

Chapter 2

Enterprises and the Social Environment

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We developed through struggling between a planned economy and a market economy. Back then, there was a planned economy in China, a market economy outside; we were surviving in the cracks of these two. We were the practitioners of the policy reform since the very beginning. I had always been struggling to figure out what fit in the trend of society and the rules of the economy, and how to keep up to speed with them. The biggest achievement of the Reform and Opening-up was the real implementation of a market economy. It was a significant process from the planned economy to “the planned economy supplemented with a market economy”, and finally, slowly developed into a socialist market economy. China is a big country. It certainly takes the socialist road. Capitalism will also turn into socialism. Any doctrine can be used to benefit the society when it develops to its right phase. So I believe this socialist market economy will not change in at least 100 years. Joining the WTO was also a very important reform. A real super power must not be a closed country; it has to merge with the wider global environment to become stronger. The bigger the pool, the bigger the fish. Fish in a river are grass carp; they will become sharks once they enter the ocean. (Shang Silin 2008)

Speaking of the important achievements of China’s Reform and Opening-up over the past 30 years, the chairman of the board of WANXIANG Group – Mr. Lu Guanqiu came to the above conclusion. When he said this, it had been 39 years since he first started his business. In 1969, a young Lu Guanqiu took the chance: one little space left by the planned economy to rural collective industry that allowed each people’s commune to run a farming machinery plant. He and a couple of other peasants started a business producing parts for farm machines and later extended it to auto parts. When the rural areas of China started to implement the system of contracted responsibility, Lu Guanqiu contracted the plant and progressively developed it into a Group Corporation. It provided important machine parts to several big auto-manufacturing companies overseas and started to constantly extend its

This article is sponsored by Peking University’s scientific research funding program for new faculty members (008). Thanks to Liu Tianyu, a student of Peking University Guanghua School of Management, for his assistant work.

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business to electric vehicles, new energy, industrialized agriculture and other areas. After starting with a loan of only 4,000 Yuan and growing to today's 40 billion Yuan annual sales revenue, it is certain the personal qualities of Lu Guanqiu, as the leader of the enterprise, have made a great contribution. On the other hand, the changing social environment and the opportunities that arose are also important factors. From his words we quoted above, we can tell Lu Guanqiu was very sensitive about the social environment of the enterprise and the changes of it.

Successful entrepreneurs don't always see the social environment as the source of uncertainty for the activities of enterprises, such as whether they can get necessary resources from the environment, or if there are supports from institutions, as well as the outcomes of market competition. On the contrary, from their point of view, unlike a wild jungle, modern society can provide or create certainty. Other people are too afraid to do things because they worry about the uncertainty too much, but some successful entrepreneurs are good at finding factors for certainty from the environment. China's social environment under Reform and Opening-up has always been changing and improving. There are macro level changes, such as from planned economy to market economy and from a closed society to an open society; there are also micro level changes, such as enterprises moving from the closed to open systems. As the social environment changed, most of the successful enterprises went with the trend and found their way through the changes; some excellent enterprises even actively altered the environment through their practices. As Lu Guanqiu said, "*The bigger the pool, the bigger the fish*". Actually, the bigger the environment an enterprise is looking at, the bigger the growth potential it has. Lu Guanqiu also has described how, during his enterprise's growth, especially during the process of internationalization, he skillfully used China's and other countries' resources, systems and personnel. The so-called "resource externalization, business localization, personnel internationalization" (Zhang Wei 2008) refers to extracting all of the different resources enterprises need from the overall domestic and international environments, making the complex environments become our resources, and making the uncertain environment a space in which enterprises can grow bigger and bigger.

In this chapter, we will start with discussions of enterprises as open organizations, to understand the meaning of enterprise environment, specifically China's enterprise environment. Then we will analyze different methods enterprises use to fit into the environment, as well as their different ways of building the environment while fitting in.

2.1 Get to Know the Environment

The environment an enterprise faces, in terms of basic elements, is the combination of all the organizations and people it relates to; and on the broad level, it is the whole of society. Since China's Reform and Opening-up started in 1978, the environment Chinese enterprises have been facing has gone through several phases

of change, and it is still changing. The economic reform of China greatly empowered enterprises and made them the main body of the economic development. Initially, there was the reform of marketization in rural China, such as allowing market fairs for farm products, parceling out land to individual peasant families and giving them the right to decide how it was run, and later the promotion of the development of rural industry. In 1979, the State Council released the "Regulations on increasing the autonomy of state-owned industrial enterprises". It allowed enterprises to sell production that was surplus to their plans based on "Negotiated Prices", which legitimized the "second channel" for goods circulation. In January 1985, the central government issued the "Notification of freeing the prices of overproduced self-sale products in industrial production materials". This notification allowed enterprises to sell and buy "out of plan" products by market price, and started to reinforce the "double channel" for supply and pricing of production goods. The "CCCPC's decisions on economic system reform", issued in 1984, initiated the transfer of the reform from rural to urban areas. It also clearly declared its aim was to develop a socialist market economy, establish a reasonable pricing mechanism, separate governance and enterprises, separate ownership and operation, and actively develop a multi-economic style and various business modes etc. In 1987, the "13th NPC" declared "the planned market economy of socialism" should adopt the mechanism of "government adjusts market, market guides enterprises". In 1992, the "14th NPC" clarified that the target of "socialist market economy" was that "the market was the foundation of resource mobilization". In 1993, the "Company Law of the People's Republic of China" was passed by the standing committee of the NPC, and enforced on July 1, 1994. The "15th NPC" further clarified that, except for very few enterprises which monopolized the country, other state-owned enterprises had to implement the joint-stock system, and set up effective company management structures. Entering the twenty-first century, the country started to support a policy of "open and invigorate small state-owned enterprises", which infused new energy into the development of the private economy.

Economists referred to these changes in China's economic environment as a Transition Economy, namely the transition from planned economy to market economy, or the transition from imperfect market economy to comparatively perfect market economy. Nobody knows when the transition of China's economy will end. However, the progressive-style reform which China adopted during the transitional period is not only unique and certainly different from the sudden-style reform eastern Europe and the Former Soviet Union adopted, but also to some extent presents universality – on a certain level, all modern economies are transition economies, all modern societies are transition societies. What China and Chinese enterprises have been through for the past 30 years, on this level, is not only the historical experience of Chinese enterprises, but also can be used for reference by future managers and decision makers, meanwhile providing enlightenment for all the enterprise organizations in modern society.

Starting with the economic characteristics of society, dividing society into planned economy, market economy and transition economy can handle the social

environment of the enterprises on a macro level. But to understand the environment of enterprises in more detail, we need to come from the angle of business organization. This will help us to understand the definition of social environment, to understand things like why enterprises need to pay attention to the social environment, as well as how to survive and develop in the social environment and other questions which look simple but are in fact complicated.

Getting to know the environment of enterprises cannot be separated from the understanding of the enterprise itself. Below, we first will introduce the definition of an open business organization, then we will introduce the ecological environment, resource environment, and institutional environment which enterprises rely on; and we will use these to explain some of China's phenomena in the environment of enterprises.

2.1.1 The Open Business Organization

There are various types of formal and informal organizations in modern society. Government, family and enterprise are only a few examples of formal organizations; informal organizations include personal networks, group and collective actions etc. Definitions, arrangements and rules for organizations' activities are institutions or rules of the game in Organizational Theory. There is also a distinction between formal and informal institutions. The legal system is a formal institution; folk customs are informal institutions. Deep understanding of modern society needs understandings of various types of organizations and institutions. Below, we will talk about business organization first.

At the early time of industrialization, people saw industrial organizations as relatively independent and isolated social units without considering the factor of the outside environment in enterprise management. The early industrialization of China was influenced a lot by the former Soviet Union. The batch of companies which was aided and constructed by the Soviet Union was considered advanced in the 1950s, not only advanced in technology but also in management. A strict hierarchic system of the modern large factory was also adopted. People were so immersed in the power-feelings brought on by large-scale industry and heavy industry, it seemed that everything outside should be the one to be changed. Under the influence of this kind of industrial mode, factory organizations were not sensitive to the demands and requirements of the outside environment. As the scale of these organizations grew bigger and bigger, many factories turned into bureaucratic agencies; technology and management skills stopped at the level when the factories were first established, later even deteriorated. In one of our interviews, an engineer who used to work for a state-owned, large-scale factory searched his memory and told us that, even in the 1990s, that factory was still using the product design blueprint developed in the 1950s. Once in a while, when people rolled out the huge-screen blue paper in the team, the reverent feelings for tradition were still there. But his core products soon failed to compete with those of other domestic or foreign

companies in the same industry. It positioned itself in a very difficult transitional period.

