

IT'S DIFFERENT IN EAST ASIA

East Asian nations include giants China & Japan plus newly industrializing economies (NIEs): Singapore, Taiwan, South Korea, {Hong Kong}; possibly Thailand, Malaysia, Indonesia

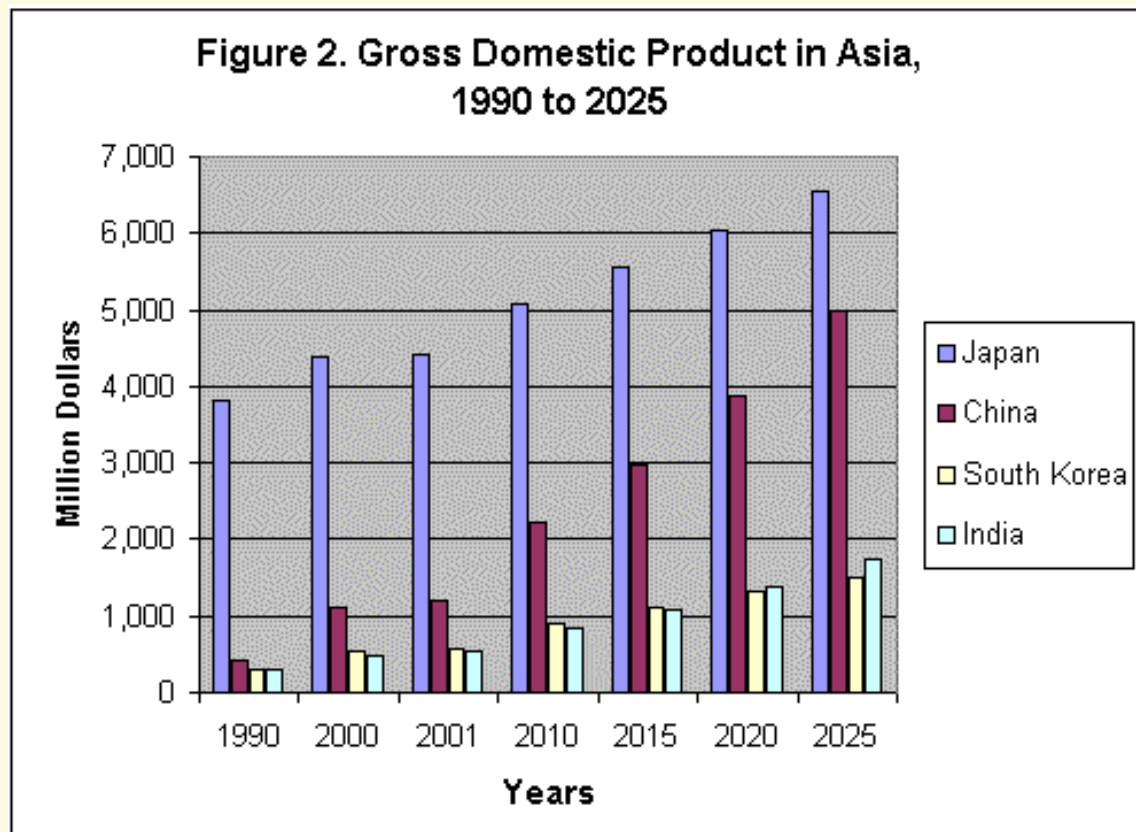


Several societies developed distinctive **business groups**, including *keiretsu* (Japan), *chaebol* (Korea), *guanxi qiye* (Taiwan), and *qiye jituan* (China). What are their structures & what role do these groups play in national economic development? Can implementing a Japanese “management philosophy” improve org’l performance?

Rising Star

Big East Asian story is China's rivalry with Japan to become 21st century's leading economic, military, and political power.

Why is understanding national & organizational cultures and practices be crucial for Americans seeking to do business in East Asia?



Source: Energy Information Administration, *International Energy Outlook*, Table A9.

