomplete without an acknowledgement of the elasticity displayed by the political elite, the impact of WTO, and the intervention of Deng Xiao Ping.

The idea of *emergence* derives from thinking about complex systems, and it suggests that stable patterns form in any complex system, which brings into harmony certain features that find a fit with each other. Thus, responses that work to ensure growth and a stronger entity, emerge from the very complex bed of interactions. Such combinations are analysed by Hall and Soskice (2001) among others, and they foster the understanding comparatively of features in an economy such as the sourcing and allocation of capital, the stabilising of labour markets including skill and employment systems, norms of ownership, and systems of production (Redding, 2005).

Strategic implications

An organization, if it is to be healthy, has to contain within it three capacities: efficiency in the administration of a process of coordination of necessary elements; learning about its external environment, and especially about changes which will affect it; and the ability to change what it does and how it does it. Societies tend to produce organizations that handle these demands in different ways. In some cases, such as that of the USA, a group of professional managers is commonly charged with responsibility for all three roles, the most senior of them being hired and fired on the basis of their capacity to handle them. In Japan and Germany, the roles and responsibilities are more evenly spread throughout the organization, with many

workers engaged in thinking for the organization. In many Chinese organizations, the role set tends to be concentrated at the top of the organization, in either a single individual or a limited group.

The societal shaping of these responses is the proper concern of international business theory, but so too is the understanding of their implications for choice of strategy, an issue currently beyond the frontiers of most research, but pointed towards in a number of the chapters in this book.

Asia and its actors

Three themes run through this book. The first is that corporations and governments are making major adjustments to realign their positions with new realities. These changes are global, and affect both Asian and foreign firms. The second theme is that the definition of how success or failure occurs is changing in the face of surrounding technical and informational adjustments. Organizations are taking shapes never before conceived. New structures for coordination within sectors and industries are emerging, with new organizational types inside them. The third theme is that China's recent surge of industrialization has caused a massive global redirection in the movements of capital, labour and technology.

Considering the region, and how it has been affected and is responding, it is possible to see, at each national level, a number of special challenges as variations on the above themes.

China is displaying all the qualities of emergence noted above, in that its private sector is coming to dominate the economy in a seemingly unstoppable swelling of significance, arguably representing a 'natural' response to the challenges of the coordination and control of economic behaviour, and pointing to the outlines of a distinctly Chinese formula for the future. This is attributable to three features in the main: the traditional entrepreneurial skills of family or partnership-based business; the opportunities afforded by the release of state assets into the market as the state sector itself is forced to rationalize; and thirdly the immense entrepreneurial drive exhibited by local government officials in competing for investment against other administrations. But China faces inevitably large challenges as it adjusts to the dominance of market in economic life.

Of the challenges which have a direct impact of multinationals, perhaps the most significant are (a) the highly disaggregated nature of the home market, (b) the problem of decentralizing policy control, (c) the weakness of institutionalized trust, (d) the absence of rational allocation of capital, (e) the legacy of inefficiency in large scale organization, and (d) the weight of the competitive challenge passed by multinationals both abroad and in China itself.

The state of the home market reflects an old fact about China, which is that it is a country of regions, each with its own tendencies. It is also very

large indeed, in many senses, and its infrastructure – despite massive advances recently – is still inadequate to the task of fostering a real national market. There are, for instance, 8,000 cement companies in China when the rest of the world has 1,500. And there remain significant language differences and traditions.

The problem of political control via the Party remains, and a recent request from reformers within the Bank of China for a dismantling of the politically-based committee which oversees loans, and arguably distorts their efficient allocation, is symptomatic of this issue. The core difficulty lies in the political heritage of an essentially pre-modern state, with its built-in ideal that the government has the duty to maintain order in the society, and cannot thus risk the dismantling of central power. Much has been achieved recently via the encouragement of controlled decentralization to local administrations, but the growing pressure from a prospering bourgeoisie for control over their lives may not be managed smoothly.

The weakness of institutionalized trust is a result of the absence of bodies to foster it. Such bodies might include a well-functioning and open legal system, a solid and independent profession of accountants, and an open and rich base of information, including a free press. In the absence of such supports to trust, the Chinese response is to fall back on the tried and tested mechanisms of *guanxi*, and to the development of high skills in the coopting of any necessary political support. One of the obvious downsides to this is corruption, now a formidable challenge.