The idea of treating enterprises as isolated or static would have a fatal effect on their survival and development. More and more people started to realize that organizations are interdependent; sometimes the condition of the outside environment was even more important than management inside the organizations. For example, Michael Porter's Five Forces Model indicates the importance of the industrial environment and of finding a competitive position in markets. Of course, the survival and development of enterprises cannot be separated from the improvement of its internal capacity; however, competition in the same industry, dependence on external resources and compliance with institutions can hardly be considered as an enterprise's extra-curricular activities or less important issues. To most enterprises, taking into consideration the social environment is already part of their daily tasks. Management study academic Peter F. Drucker used to remind people of the importance of seeing an enterprise as a social institution (Drucker 2003). Business organizations are not only interdependent with other human organizations in this big social environment; they are themselves a small society. The interdependence with other organizations, as well as their unique social characteristics makes enterprises open organizations.

An enterprise is a little society consisting of various kinds of people; people often bring the outside social structure inside. Normal operation of an organization not only needs to accomplish its own goals, but also the requirements of different people. An enterprise not only consists of different people and activities, people and their behaviors in the enterprise are also inevitably affected by the social environment. On one hand, society makes many requests of business organizations; for example, product safety, technology standards, labor contracts and environment protection etc.; on the other hand, at the micro level, individuals have their own social backgrounds. These social backgrounds can hardly disappear after entering business organizations. In addition, in daily life, people communicate with other people both in and outside companies. Therefore, social effects are to be seen everywhere in enterprises. Different enterprises may be at different phases of openness, but they definitely cannot be completely closed. For example, Shenzhen HUAWEI Technology Co., Ltd, which still has not gone public, due to the limitation of its products and management style, has very low exposure in the media compared with other companies in the same business. The leaders of this company even keep their distance from the public media on purpose. This makes the organization a bit mysterious to the outside world. We have even seen it mistakenly categorized by leading foreign media as being part of China's military establishment. This has made it seem even more mysterious and made it sound like a closed organizational system. Yet, not only does its development need material resources from the social environment in which it operates, its most important resource – employees – are also supplied by the outside world. And its employees also have an impact on the outside environment through cooperation between companies, people in the same business, marketing, after-sales service, even resignation, retirement or switching to other companies. Some popular books on HUAWEI Technology Co.,

Ltd and its president, Ren Zhengfei, were written by former employees of HUAWEI, especially R&D and marketing staff, and are targeted at management scholars and other interested people. At a basic level, human resources, property, and goods from external suppliers all need to be obtained from society and their outcomes will have to be accepted by society in order to realize their values.

Of course, while an enterprise is being open, it has to maintain its autonomy to a certain extent in order to keep its uniqueness and achieve its objectives. There are no completely closed enterprises, nor completely open ones. If we see the influence which enterprises and social environment bring to each other as an information communication process, there will be a source of signals and a source of noises to enterprises. A successful company must take useful signals and block out useless noise. Openness is the only way for enterprises to receive various resources and absorb various values in the social environment; however, autonomy is the only way for enterprises to create new products and new values. We are emphasizing openness here because we have witnessed too many enterprises working behind closed doors, or only looking at short-term benefits and the status of their competitors because of the limitation of their workplaces. They forgot the real environment outside their organizations and even forgot most of their clients. Some entrepreneurs could spontaneously realize the openness of enterprises, but they still closed the doors and did it their own way in practice. We found, during our interviews with entrepreneurs, that this style was built up under the planned economy. It also had something to do with what they had learned in previous management courses, which mainly emphasized internal personnel and issues. Therefore, even though they realized the importance of their environments, they did not know how to manage the outside environment in practice. UFIDA Software Co., Ltd achieved success quite early in the market. People think it is because its founder, Wang Wenjing, put himself out there and focused on the outside environment of the company, to “listen to the voice of the clients”.

We can say that all enterprises know that “clients are at the center”, but very few enterprises can really “treat their clients as their beliefs”. . . . People who know Wang Wenjing normally note a habit of his, which is to ask other people’s opinions about UFIDA Software. He would carefully write down even very small and detailed comments, and then send emails or make phone calls immediately to get relevant staff to work on it. When people are giving opinions, he is always a listener. He never defends UFIDA Software, neither does he use a bunch of excuses to avoid responsibility. He thinks, if you really believe in the simple principle: “clients are god”, it’s better to make apologies to the clients and go out of the way to solve their problems instead of giving all kinds of excuses to explain. Clients buy results, not a bunch of excuses. (Yin Xiaoshan 2008)

Allowing an enterprise to become an open system is not hard. One only needs to listen and actively react. This is not only the responsibility of leaders, but also the employees. Under a planned economy, enterprises also needed to seek resources from society and output resources, but monitoring the environment was not necessary. Enterprise staff only needed to be politically correct, other things could be solved immediately, or big things became smaller and then disappeared. The enterprises could afford to be closed to society. However, in a market economy,

with dependence on suppliers, satisfaction of clients, monitoring of competitors as well as awareness of social responsibility, all the necessary measurements are higher and the demands for openness on enterprises are stronger.

2.1.2 Resources, Institutions, and Ecologies in the Business Environment

Considering the following situation to see how doctrinal theories of management study ignore the factor of environment:

A management consultant walked into an office during working hours. He found that people were all busy with activities related to the company's performance. They were using some technical terms which only people inside the business could understand, but about which people outside wouldn't have a clue. The consultant understood that studying these people's minds and interactions would be helpful in improving the company's performance, and the attitudes and behaviors of the employees depended on the internal conditions of this company. As his study went deeper, he found there were problems in the methods which higher level managers used to manage regular staff, and the regular staff had been complaining about it in private. So he submitted to the high level management of the company a report, based on Maslow's human needs theory, motivation theory and knowledge of human resource management, aimed at promoting a humanized management mode and increasing satisfaction among the employees. But the report never received a response. When he was leaving the company, very disappointed, he found the human resource market next door was extremely crowded with people with all kinds of skills trying to find a job in this city. The consultant picked up a newspaper and read how unemployment was increasing. But he thought it should be the government's responsibility to lower unemployment. And he just couldn't think why the president of that company was never interested in his consulting report.

Now we see this consultant made at least two mistakes: first, because it was more convenient, he only investigated people inside the organization, and deemed they were the source of the problems and that they were where the solutions lay; second, he failed to find out the real reasons. He thought the company's performance only resulted from the behavior of the employees and managers, and forgot about the factor of the environment. In the past, many managers of enterprises thought that, to fulfill their responsibilities of being managers, they only needed to manage the inside of the enterprises well and leave the outside social factors to other organizations, such as governments, or non-governmental organizations, or politicians and teachers. But now, more and more people are aware that, if they ignore the business environments outside, they will not only lose track of the factors that can affect their companies, but will also narrow their management area, and turn themselves into animals in a cage only looking at the fodder next to them and remaining ignorant of the world outside.

Some people once asked this question: Does the power to control an enterprise come from inside or outside the enterprise? After the Second World War, influenced by social psychologists, management experts started to pay attention

to people's needs and motivations. They found people's needs were not as simple as getting a salary. Their needs were multiple and hierarchic. But soon management experts realized that only analyzing individuals and individual's needs was not enough. They found that individuals' behaviors were not only subject to psychological reasons but depended more on the environment around them, therefore a contingency theory came up which stressed the importance of situational factors in management and organization behaviors. It seems an individual's situation is only one step away from the social environment, but they are very different. Generally speaking, situation is the part you can feel immediately from the environment, it is the micro environment which affects business behaviors. Most of the time it is the internal environment of an enterprise; but the social environment is the outside environment. It even includes historical tradition and the wider international environment.