Keiretsu – Japanese Business Groups

In 1945, U.S. outlawed Japan's *zaibatsu* (family-run holding companies). The Ministry of Int'l Trade & Industry (MITI) supported *keiretsu*, business groups protected from competition. *Keiretsu* are networks of independent firms linked by tightly integrated ownership, management, and financial relationships.

Vertical Keiretsu: Supply chains of numerous small companies that supply parts to a dominant manufacturer: Toyota; Sony; Hitachi; Toshiba

Horizontal Keiretsu: Diverse industrial firms and holding or trading companies linked to a major “city bank”

| JAPAN'S BIG SIX HORIZONTAL KEIRETSU (1999) | | | | | | |
|---|---------------|-------------------|-----------------|-------------|--------------|-----------------------------|
| | Mitsui | Mitsubishi | Sumitomo | Fuyo | Sanwa | Dai-Ichi Kangyo Bank |
| Cross-Shareholding | 15.8% | 26.0% | 20.8% | 19.4% | 15.1% | 12.1% |
| Group Lending | 20.6% | 19.4% | 20.4% | 16.3% | 18.6% | 15.3% |
| Employees | 260,000 | 230,000 | 140,000 | 280,000 | 350,000 | 400,000 |
| Share of Employment | 0.6% | 0.5% | 0.3% | 0.7% | 0.9% | 1.0% |
| Sales (¥ trillions) | ¥29 | ¥25 | ¥18 | ¥27 | ¥31 | ¥46 |
| Share of Economy | 2.1% | 1.8% | 1.4% | 2.0% | 2.3% | 3.4% |

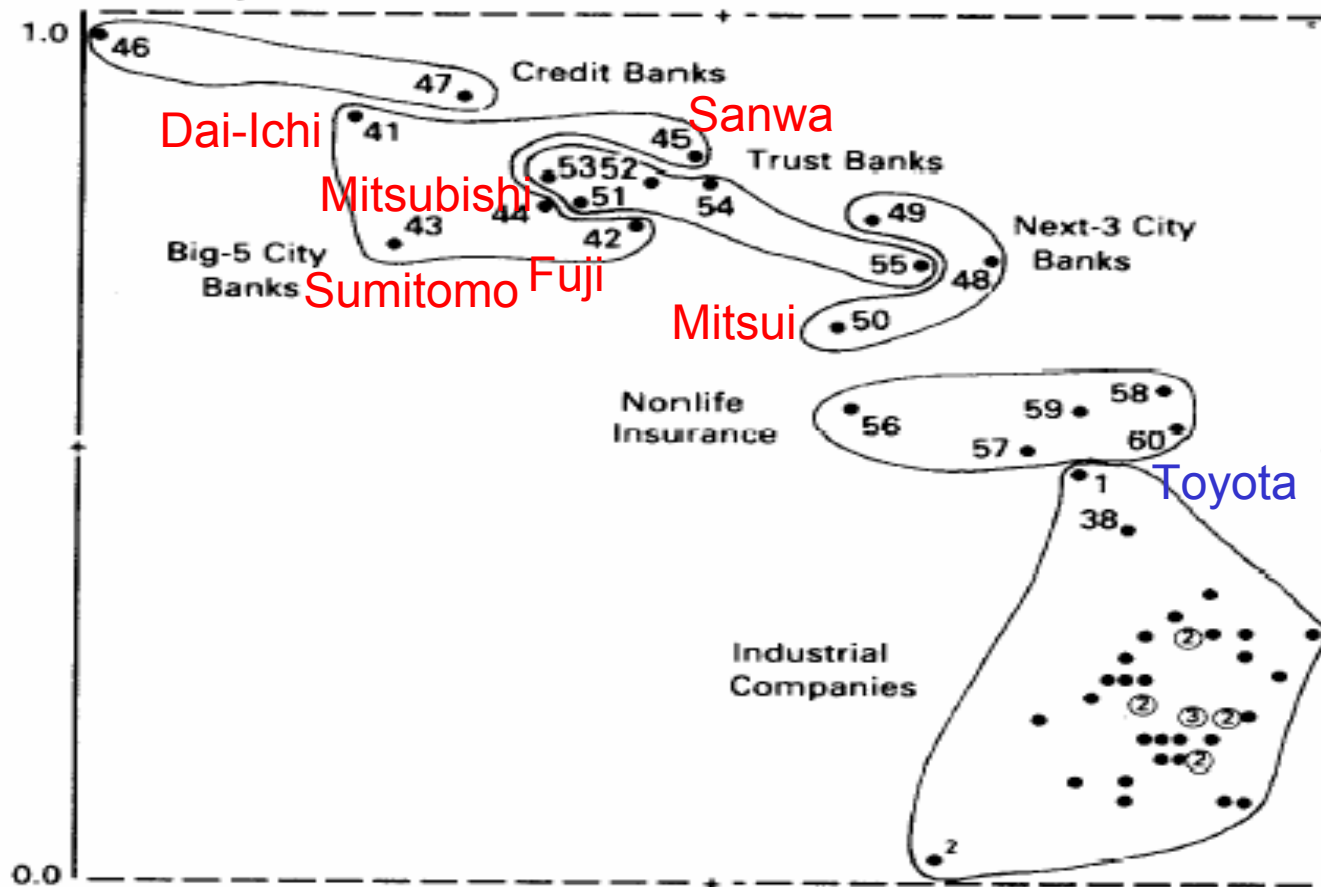
SOURCE: Douglas Ostrom. 2000. “The Keiretsu System: Cracking or Crumbling?” *Japan Economic Institute Report 14*.