The allocation of capital in China is conducted in two ways. In the public arena, that is in banking and the stockmarkets, it is done with quite disturbing inefficiency. Although strenuous efforts are now being made to correct this, the legacy of bad loans at something like 45 per cent, is a crippling burden for the country, running now at somewhere near US\$500 billion, balancing the figure for the savings of the people in the same banks, the overall scene being alleviated only by an equivalent positive figure for foreign reserves. Unfortunately, the option of opening the banking sector to access by the rampant private sector is more problematic than might first appear as managerial skills in banking, and especially in lending, are very weak. As the private sector comes to the banks, it yields bad loan figures even worse than the earlier public sector did. The second form of capital allocation is that used by the private sector, and based on retained earnings, and private investments among friends or relations. The obligations, and the entrepreneurial flair itself, suggest that money will here be used more effectively overall.

China's Achilles heel is large-scale organization. There are always exceptions, and China is capable of high quality administration in some industries, but the wider picture is forbidding. Evidence for it lies in the dismantling of the state sector, now down to about 15 per cent of the economy, from 75 per cent in 1980. The essence of this challenge is weakness in management, which

has not yet emerged as a professionalised field at anywhere near the scale needed for the organizational challenges posed. Most middle managers in China act as transmitters of top-down communication, and administrators of specific organization sections, but without a wider perspective which would allow them to contribute to the problems of efficient integration across a value chain. There is, in other words a 'stovepipe' mentality, and this in turn inhibits organizational learning. Dependence on the centre for strategic thought and direction is endemic, and an outcome is the handling of complexity by a large organization, at global standards of efficiency, is a challenge beyond most of the aspirants.

This latter problem is exacerbated by the issue, referred to earlier, of the rise in the level of competitive intensity, based on organizational scale, in global markets. Not only does this pose a problem for Chinese companies entering the global business arena, but it is also a problem for them in defending their home markets against the new competition arriving in the wake of the WTO. At the other end of the organizational spectrum, however, are the thriving networks of small and medium-sized enterprises serving the world demand for OEM supplies as the world converts China to being its workshop.

In Japan the scene is very different, and its huge economy – five times bigger than that of China – rests on the plateau it achieved in earlier years, not gaining in dynamism, but not losing in weight either. Its challenge is that of adjusting to the fact that its supremacy in manufacturing is not matched by an equivalent strength in services, and that many of its industries in the latter category could not sustain the full onslaught of external competition if it came in strongly. There is, in Japan, a long crisis of rationale, as the old belief that firms are there primarily to employ people clashes with the ideals brought in by powerful invaders, and external competitors, that firms are there to give return to shareholders. The same dilemma faces Germany, and in both cases the resistance to any change of ideology is strongly entrenched. And yet, much change is reported in Japanese companies as they try to deal with these strains. The essential problem is less within organizations but more in the nexus of power which controls policy, and which deals in consensus-reaching between big business and government.

Korea stands in sharp contrast to Japan for the dedication to change which has characterized its organizations, as well as its government. This arises from the combination of new pressures from a democratic system, and the depths of failure revealed in the Asian crisis of 1997–98. The crisis revealed the risks of using short-term borrowings to finance long-term investments, and of taking too much foreign money given liberally during the run-up. Reform has injected a heavy dose of rationality into the system of capital-sourcing and allocation, and it has also caused the dismantling of many of the irrational diversifications which the *chaebol* indulged in. Much

duplication has been eliminated by the enforced merging of firm activities, many owning-family members have been induced to leave the boardrooms, and government plans to support industries such as IT and advanced engineering have been vigorously pursued.

The other 'dragons' – Taiwan, Hong Kong and Singapore – have all seen their economies moving up the ladder of technical sophistication in recent years, examples being visible in Taiwan's science parks, Hong Kong's Cyberport and Singapore's bio-tech hub. Their additional concentration in services is visible in their domination of sectors such as insurance, financing, design, sourcing logistics, sea transport and container terminals, and airlines. As many of their base manufacturing plants migrate to China, Vietnam and elsewhere, they retain a managerial and ownership hold, reinforced as it is by their knowledge of the technologies and markets of the rest of the world, these latter links being seemingly stronger as time passes.

The ASEAN states present a mixed picture, but they share a common challenge in the threat posed to their industries by the rise of China. Only Vietnam among them is able to match China's resources of human talent skilled at industrially competitive levels. It would seem increasingly likely that, except in special cases, such as Malaysia's long established IT industry, the main parts of ASEAN will slowly turn back to their historic dependence on natural products.

The contrasting scenes just outlined give evidence of the opening statement that Pacific Asia is an area of immense variety, and of deep change. The accounts in this book will show facets of that change across all aspects of the broader model proposed earlier. They need to be seen in the light of the notion implied in the model – that each country makes its own economic fate in its own way, and that understanding any event or phenomenon requires an acceptance of the complex nature of evolving societal systems.

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