So, how do we look at the social environment of enterprises exactly?

Resource dependence theory sees an organization's environment as the combination of organizations and individuals who are related or potentially related to each other. The power of these organizations is uneven (Peffer and Salancik 2003). Resource dependence theory stresses the great importance of the resource environment in society and the organizational power it has on the development of an enterprise. If company A controls the resources company B needs, then company A has more power than company B. Different from the analysis of industry, the resource environment requires enterprises not only to pay attention to organizations in the same business, but also relevant organizations in other, different businesses. The environment of an enterprise contains many different types of organizations; for example, suppliers, clients, consumers, labor forces, competing companies, trade alignments, different types of associations and certification organizations, governments, communities, organizations which provide knowledge and technology resources (e.g. university) etc. These organizations will affect the enterprises; dependence on resources will create relational power between organizations.

Let us have a look at the Fortune 500 companies. The number of Chinese companies on the list has grown quickly since 2000. This is partly due to the natural growth of Chinese companies during development; but it is also due to big Chinese companies' competitive advantages in competing with foreign companies. Big companies occupy more material resources than small companies, and are more likely to take advantage in resource competition. Wal-Mart is very successful in controlling its suppliers in the business. Its suppliers are also all kinds of organizations; but they have unequal positions in their relationship. Wal-Mart has more power in terms of deciding purchase prices and arrival dates of supplies. This is all because there are many suppliers in China which can provide the same service; their competition objectively provides big enterprises like Wal-Mart with more advantages. Some people may ask, as China was a planned economy for so many years, it must have plenty of experience in large-scale purchasing and sales, so how come we still haven't established a big monopolistic retail company in purchasing and supply? But, is it really enough to just establish a big hierarchic enterprise nationwide? Where are all the small commodities going to

come from? Where are all the loyal customers going to come from? The success of Wal-Mart is not only because it established a huge hierarchic organization, it is also because of its management of the environment, especially the management of its suppliers and the fulfillment of its customers' needs. For smaller enterprises, they are controlled by the outside environment more; for big or successful enterprises, they are also controlled by the outside environment, but they can, to a large extent, influence or even control part of the outside environment. The experience of participation in managing the social environment is not built up overnight.

Institutional theory of organizations also recognizes the effect of the social environment on organizations. It aims to identify the effect of the social institutional environment on an organization. Formal or informal institutions in an institutional environment, like traditions, customs, policies, regulations and strategies, could all affect organizations. In the past, people normally thought that enterprises were organizations that made profits by increasing efficiency. But institutionalism claims that the institutional environment is more about the requirements of legitimacy and justification of enterprises rather than efficiency (DiMaggio and Powell 1983). For example, Shenzhen HUAWEI Technology Co., Ltd used to be a company only focused on its technology, products and customer services. During the process of its internationalization, it was inevitably affected and restricted by the local society and culture. Early on, HUAWEI used to see itself as a Chinese national enterprise, but this concept became a restriction in the foreign institutional environment. HUAWEI quickly changed its strategy to localize its overseas business, and achieved long-term development in the end. In chapter four of this book, we show how the enterprises that were successful in their international business were those who could adapt to their foreign markets. The same thing applies to foreign companies running businesses in China. They normally try to secure legitimacy and justification first, and then start to think about enlarging their businesses. The strategy for KFC in developing in China was getting Chinese people's acknowledgement of foreign fast food first. Having achieved that, it became one of the most profitable dining enterprises in China. In order to overcome people's worries about fast food, it actively sponsored youth basketball games, suggested healthy dining, and put Chinese elements in its food. For example, they made Chinese-style vegetable soup. On one hand, it preserved its identity as foreign fast food, on the other, it conveyed to Chinese people the message that it would like to change for China.

An open organization means that, to deeply understand a society, understandings of all kinds of organizations and institutions in this society are necessary, because nowadays society has become a society of organizations and organizing, and institutions provide scripts and evidence for the activities of organizations. Some people think that institutions are the rules of games of the human groups (North 1986). However, there are many different kinds of institutions. The economic institution is only one of the institutions. Talking about types of social environments on a macro level may not give enough guidance on organizations and individuals. The institutional environment is the environment which organizations face directly, like governments, markets, communities, families, sciences etc. Every institution has

rules for the actions of organizations and individuals. Therefore, under a certain institution, the behaviors of organizations and individuals have boundaries, which make the behaviors of organizations and individuals predictable (DiMaggio and Powell 1983). The social environment can be seen to consist of different kinds of attached institutions (Friedland and Alford 1991). Every institution has its own core logic and core value; for example, a marketing institution requests people to be rational, a family institution requests people to be caring, and an employment institution requests people to be dedicated. If all institutions are quite mature in a society, actors and decision-makers will be given more opportunities.

Besides the resource environment and institutional environment, the ecological environment can also be used to examine the space for the activities of open organizations (Aldrich 2008). From the perspective of organizational ecology, besides material and institutional resources, the social environment can also provide a “niche” for enterprises in the activity space. The niche of an enterprise can be restricted by many environmental factors, for example the volume of the environment, which is the quantity of organizations an environment can accommodate. Another example is the heterogeneity or homogeneity of an environment, which is to be measured by the level of similarity of the organizations and individuals inside the environment. The higher heterogeneity there is, the higher demands on management skills there is. If resources and capacity are limited, managers often choose a smaller environment of homogeneity, like the customer service department choosing clients. There are other factors of the ecological environment, such as the resource concentration and the stability of the environment. The ecological environment of China has always been changing but, generally speaking, China is a country which has a large population and large land area, the volume of the environment is very big, the heterogeneity of the social environment is high geographically, but not that high demographically (however, the heterogeneity of demography is also fast increasing), resources are comparatively centralized in big cities and on the eastern coast, which is quite stable, especially since Deng Xiaoping’s speech during his famous visit to the south in 1992.

We can combine resource environment, institutional environment and ecological environment to understand social environment, but there are a few misunderstandings about which we need to be cautious. First, it seems like big companies have competitive advantages in the resource environment, but how do we look at those dynamic small and middle size companies? The improvement of the environment is also good for small and middle size companies, because, in an improved social environment, many organizational activities can be done by subcontractors. Second, analysis of the institutional environment can easily become a government-centered or market-centered analysis, and ignore other rich instructional resources and the connections among them. Some institutions may seem irrelevant to the market, like families, education, military etc., but they can also have a big influence. Third, the niche and space in the ecological environment can be decided by an enterprise’s product spectrum. If an enterprise has many kinds of products and spans many industries, it will have a bigger niche in the ecological environment. Conversely, only having single or limited kinds of products will confine an enterprise to a smaller niche. But big or small has nothing to do with rankings. We can

see many Chinese enterprises that look like multifunctional players. They can be seen everywhere in manufacturing, banking, and real estate, but, in the international ecological environment, compared with international big companies, they still rank very low. The idea of making a business big and wide-ranging is absolutely correct, but there are other ways to develop, like making the products refined and the company competitive. Fourth and finally, the cultural environment and technology environment are also important. We can analyze them by combining the above concepts, but we are not discussing all the concepts here.

Integrated with the above understandings of the social environment; we will now talk about several issues related to China's enterprises.

2.1.3 The Business Social Environment in China

It's been many years since China's Reform and Opening-up and China is now home for a batch of enterprises of excellent performance. During interviews with many leaders of these enterprises, we found that they always talked about how they dealt with the changing environment when they looked back at the past. From planned economy to market economy, from open regionally to open for all, from small deals to joining WTO, personal fortune and enterprises' business are all tightly connected with the changing society. From establishing a company to further development, entrepreneurs have a lot to consider, such as what do they need to establish and run the companies, who do they need to communicate with and how. Even a person who might have never received any education needs to learn about policies, law and regulations, culture, organizational methods, competition structure and other systems bit by bit. Comparatively, the internal management of enterprises is much easier.