Japanese Bank Hierarchy

Michael Gerlach (1992) used blockmodel methods to map equity, director interlocks, and banking debt networks. He found a hierarchy of dominant banks, with the locations of Japanese industrial firms determined mainly by their *keiretsu*.



Figure 3. Spatial map derived from stacked matrices for debt, equity, and directorship interlocks.



Risk Buffering

Horizontal *keiretsu* relations include: (1) the Presidents' Council as a social event for presidents of member firms; (2) cross-shareholding; (3) interlocking directorates; (4) trading of goods and services among members of the network; and (5) credit and loans from the group's bank.

Proposition: By pooling and diversifying risk, a *keiretsu* provides its members with an implicit insurance contract against market failures and bankruptcies.

Keiretsu networks can intervene to rescue a troubled member firm. The bank will roll over old loans into new financial aid packages. Partners send personnel to the distressed firm. The troubled firm can raise cash by selling its cross-held shares to other *keiretsu* members.



In 1970s Sumitomo Bank rescued ailing Mazda Motors. The Bank provided new and refinanced loans; sent skilled managers; made sure that other Sumitomo group members didn't sell their Mazda shares; negotiated lower prices for steel and other auto inputs; and urged Sumitomo executives and workers to buy Mazda cars.

A Plan of Action

Ramen Software, a large member firm of your *keiretsu*, has fallen on very hard times: Markets for computers and video games are stagnant. Ramen made several bad investment decisions & now is in danger of defaulting on loan repayments coming due. Government regulators are investigating safety violations in its factories. As Ramen's loyal partners, what could you do to help Ramen avoid a bankruptcy that could threaten the whole *keiretsu*?

Form into small *keiretsu* teams to formulate an Action Plan. Decide options to recommend, rank by their likely effectiveness, & give reasons why they'll rescue Ramen.

Here are some options to consider, but your team should add others:

Fire Ramen's CEO & CFO

Keiretsu team takes control & runs Ramen

Bribe the safety inspectors

Liquidate poor-performing product lines

Lobby officials of Japan's Diet

Pressure *keiretsu* members to "Buy Ramen"

Buy up Ramen's worthless shares

Make an emergency bank loan to Ramen

Hire a lot of hot-shot MBAs

Launch marketing & ad campaigns

Expand Ramen's R&D programs

Send a consultant team to Ramen HQ

Sell-off some factories to raise cash

Throw huge "going out of business" party

Scientific Management

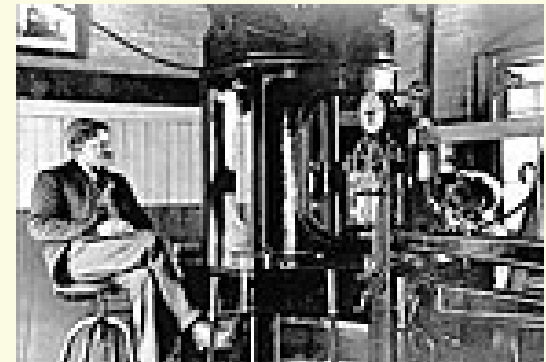
In late 19th c., engineer Frederick Taylor used time-and-motion study to develop an efficient “scientific management” system for restructuring work. His principles replaced the older “drive system” with work bureaucratization & labor deskilling:



- **Systematic analysis of each operation:** create elaborate rules that regulate every aspect of each worker’s job behavior
- **Centralized planning:** Workers only execute what managers plan
- **Detailed instruction and supervision:** Breakdown every job into small units, so workers lack knowledge, power against management
- **Wage payments:** Wage systems induce workers to follow detailed instructions. Use a piece-rate system, with bonuses for extra efforts.

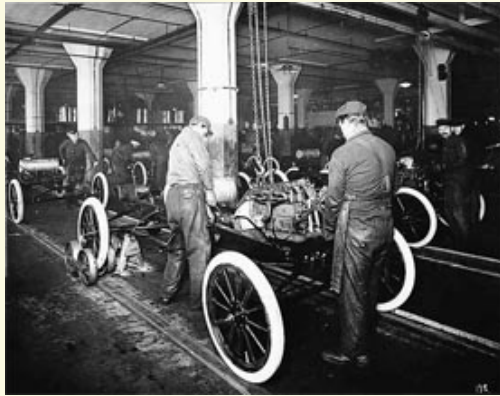
Taylorism at Bethlehem Steel boosted productivity by 380% while cutting coal shovelers & pig-iron lifters from 500 to 140. Other efficiency experts applied SM principles to typing and filing tasks of white-collar office workers.

What assumptions did Taylor make about workers’ skills and motivation? Why was the pure form of SM ultimately rejected by firms as counterproductive and basically unworkable?



Fordist Production Systems

In 1913, Henry Ford adapted the moving assembly line to mass production of Model T automobiles in Highland Park, Michigan.



- Conveyor belts brought units together with precise timing. By 1927, a new Model T every 24 seconds.
- Ford paid his employees \$5 per day in 1914, double the industry rate, so workers could afford to buy his cars. Ford's share of the U.S. automobile market jumped from under 10% in 1908 to 48% by 1914.

“Fordist” production systems earned high profits using:
Large, semi-skilled & docile workforces
Mass-produced, standardized, cheap commodities
Scientific management of assembly (Taylorism)
Worker consent & loyalty bought with high wages



Fordism helped to generate America's middle-class prosperity through the mid-20th century. By 1970s, stagnant growth and market globalization squeezed corporate profits, leading to searches for higher productivity.

Japanese management systems used flexible, “lean production” that emphasized workers' participation in producing high-quality commodities.

Japanese Factory Management

In 1950s, Taichii Ohno formulated a **Just In Time** Japanese management “philosophy,” a.k.a. Toyota Production System



Components & products should flow through the factory only at the exact times when needed for assembly. By eliminating waste, JIT can cut inventory warehouse costs, reduce waiting time, and deliver products quickly to customers. JIT is highly productive for manufacturing high-quality, customized goods in small batches.