The business social environment of China has characteristics that are universal. Like developed countries, China's economy and society will always be changing. This means China's social environment can also be analyzed from the angles of resource environment, institutional environment and ecological environment. Furthermore, China's business social environment also has its uniqueness. In contrast to the Former Soviet Union and Eastern Europe, China adopted progressive and yet gradual reform. Compare with Western countries, China has different resources, systems and social ecological environment, like the ownership of Chinese enterprises, organizational traditions, and the international environment they face, which are all a lot different from Western countries.

Even though it is very difficult to list all the uniqueness of China's business social environment, we still can identify some important characteristics, such as the powerful state, the changing ownerships of enterprises, and the complex society etc.

The powerful state of China is not only reflected in the policy resources provided to the Reform and Opening-up, in other words, the government is the propellant of all major social reforms; it is also reflected in its deep participation in economic activities, like the control of the resources and opportunities enterprises need, the

formulating of industrial policies, market admittance, deduction of tax and other areas. The government is the judge, it is also a player. For example, the state-owned properties of central-affiliated enterprises are all under the control of SASAC (State-owned Assets Supervision and Administration Commission). SASAC plays a direct role in the management of the enterprises. It doesn't play the role of board of directors, neither is it a manager. It is an independent supervisory board. It has inescapable influence on the establishment of institutions, recruitment and resignation of managers, and decides on industrial structures of enterprises.

Enterprises not only need to deal with the current government, they also need to deal with the social environment previously created by the government. For example: the system of the work unit, which also affected the establishment and development of enterprises since Reform and Opening-up. The work unit was the basic social element of China before Reform and Opening-up; it was divided into institutions and enterprise units.

In terms of function, work units had unified functions, namely all work units had political, social and their own special functions; the relations between main bodies of factors of production were not contractual, leaders were appointed by the governments, workers were assigned by the labor departments of the country according to their plan; resources were fixed, work units didn't have independent property rights, assets could not be mobilized, mobilization of employees was also rare. Due to the above factors, units gradually evolved into family-style group. In this kind of group, people treasured interpersonal relationships; the feature of distribution was equalitarianism. People's behavioral modes were strictly subjected to the authority. (Lu Feng 1989)

As a matter of fact, the work unit in the past in China, on some level, was a mixed body of the organizations and communities the West talked about. It owned the objectives of the bureaucracy and the equity and mutual benefit of communities. Large state-owned enterprise units not only needed to consider productivity, they also needed to consider the establishment of their affiliated agencies, which included housing, hospitals, schools for the kids of employees, dining halls etc. Many affiliated functions were replaced by marketing during reforms. But the understandings from the past unit organizations can be transferred into hopes for the new enterprises for some people. New enterprises can discard these affiliated functions, but keeping one or a couple would have a positive effect on their reputations and achievements.

The changing of enterprises' ownership was also led by the Chinese government. Before Reform and Opening-up, most of the enterprises in China were state-owned. Until 2008, the proportion of enterprises with different ownership in the economy had changed a lot. These enterprises with different ownership were competing for resources in China's resource environment. With state-owned, private, foreign capitalized, and all kinds of corporate enterprises, China had entered an era of competition. Changes, for better or worse, would spontaneously appear in the competition. But the government's policies would definitely affect this structure. From 1997 to 2002, the government enforced a policy of "seize the big and free the small" for enterprises. Many enterprises were reformed, merged or acquired. This was the so-called "state backward, private forward" phenomenon. Since the rise of

the strong focus on international economic risk in 2008, we heard this may have become “state forward, private backward”. “State forward, private backward” became an issue because some academics and other people were concerned China’s economy might regress. Before Reform and Opening-up, state-owned enterprises maintained monopolies over every resource, so the efficiency of the usage of those resources was very low, which caused a recession in the macro economy. In a 2009 lecture, the head of the National Bureau of Statistics, Mr. Ma Jiantang, claimed China’s economy had no “state forward, private backward” trend, based on statistical data collected by relevant people. Of the several cases that had happened since 2008, such as Shandong Steel reorganizing the assets of Rizhao Steel, COFCO investing in MENGNIU Group, and the industrial consolidation of Shanxi mines, Ma Jiantang believed they were only exceptions (there was also other evidence which showed a trend of “state enters, private exists”). At the annual meeting of “CAIJING” in 2009, economist Zhang Weiying said that, if China’s economy expected to keep developing fast, state-owned property should be no more than 10 % by 2040. However, leaving the comparison rates aside, from 2004 to 2008, state-owned property had increased by 87 % (National Bureau of Statistics 2009), and most Chinese enterprises listed in the Fortune 500 were state-owned enterprises. In terms of actual capacity, 30 years since the Reform and Opening-up, China’s enterprises are “state forward, private forward”, that is, state-owned enterprises and privately run enterprises all have achieved great progress and, comparatively, privately run enterprises have developed more. Of course, the capacities of foreign-capitalized enterprises also have been increasing. State-owned and private-owned enterprises are competing and sharing the resources in China, which meanwhile has brought problems to institution building.

Reforms of state-owned enterprises still need to be pushed forward. Let us look at state-owned enterprises first. State-owned enterprises still occupy half of the economy of our country. Even though their production is not even half of the GDP, they are controlling the key industries of national welfare and people’s livelihoods, such as telecommunications, electric power, railways, airlines, military industry, banking etc. In the areas of steel, coal, aluminum, vehicles and manufacturing, state-owned enterprises are still monopolies. But state-owned enterprises cannot be considered as independent enterprises. The property rights of state-owned enterprises still belong to the country, represented by SASAC (State-owned Assets Supervision and Administration Commission). The property rights of state-owned enterprises are not clear, their responsibilities, rights and interests are not consistent.

Recently, CHANGHONG, China National Cotton Reserves Corporation and other state-owned enterprises had a total deficit of several billion Yuan, but no one was there to take responsibility. This showed the positions for the ownership of state property rights are still empty. The root reason for problems occurring during re-assignment (or MBO) or loss of state properties, or devaluation due to being non-re-assignable, is the unclear property rights. The ownership of state-owned enterprises is still the country; the government has the property rights, which means no independent decision-making powers for state-owned enterprises. Major affairs of state-owned enterprises – recruitment or resignation of leaders, merger and consolidation, decisions for major investments – are all to be decided by governments. Leaders in the enterprises also have a political administrative hierarchy. Can we really say this kind of enterprises is under a market economy?

Some state-owned enterprises undertook shareholding reforms, even went public, but those are in name only, as some of the economists say. These joint-stock, state-owned enterprises are still being controlled by only one share or one majorly big share without rational operational structure. Board meetings have no real functions, cannot make decisions, almost all the decisions are subject to upper level governments or authorities (SASAC at all levels). This kind of enterprise is not a market economy enterprise, can hardly even be referred to as an enterprise. (Liang Xiaomin 2005)

Society is complex because of the imbalanced development of history and culture. Even though enterprises in China have made big progress over the years and some companies even compete for resources on the international market through acquisition or merger; they still face an institutional environment which is quite different from developed countries. From the viewpoint of academics, as a society is developing, the speed of each substructure is different. Technology and resources can develop first, institution building and culture can develop after the hardware. This is known as the cultural lag effect of social development. On one hand, Chinese enterprises' resource environment is quite good in many aspects; on the other hand, they still need to deal with the unmatched, lagging-behind institutional environment. People think the reason for problems in China's institutional environment is that the government rules too much, so other institutions cannot perform their full functions. The result is too much administrative cost by the government, and the spaces for enterprises' development are restricted, especially in some areas which need innovation. Historians say that the Sea Prohibition in the Ming Dynasty stopped China's capitalism from developing; it was the main reason for modern China falling behind. Too much control from the government will also cause a "Sea Prohibition effect", because sea prohibition normally prohibits the blue ocean. The ecological environment some Chinese enterprises are facing not only includes competition in the same industry, but also includes local competition. In the late 1980s, when China's household appliance industry started to develop, there were 50 or more manufacturers of color TVs. Even the United States and Japan only had four or five. At that time, almost every province had its own household appliance brand. Regional protectionism caused many overlapping constructions in China. Meanwhile, many enterprises were not making any effort because they were protected. Many household appliance enterprises didn't have R&D departments; they didn't even know what R&D was. In this situation, once the door of the country opened, joining the WTO, the fate of these enterprises is easy to imagine. Besides counties and provinces, China also has a dual economic structure of urban and rural areas, as well as an imbalanced developing status between different regions. These are all the realistic environments which enterprises need to face. On one hand, differentiation brings many troubles to enterprises, it causes enterprises to see things only from one side, or do things only using one single method; on the other hand, differentiation brings variety, which may bring opportunities and challenges to enterprises. The dual structure of urban and rural areas and the regional differentiation caused the complexity of China's society. For enterprises, facing the multiple requirements from the market and the variations of labor is the necessary way to develop and to become stronger.

During the evolvement of China's society, some enterprises encountered obstacles, some enterprises found opportunities. This happened to all enterprises regardless of their ownership. State-owned enterprises met difficulties, such as the lay-offs and restructure storm of the 1990s; foreign capitalized enterprises met confusion, with some people saying China was "a society with no principles, at least many principles were not followed exactly"; private enterprises met even more difficulties, such as the low recognition of society and insufficient resources. State-owned enterprises also had many successful moments, especially the advantages of resources of large-scale enterprises; as did foreign enterprises, such as auto industry found opportunities in China; and private enterprises were developing fast in the cracks of institutions. To a serious entrepreneur, China's social environment has both risks and opportunities. Chapter four of this book will talk about this in detail.

2.2 Fitting into the Environment

We in the above talked about how enterprises and individuals get to know the social environment. While getting to know the environment, enterprises were also trying to fit into the environment. Of course, there were some enterprises which didn't know the environment well, nor were able to fit into it. 2008 was a year which China's enterprises would remember vividly, because negative incidents involving Chinese products constantly happened: the recall of children's toys, the removal from the market of pet food, the discovery of melamine in SANLU milk powder and other incidents. Several typical incidents attracted ongoing media coverage, which made enterprises realize they were not only facing suppliers, clients and consumers, as well as stakeholders, but the supervision of the whole of society.

These failures by enterprises were normally caused by incorrect understanding of the environment, not to mention their need to fit in with the environment. The resource, institution, ecological environments and open organizations we talked about in the above were only to state the importance of the environments. However, how did Chinese enterprises fit into the environment? What were their basic strategies in achieving this?

2.2.1 Merge Within the Environment

According to Wang Qun, the vice president of public relations & government affairs at Yum! Brands Inc. China Division: "When KFC first entered Beijing in 1987, it only had 8 kinds of products, and most of them were traditional American food; but 22 years later, now it has 52 kinds of products, and many of those were specially developed for Chinese consumers, like Old Beijing chicken roll, You-tiao (deep fried dough sticks) for breakfast, porridge and some others. These are all specially for Chinese people's tastes".

There is an old saying, "When in Rome, do as the Romans do". As a foreign brand, KFC obviously knew the meaning thoroughly, and followed it completely. According to

journalists, KFC entered China in 1987 and set up its office in Beijing at Qianmen. From then on, it started its journey of “stand in China, merge into its life”. Now it’s been 22 years. Looking at KFC’s journey in China over this time, its growth and changes are well observed; it has changed for China and made efforts to make “new fast food”. Time flies and, 22 years later, consumers of 500 more cities all over China can enjoy KFC from stores close to their homes. (Wang Hui 2009)

KFC “change for China”. Some people used to imagine, what if a Chinese company in the United States says that “we are changing for America”? What kind of response would it get in China? We emphasize the meaning of environments to enterprises, only because enterprises cannot exist independently. Enterprises are organizations that are run for profits, but they cannot only use economic rationality to communicate with the outside world. The society in which an enterprise operates not only has circulated economic capital, but also social capital, which refers to all kinds of relations: relations between enterprises, between people, or between organizations and people. There is also other non-profit capital circulating in society, like information and knowledge capital. Classical economics has the hypothesis that people are “rational beings”, and an enterprise is a group of rational men. They act in accordance with the logic of economic rationality. But sociologist Granovetter believes economic actions cannot be only rational actions, because people and enterprises are all “embedded in” society. Local social structure and social relations will have a deep and long influence on them. To transnational corporations, they are “embedded in” several domestic and foreign social networks at the same time and these networks are all different, so corporations need to treat them differently (Granovetter 1985).

Some enterprises, when they were developing, not only embedded and merged their companies in the local social culture, but also merged themselves in the country’s corporate tradition. Before Reform and Opening-up, state-owned enterprises took the lead under the planned economy; they also grew their own tradition. Entering the 1980s, private business started to rise. Lenovo, HUAWEI and other companies all used to reference the unit organizational mode of state-owned enterprises, as well as the setup of offices and titles of the positions. When private enterprises first established and foreign companies had just entered China, they encountered some doubts, not only about their legitimacy or identities; there were some realistic issues to consider. For example, benefits in the form of material objects and tickets (including food tickets, oil tickets, clothing tickets, even soap tickets etc.) didn’t exist in private and foreign companies, not to mention housing, primary education for employees’ children and public health etc. So at the early stage of foreign companies setting up in China, some of them provided accommodation and other entitlements to foster employees’ recognition of their “work units”.

Sociologists Weber and Durkheim both see traditional society as connected by blood, and modern society as connected by contracts. China didn’t really have the break from traditional to modern which classical sociologists talk about. Blood relationships are still connected in China, and the administrative relationship which was built by the Communist Party also connects all the departments and civic groups. The contractual relations recognized in economics and modern

organizational theory are still being under construction; however, it is gradually being accepted during its development. The whole social structure of China has influenced business organizations as background and environment in an era of Reform and Opening-up.

2.2.2 *Avoiding Outside Influences*

During all his years building up HUAWEI, the thing Ren Zhengfei cared about the most was not the business operation, but the outside environment of the company, especially the changing political environment. Every time he travelled outside China, he asked his staff inside China to keep him constantly informed about major political affairs; because, even though he might have enough capacity to totally manage the company's business, he could not stop the possible influences on the company caused by political changes. In order to, as much as possible, ward off any negative effects which might be brought by any connections, he had never taken any social positions outside the company.

The major affair of HUAWEI purchasing Harbor Networks Limited on June 6, 2006 reflected Ren Zhengfei's concern about external factors causing internal instability even more. If Harbor Networks was allowed to continue growing, there might be the possibility of a second "HUAWEI" appearing in China, and this might hurt the morale of HUAWEI'S core force. This was the "biggest concern at heart" of Ren Zhengfei. (Wu Jianguo and Ji Yongqing 2006)

We talked about how enterprises lived in the social networks. Transnational and trans-regional enterprises often pursue the strategy of merging into the local environment to obtain recognition and development. But, if they depend on connections too much, it can also bring trouble to a company. In the past, China was very bureaucratic; it was not easy to do business, especially for private enterprises that were without political support. Sometimes things could not be worked out without working on connections; sometimes things didn't work out even when attention was paid to developing connections. If certain people were made unhappy, there might be the possibility of negative repercussions for a small company. Appreciation of people's help is a good thing; however, sometimes a good thing can become a bad thing. During their early development in China, private and foreign businesses often encountered difficulties in getting stamps from various governmental agencies, and this problem still exists nowadays. For many patient business organizations, they needed to spend time and energy to get stamps. However, some companies simply gave up their local business because of the unfriendly investment environment. This was a big loss to the enterprise and society. Some other people chose to take the risk of asking for help from those who make stamps instead of going through all the trouble of dealing with the governments. We can say without exaggeration that we can calculate the administrative cost of a city by the number of the illegal advertisements for carving stamps on the overpasses of this city.

Unlike some companies who are working on networking everywhere, the president of HUAWEI Technology, Ren Zhengfei, is trying to release himself and his

company from China's complex networks and focusing on his own business. We mentioned in the last section that being affected or even controlled by outside environments doesn't mean enterprises cannot have independence at all. The part of an enterprise which is restricted by the environment is normally some bottom line stuff. As long as they are not committing any crimes or breaching any moral principles, enterprises can to some extent avoid outside influences and focus on their own businesses.

Speaking from the perspective of the resource environment, "replaceable exchange and diversified developments are the two ways to reduce dependence. . . when an organization is under the centralized power of other organizations, the way to diminish this centralized control is through lawsuit under the Antitrust Law" (Peffer and Salancik 2003), which means, besides maintaining a certain independence, as HUAWEI does, enterprises can also change strategies to avoid unnecessary troubles, or use legal tools to change unequal situations.