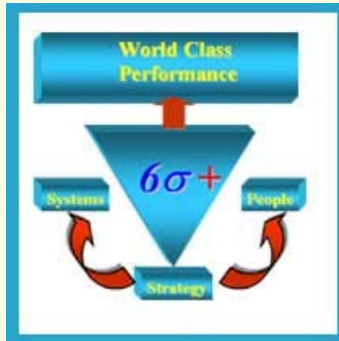
Just In Time Features

- Managers consult with workers to encourage cooperation, not confrontation
- Hold regular (daily/weekly) employee meetings to discuss work practices
- Collectively solve bad practices & waste, rather than covering up problems
- Modify production machinery & shop floor designs to reduce setup time
 - **Kanban:** uses paper cards to “pull” products through the factory
 - **Andon:** cords or lights to halt assembly line when defects spotted
- Reduce buffer stocks of parts & material, thus taking away security blanket of large inventory (“Just In Case” production philosophy used by the West)

Quality: Fads and Fashions?

A quality movement began in 1950s when gurus W. Edwards Deming & Joseph Juran found more receptive audiences in reconstruction Japan. Kaoru Ishikawa used small Quality Circles to self-criticize and change costs, safety, productivity. By 1980s, desperate American corporations began to adopt these techniques.

Japanese quality principle is called **Kaizen** = “continuous improvement”



“Kaizen means improvement. Moreover it means continuing improvement in personal life, home life, social life, and working life. When applied to the workplace Kaizen means continuing improvement involving everyone - managers and workers alike.”

Masaaki Imai. 1986. *Kaizen: The Key To Japan's Competitive Success*.

Quality “best practices” everywhere focus on systematic, integrated, consistent, org-wide involvement in all production & service aspects:

- TQM – execs & workers must meet their customers’ expectations
- ISO 9000 – certificates of international manufacturing standards
- Six Sigmas – reduce error rate to less than 3.4 defects per million
- Congress created Malcolm Baldrige National Quality Award (1987)

Gung Ho

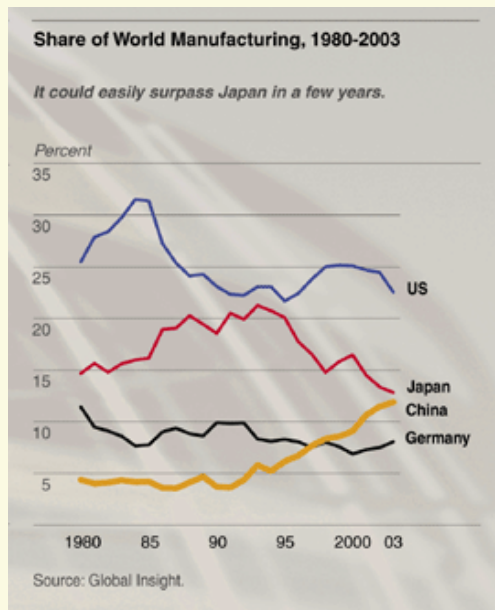


Watch an excerpt from *Gung Ho* (1986), starring Michael Keaton, George Wendt & Gedde Watanabe, directed by Ron Howard. When Keaton persuades a Japanese auto firm to reopen a defunct assembly plant in his Rustbelt hometown, the Americans have difficulty adjusting to Japanese management practices. Beneath its comedy, *Gung Ho* (“Work Together”) makes some serious points.

- ▶ What examples of Japanese management practices?
- ▶ What are the differences in attitudes of Japanese managers and American workers about the importance of teamwork in factories?
- ▶ Are these Japan-USA workplace differences based mainly on their national cultures, or on organizational cultures?
- ▶ Suggest some practical steps that Japanese managers could use to overcome American workers’ resistance to changing Fordist production practices. Why would they likely succeed?