Enterprises which developed in early times, in order to focus on their business, purposely evaded influences caused by the outside environments. Enterprises which are quite developed and already have very strong independence can do this; however, they also need to be constantly careful not to lose their core resources due to being too closed. As a matter of fact, some enterprises focus on their business, while ensuring they have assigned enough people or departments to deal with outside environments. For example, the R&D staffs of HUAWEI are open, because marketing staff can deliver customer feedback to them in a timely manner. HUAWEI can quietly go about its business also because it has obtained a lot of support from the policies for special economic zones in Shenzhen; for example, the policy to solve the residence identities of HUAWEI employees and their families at the early stage of its development. Putting it another way, HUAWEI can focus on its business and avoid extra influence on the basis of its compliance with the big environment.

2.2.3 *Keeping the Environment at an Arm's Length*

Among entrepreneurs in China, Wang Shi is probably the only one who can demonstrate to the public he never bribes. But this has not won him any plaudits. Once at an entrepreneurs' forum, Wang Shi and another guest made speeches. Wang Shi said, "When I said I don't bribe, there was no applause; but when he said he bribes, there was applause like a thunderstorm. That was a bit awkward for me."

Wang Shi has been keeping the environment he is in at an arm's length, an awkwardly immature, lonely posting (Wang An 2009).

Enterprises inevitably are in all kinds of networks and patterns of social exchange. But relationships and ways of exchange vary; such as strong ties and weak ties, replaceable and irreplaceable exchange relations. In terms of running a business, an irreplaceable relationship is probably the relationship with governments, but it can be chosen to be either a strong or a weak relationship. Wang Shi

doesn't bribe, but he is maintaining a strong tie with certain relevant government agencies in terms of information and policy-making. This is normal and legal, and there is no need to hide it. Keeping a proper distance from an environment seems like a strategy that is difficult to handle. But to an entrepreneur who has principles, it is not difficult to achieve. Illegal activity and activity breaching moral and principles can be kept at a certain distance; however, close connections must be kept with those areas beneficial to business development and society. Only by clearly understanding the enterprise and the social environment, can an entrepreneur attain the ability to keep the environment at an arm's length. Keeping the environment at an arm's length is a long-term consideration for an enterprise that seeks to develop in society. As a matter of fact, Wang Shi is not the only one who can keep this kind of relationship with the social environment. People who are successful in other industries in China all can do this, such as Liu Chuanzhi of Lenovo. Keeping distance may sound easy but there is a lot of suffering to be endured. Liu Chuanzhi once spoke about his past, after becoming successful. He mentioned three challenges which he considered the most difficult: "The first thing was trying to reconcile with the environment. Never mind trying to change the environment, fitting in was already quite a lot of suffering." (Ling Zhijun 2005) Nevertheless, enterprises' relationships with governments are something Liu Chuanzhi sees as "the test every enterprise has to pass".

To maintain strong or weak relations with key organizations, as well as the degree of embedding in social networks is an essential skill, which entrepreneurs have to master and to keep practicing.

2.2.4 Making Outside and Inside Compatible

WANGXIANG Group's strategy of internationalization of human resources used its overseas companies as the platform, and gradually spread to inside of China. Its overseas companies started from where they were, working through local banks, law firms, accounting agencies, media etc. to recruit talent with different nationalities and diverse cultural backgrounds. For example, at the early stage of the establishment of WANGXIANG America Corporation, many people suggested they send "our own army" out. But WANXIANG figured that, even though the direct cost of sending out "our own army" would not be much, the indirect cost would be comparatively high, especially the opportunity cost. Because "our own army" from China had to learn languages, had to become legitimate, had to get used to the lives and environment there, and had to make friends etc., it probably would take them one or two years to finally work on their own, which would be quite time consuming and, more importantly, many opportunities might be missed during this period. Instead, WANXIANG chose to recruit locally. There are 480 employees in WANGXIANG America Corporation; only six of them are from China, the rest were all hired in the United States.

Using overseas companies as support and applying a domestic-overseas integrated personnel plan have provided an internationalized flowing space for the employees. Companies inside China send a large amount of employees overseas to receive work training. The 18 companies of WANXIANG overseas provide opportunities for the international circulation of the employees within the group. WANXIANG's employees can apply

to work overseas, and procedures are in place to judge the merits of their applications. Meanwhile, employees overseas also come to China to receive training, to get to know China's situation and WANGXIANG's culture, as well as the manufacturing capability of the group. (Zhang Wei 2008)

Enterprises are profit-driven organizations, but business organizations are not only influenced by economic rationality and market institution. Different institutions interweave together, depend on each other, and they also have their respective requirements of organizations and individuals. For enterprises, the requirement of these institutions is normally not efficiency, but legitimacy. This includes legal legitimacy, cultural legitimacy (e.g. whether a product is compatible with a nation's customs) and occupational and behavioral legitimacy (e.g. whether certain organizational behaviors can damage occupational reputation and business standards). Each institution may have different requirements of legitimacy.

Before Reform and Opening-up, China had a period of politics ruling and ignoring technology and efficiency, which caused China to lag behind developed countries in every area of societal development. In 1984, Mr. Yuan Geng, then party secretary of Shekou district of Shenzhen, announced "time is money, efficiency is life" for the first time. He probably didn't expect his saying to spread to the whole of China overnight and become the slogan at the front doors of many factories. This slogan really provided the emotional impetus for many Chinese enterprises to break the restrictions of the rigid technical and economic systems, no matter whether they were state-owned or private. However, over time, as enterprises have gradually developed, are not closed organizations anymore and have to face every side of society directly, we have to admit that focusing on efficiency is good but already not enough to further promote the development of enterprises.

A middle level manager of a telecommunications company told us that, in the 1990s, when his company's major business was in mainland China, efficiency was definitely the first thing to consider. Because the telecommunications market in China was "infinitely large" at that time, most of the clients had comparatively lower demands on the quality of telecommunications. However, after entering the new century, under the influence of many factors (e.g. the growing-up of the post-1980s generation, the popularization of the Internet, and the enlargement of overseas markets), not only did improving quality become a big task, understandings of domestic and foreign social institutions, local cultures and popular cultures also became a requirement of training for this high-tech company. The high-level management of the company started to realize that only having a vague idea of what an overseas market might look like was not enough, because "overseas" consisted of many different types of markets. In the past, when Chinese people talked about the Western world, it sounded like the West was a unified cultural community. However, it is not. Europe and America are different. In Europe, markets in each country also differ. Now this company's training program targets at increasing employees' knowledge of the business environments; unlike before, when it focused only on the loyalty and work values of the employees.

While focusing on the outside environment of an enterprise, an internal environment should also be recognized. Internal and external environments cannot be

perfect. When the internal environment is not well, the values and rules of the external environment can be used to control the enterprises; when the external environment is not well, we should consider using the internally accumulated experience to change the situation. It is not easy to make the small environment of an enterprise and the big social environment compatible because, besides technical issues, cultural issues also need to be considered, as well as the above-mentioned enterprises' resources, institutions and ecological environment. Nevertheless, successful entrepreneurs know that investment in the compatibility of enterprises and their environments are always worthwhile.

2.3 Building up the Environment

While enterprises are fitting into the environment, they are also building the environment. The environment affects the activities of enterprises, while activities of enterprises also affect the environment, only in different ways and at different levels. Some enterprises have had long and significant effects on society, while some others have touched society only slightly and for short periods. Enterprises can affect the environment by their technologies and products, like the invention of the automobile, the spreading of computers and the Internet, the application of new energy, the use of new materials, and the popularization of healthy and cultural products. Enterprises are changing the daily lives of people. They are also changing human society. Enterprises also change society by other means, such as changes in the methods of doing things and institutions. Changing society doesn't mean changing the whole world. Institutional building doesn't exclusively mean rebuilding on a macro social level. The change in the working procedures of a company, the maintenance of the natural environment, the responsibilities to communities are all included in the content of enterprises' institutional building. Some people change the environment and the society unconsciously, but great enterprises and entrepreneurs purposely integrate resources, institutions and people, so as to create valuable products and engage in meaningful activities.

The influences of techniques and institutions do not necessarily happen at the same time, but they can stimulate each other. WANXIANG Group's leader Lu Guanqiu likes to use the word "strength"; a company has to increase its strength. Only when it has enough strength can it request supporting policies from governments and request markets from society. Pursuing policies and markets without having strength is impossible from his point of view. Strength is the foundation of products and technology. When technology was updated, products were refined, and the supporting policies and surrounding markets and other institutional and resource environments of a company would be improved. However, institutions can also affect technologies. For example, the idea of protecting the environment already has history, but the technology of environmental protection is still far behind the idea. It was because of the development of the supporting policy of

environmental protection that WANXIANG Group was encouraged to engage in the R&D on electric cars.

Enterprises can change society by their products. Some excellent enterprises go further; they not only develop technologies and products, but also develop institutions and the social environment. In the previous section, we mentioned some strategies enterprises use to fit into the environment. Actually fitting into the environment itself is changing the old environment and building a new environment. There is a strategy more active than purely fitting in, which is building up the environment.

2.3.1 *Outside to Inside*

Enterprises are the entities of a market economy. How do we run enterprises in a society without any experience of a market economy? The Chinese government had set the route of Reform and Opening-up in Deng Xiaoping's time. The opening-up of a country also promoted the opening-up of organizations. Not having market experience to reference doesn't mean we cannot do things or cannot establish successful enterprises. Enterprises in developed countries were also not built in a completely mature market environment at the very beginning. When no experience is there for reference, the importance of the environment becomes prominent. We can look at the external environment. If the small environment is not enough, we can look at the bigger environment, like the international environment. Looking at the international environment means learning from the advanced enterprises in foreign countries.

"The song of HUAWEI" which was composed in 1995, says: "learn the advanced technology from the US; absorb the good management from Japan; be meticulous and punctilious like the Germans; step by step and be dedicated." HUAWEI eventually decided to learn management from the US.

No public evidence ever showed that Ren Zhengfei was an expert in management. Previously, he was only a good worker in the technology field. But the key reason for the vigorous and ongoing optimization of HUAWEI's management is Ren Zhengfei's close attention to management, though many people would like to tag him as having a Chairman Mao style. In Ren Zhengfei's mind, any changes and reforms are necessary as long as they are beneficial to the achievement of the dream of "becoming a globally leading enterprise". There is no need to ask the motivation and origin of this dream. What is important is HUAWEI is driven by this dream and it is striving. (Liu Guiyun 2007)

However, many big companies in China are not able to learn from big international companies. On one hand, many Chinese companies started their businesses without systematic education and training; they did not have the motivation and foundation to learn from international companies; on the other hand, many private Chinese companies are long-term at a very low position of the international industrial value chain, they do not even have a chance to learn from the outside. Learning from the outside also requires looking for the institutional environment inside that country. Actually, humans' economic activities are not limited to

enterprises and markets; rules and guidance of economic activities can also be found in many ancient organizations. For example, Max Weber's expatiation of "The Protestant Ethic and the Spirit of Capitalism", describes how the puritans of England and New England made a great contribution to the rise of capitalism (Weber 1905). However, not only the homeland of the puritans can have prosperous capitalism. In the 1980s, the rise of Asia's "four little dragons" inspired people to look for cultural support for a market economy in eastern Asia's traditional culture. China's old family ethic is considered one of the cultural resources of the eastern Asian economy.

Let's use the private businesses of Wenzhou, China as an example. For 20 years, the organizational structure of the micro cells of Wenzhou's industrial and commercial industry has been through several changes: family industry – private business – joint family partnership business – joint-stock enterprises – enterprise group – companies with limited liability etc., but, speaking fundamentally, the core of the family business gene is still there. Even though some of them put up signs of the modern enterprise system, they are actually enlarged family businesses. (Wu Xiaobo and Hu Hongwei 2002)

Actually, not only families can provide cultural resources. If we look further and broader, the military can also provide rich cultural resources. Strategically, "The Art of War" and "The Romance of the Three Kingdoms" are not only an enlightenment on war, but also can be a reference for the business war. This point of view can easily be proved just by looking at how famous these two books are in Asian or even international business circles. In terms of organization, the military is particularly helpful to big enterprises, because the military is always the biggest organization of a country. In terms of how to run a big organization, it surely can provide some experience and theories. As a matter of fact, many Chinese private enterprises were inspired by the military in the process of their development, such as HUAWEI, Vanke, BYD and Lenovo.

When looking for institutional resources outside enterprises, then foreign modern enterprises, families, the military, work units, and universities can all be prime models from which business organizations can learn. And that is what many Chinese enterprises in fact have done.

2.3.2 From Top to Bottom

When we talk about from top to bottom, "top" refers to the government. The previously discussed outside to inside approach was talking about enterprises using existing experience or models from the outside. From top to bottom refers to making full use of the advantage of the government's policy. There are two factors which allow China's enterprises to use a hand from the government: one is the Chinese government's strong efforts in self-improvement; the second is that the Chinese government is the designer and practitioner of the Reform and Opening-up. The policy environment (which is one aspect of the institutional environment) for

the development of enterprises has to depend on the government, or the co-efforts of the government, business organizations and individuals.

Since ancient times in China, the government has occupied an irreplaceable position in arranging the social order. In the Zhou Dynasty, there was the saying of “all lands under the sky belong to the emperor; all people on this land belong to the emperor”. The Communist Party established a new society type, which is different from the traditional dynasties. But in most people’s minds, the government is still the agency which is at the center of society. Some academics who study socialism also see communist party governments, as represented by the former Soviet Union, as a super hierarchic organization. In such an organization, the hierarchy of power is very strict. Efficiency can temporarily be ensured, but will finally lead to rigidity and non-individuation. However, how can we explain the fast development of China for these 30 years? What is certain is that it is different from free market capitalism, where there is no constant intervention from government, as in the United States and Britain. The development of eastern Asia is an economic activity led and participated in by the governments. China is no exception. If it was a rigid government, how did it lead the high-speed economic development activities for 30 years? Economist Zhou Li’an believes that, no matter whether they are foreigners or Chinese, people in the past know too little about the reasons of China’s development:

If we say the Westerners’ confusion is because they don’t know China well, then Chinese people’s confusion is because they know China too well. We are too familiar with all the disadvantages of China’s political and economic systems, we are too familiar with the lagging behind in technology and the shortage of resources for each person. If using a metaphor with a bit exaggeration, China’s economy is like an old car running at high speed on the freeway. Westerners, as outsiders, don’t understand how come an old car can run this fast. They think there must be some secret engine in it; while Chinese people sitting in the car with the awareness of the poor conditions of the car also think: how come this old car can run this fast? (Zhou Li’an 2008)

Zhou Li’an’s explanation is that the Chinese government adopted a political tournament incentive model involving officials at all levels. Political tournament means “the upper level governments design a promotion contest for its lower level government agencies. The winners will get the opportunity of being promoted, and the contest rules are decided by the upper level governments. It could be the growth of GDP or other indicators”. Responsibility for the Chinese government’s political tournament is repeated level by level, among the five levels (central, provincial, city (municipal), county, and village); with central government the initiator from the top. This incentive model has made the Chinese government different from the traditional hierarchic system, creating vitality inside of the organization. In this political tournament, besides being run at all administrative levels, if using GDP as an indicator, it could be “contracted out” by enterprises at any administrative level. Political tournament can also be converted to championships between enterprises or inside enterprises.

Since the Third Plenary Session of the 11th Central Committee in 1978, the Chinese central government has witnessed three generations of leadership, from

Deng Xiaoping to Jiang Zemin to Hu Jintao. Each core leadership reinforced the Reform and Opening-up strategy, and made innovations in both theory and practice guidance. From Deng Xiaoping's "development is the fundamental principle", Jiang Zemin's theory of the "three represents" to Hu Jintao's "harmonious society", not only the economy but the whole of China has been developing under the direction of these theories.