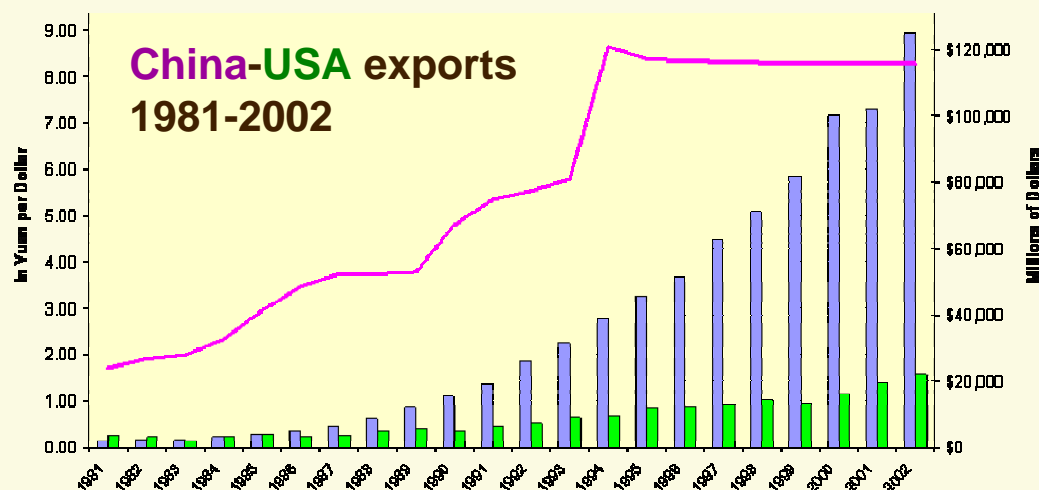
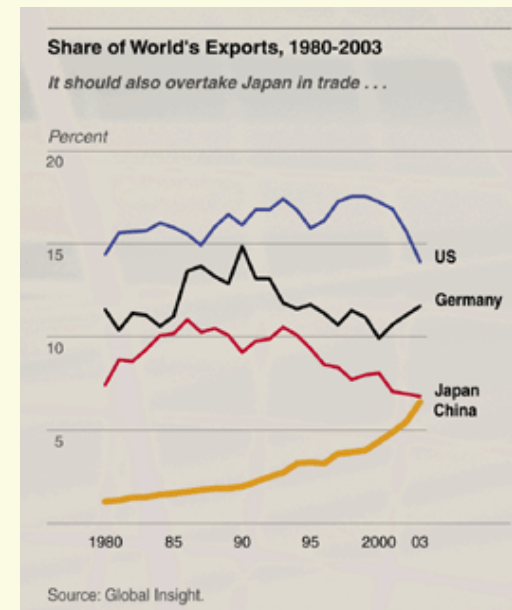
China's Transitional Economy

In 1978, allegedly saying that “to get rich is glorious,” Deng Xiaoping launched PRC’s Open Door policy to create hybrid “market socialism”



China's take-off to sustained growth was hugely successful. In 2003, PRC became world's 2nd largest economy (by World Bank's purchasing power parity measure - a basket of goods):

| | |
|---------------|-----------------|
| United States | \$10.3 trillion |
| China | \$ 5.8 trillion |
| Japan | \$ 3.4 trillion |



China's Great Transformation

Disasters of Great Leap Forward (1958-60) & Cultural Revolution (1966-76) delegitimated Party bureaucracy & enabled technocrats to gain more power. Although technocrats blocked patrimonial capitalism, the Communist Party constrained technocrat-intelligentsia implementation of more liberal policies.



Peasants produced for the market and agricultural production shot up. Foreign direct investments poured into special economic zones as coastal cities boomed.



A divided elite structure has emerged within the PRC – prestigious administrative positions in the state bureaucracy & high business-professional positions – with substantial career circulation of elites.

But, the Chinese Communist Party remains unwilling to cede political power to the technocrat-intelligentsia alliance. Severe repressions, beginning with the Tiananmen Square demonstrators (1989), reveal the power elite's limits on permitting democratic political changes.

Chinese Management

Warner's intro to an edited volume gives an overview of the many facets of Chinese management practices under Open Door policy.

How much convergence toward Western or Japanese management?



State-owned Enterprises (SOEs) account for decreasing share of industrial output, while collectively & privately owned businesses are driving China's market-based economy.

PRC Human Resources Management (HRM) & Industrial Relations

- ✓ Group-based incentives and performance evaluations
- ✓ Narrow wage-gap between workers & managers
- ✓ “Iron rice bowl” (lifetime employment) being phased out
- ✓ “Co-operative & harmonized labour management relations”
- ✓ Tripartite consultation (2001) keeps unions & trade associations under tight control by the Party, blocking any “true social dialogue”

Guanxi Networks in China

“*Guanxi* generally refers to relationships or social connections based on mutual interests and benefits ... a special type of relationship that bonds the exchange parties through reciprocal exchange of favours and mutual obligations.” (Lee et al. 2001:52 quoted in Parnell 2005)



Guanxi networks are based on strong ties of blood/marital loyal relations or social identities (“classmates”). Chinese gain “face” by knowing how to act appropriately. Outsiders can enter when a mutual friend vouches.

Guanxi networks facilitate economically efficient exchanges in a fragmented, weak-rule-of-law society. They can be used to find a job, get a promotion, start a business, form a strategic alliance ...

Chinese culture views the *guanxi* **obligation** to reciprocate as ethical behavior, not as a “using” relationship. But, *guanxi*’s dark side is its potential for relations to cover-up **corrupt transactions**.

Chinese *Guanxi* vs. Russian *Blat*

Why did China prosper while Russia's new market economy collapsed?
Hsu identifies the differing impacts of Chinese *guanxi* and Russian *blat*.



“... both practices involved obtaining scarce goods and services through ‘friends’ by exchanging ‘gifts’ and favors. ... the binding **obligation** that results from [‘unconditional’ gifts] was the central principle which allowed the practices of *guanxi* and *blat* to function.”

Guanxi is rooted in Confucian cultural morality of dyadic relations.
Soviet *blat* was elite-insider dealing, considered anti-social & unfair.

Blat – which lacked *guanxi*'s moral foundations – deteriorated into blatantly corrupted use of bribes.
Did *blat* pave the way for post-Soviet “oligarchs” (elites) to plunder the USSR's public resources?

Russians' reliance on personal friends & distrust of strangers limited entrepreneurial activity, in contrast to Chinese openness to starting new businesses.



Build a *Guanxi* Network in China

“The stranger, the ‘outsider’, for example, a (foreign) potential business partner, has to undergo a gradual induction process, imbibing the ‘rules of the game’, to become a member of the inner circle or its equivalent, of family and close friends. ... it may be short-circuited by employing an intermediary with ‘face’ ... but success is not guaranteed.” (p. 31)



Your organization, MINN-Widgets, wants to enter the lucrative Chinese market for widgets, but must find business partners from both the private and the state-owned sectors.

Small groups discuss how to build a lasting *guanxi* network:

- ✓ What kinds of go-betweens/brokers should you seek?
- ✓ Who has technical and culture knowledge useful to M-W?
- ✓ How could you get their help, support, protection without losing “face” in this politically sensitive environment?

Shorter Writing #5

Guanxi relationships are indispensable for creating networks, building trust, and reaching out in China's new market economy. Discuss Hsu's explanation of its "capitalism without contracts":



What specific elements of *guanxi* practice are based on traditional Chinese philosophical and moral worldviews?

How did "modularization" of *guanxi* help support the PRC's transition to a market economy despite the absence of strong capitalist institutions?

In particular, what was the importance of *guanxi* in fostering vigorous Chinese entrepreneurship?

GUANXI CHINA

信息及娱乐 INFORMATION & ENTERTAINMENT

DUE in class Thursday, November 8

PAPER SPECS: **Maximum word limit = 500**, typed double-spaced with one-inch margins, 12-point Times Roman font. Include your name and student ID, Assignment #, and "Word Count = 000"