One important responsibility of the government is to formulate policies and regulations, for example: the "Labor Contract Law", effective since Jan 1, 2008. Early in 2007 before this law was issued, enterprises were already aware of what was coming. They were worried about the article in the new "Labor Contract Law", which decreed: employees who "have already worked with the current employer for 10 years" or "have finished the second fixed-term contract" can sign with the employer "an open-ended contract" and become permanent employees of this employer. Governments hold large amounts of resources on which enterprises rely, and the actions of government, whether big or small, can have major impacts on enterprises, even to the point of restructuring an industry. However, during the formulation of policies, there is also a part reserved for the enterprises. The government's innovations for enterprises' systems from the top down could not be enforced without the active participation of the enterprises. The government is developing from the top to the bottom; successful Chinese enterprises have taken the advantages of the government and made co-efforts to reform. For example: the development in south Jiangsu province, especially its early development.

Scholar Zhang Jianjun compared the Southern Jiangsu and Wenzhou models of China's regional development in detail. He concluded the early Southern Jiangsu model was a collective economy under the leadership of the regional government. In this model, the government actively participated in the development of the enterprises, guiding local development from the top. The government actually partially played the role of entrepreneur, and the actions of the local enterprises also obtained the recognition of the government, and shared the space together with the government. After entering the 1990s, with the market economy maturing, the government gradually backed off from directly managing enterprises' affairs, and moved from the government-leading model to a government-promoting model. The enterprises gained more space in which to act, and became the main body in system building in many areas. The Southern Jiangsu model was evolving under the government's flexible leading and promotion; and it became a clear contrast to the Wenzhou model. In the Wenzhou model, the government only played the role of setting standards and pushing forward; it was the enterprises that started the business and developed from the bottom to the top. The private economy of small commodities has always been in the leading position (Jianjun Zhang 2008). It is hard to say which one is better because these two models were corresponding to different resources and institutional environments in the two areas.

2.3.3 *From Bottom to Top*

Enterprises are not only consumers of institutional resources in the social environment, they are also makers. While the government is at the “top”, enterprises are at the grassroots level. Grassroots can be banded together into a rope and develop together, and they can cooperate outside their competition in the same business. They can also collectively lobby governments.

A very painful problem in China in the past was “dead once controlled, disorderly once dropped”. It was either that government completely prohibited certain economic behaviors by administrative order and administrative tools, or once the prohibition was loosened, many enterprises would immediately swarm without any coordination and create a market with excessive competition. ... lately, we can see from China’s practices, no matter whether it was when the industrial associations of Wenzhou responded to the international investigation of anti-dumping, or when China’s steel industry responded to the negotiation on iron ore prices, they have attempted to use non-market governance mechanisms to coordinate the interests of stakeholders. (Chen and Zhang 2002)

Wenzhou is the manufacturing base for small commodities, such as lighters, glasses, shoes, low-voltage appliances etc., and these have all encountered international trade barriers. There are more than 100 industrial associations in Wenzhou; many of them have played irreplaceable roles in the constant investigations of anti-dumping by foreign countries. In 2002, the European Union passed the CR law for lighters, namely the Child Resistance Law. This law mandated that lighters under the price of 2 US dollars must be fitted with a child protection device as part of their operating mechanism. If this law were to be enforced, lighters made in Wenzhou would have faced being locked out of the European market (Chen Fang and Zhang Heping 2002). In order to deal with the risk, the Wenzhou Smoking Set Association traveled to Europe with government agencies and, over 10 days conducted more than ten multilateral negotiations, finally convincing the European Union to postpone the CR law, which was scheduled to come into force on June 19, 2004.

Enterprises from the same industry can form associations; however, enterprises of different industries or even belonging to different ownerships can also make alignments, and build a market environment. For example, in July 1998, Ordos, CHANGHONG, Tsingtao Beer, Wangfujing Apartment Store and others – 13 enterprises in all – submitted a jointly signed letter to the State Economic and Trade Commission requesting the prevention of cut-throat competition in industries and marketing tools to standardize the enterprises. After a few weeks, the State Economic and Trade Commission responded by encouraging all industrial associations to fix a unified price to commodities and services in the same industry. This provided a successful precedent for commercial associations to lobby governments (Kennedy 2005).

2.3.4 Inside to Outside

Besides enterprises and enterprise alignments, or social networks, entrepreneurs can also use their personal influence to build the environment. When talking about the development of private business, Lu Guanqiu of WANXIANG Group said:

The most important thing is the development of us; to see if our own capacity can override the others. There is no need to complain. We are like a family; certainly, parents would care more about the smart kids, the promising ones. Laws are made by people, so are policies. Being compatible with social development will definitely get the recognition of society. Economic development needs to be in accordance with the objective law-like principles. In order to get the country's support, nurture and protection, we need to meet the country's requirements; by then, the country will gradually revise its policies. (For example) recognize the functions and the position of private enterprise in the "Sixteenth National Congress". (Liu Xiaowu 2004)

Compared with state-owned enterprises, private enterprises did not have the support of the country; their conditions were awful in the early stages. But those who were full of the spirit of entrepreneurship didn't complain or confront the policies. Instead, they chose to pursue proper business and took market opportunities in the areas where the policy allowed, and finally became stronger. They obtained the acceptance or even support from the policy due to their contribution to the country and society.

The creation and development of an organization not only depends on technology or material resources. In modern times, institution and innovation of institution are more important. Successful modern leaders are those who can go beyond the organizations. These people can also go beyond the temporary gains and loss of interests, and create new areas and value. All these facts help us understand why successful Chinese entrepreneurs all have rich social backgrounds. With experience in all kinds of social backgrounds, Chinese entrepreneurs made the social systems part of themselves, and have become their characteristics and guidance of actions. Entrepreneurs are the products of institutions; they are also the carriers of them. On a higher level, they are also the constructors of institutions. A single entrepreneur has a limited function in society, but the emergence of a group of entrepreneurs will become the power of society.

At the beginning of Reform and Opening-up, many entrepreneurs' backgrounds were as peasants or in individual household business, such as the founder of "Fool sunflower seeds", Nian Guangjiu. Since the mid-1980s, some people have quit their jobs in government agencies and started their own businesses, such as Liu Chunazhi of Lenovo, who came from the Institute of Computing Technology, Chinese Academy of Sciences. After 2000, people with post-graduate degrees came back from overseas and started to take senior positions, such as Li Yanhong of Baidu.com. The experiences of all these entrepreneurs represent absolutely not only their own lives. The rise and fall of people from certain backgrounds reflect changes in the social environment. From Nian Guangjiu and Liu Chuanzhi to Li Yanhong, we can see that China is paying great attention to professional knowledge, its diversification of industries and its transfer to high technology, as well as opportunities

provided to young people. The Chinese entrepreneurs all had their own specialties during the changing period of the society. In the early time of the reform, people who didn't have experience of organizing an enterprise spontaneously learned their first model of enterprise organization from families and family groups. Other people learned the essence and management model of large organizations from the structure of another area, as in the way the president of HUAWEI, Ren Zhengfei, learned from the Chinese military. Enterprises in the US, Europe or Japan were very mature in professionalization after years of development, so they often dominated when in competition with Chinese enterprises in the early stages of reform. However, these foreign companies often now suffer headaches when dealing with China's "non-official army". Wenzhou people have long gone out of the country, developing their businesses in Europe, the Middle East and the Far East, even battling in the area of luxury goods. The fast development of HUAWEI and other companies also surprised foreign analysts, prompting them to wonder from where Ren Zhengfei and all these people got their business talent. The changing society of China trained these successful entrepreneurs; and these entrepreneurs are also changing the social environment of China, and gradually influencing the international business environment.

We mentioned several paths and strategies for building up the business environment. Just like the strategies of fitting into the environment, there are no paths or strategies which are better than the others. Successful enterprises always choose and assemble their own tools from different strategies, and make the enterprises and the environments harmonious and able to improve each other.

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Understanding Chinese Firms from Multiple
Perspectives

Zhang, Z.-X.; Zhang, J. (Eds.)

2014, VIII, 347 p. 6 illus., 4 illus. in color., Hardcover

ISBN: 978-3-642-54416-3