1. Introduction

> So it is said that if you know others and know yourself, you will not be imperiled in a hundred battles; if you do not know others but know yourself, you will win one and lose one; if you do not know others and do not know yourself, you will be imperiled in every single battle. (Sun Tzu, *The Art of War*)

> Ability to know people: knowing the character of people will ensure the soundness of your accounts. (Tao Zhu-gong, the First Business Principle)

WHO WILL WIN AND WHO WILL LOSE?

Sun Tzu and Tao Zhu-gong were Chinese who lived 2500 years ago. Sun Tzu was a master military strategist. His short book *The Art of War* rests on the shelves of military leaders around the world today. It also rests on the shelves of a great many Asian business executives. Tao Zhu-gong, an advisor to the Emperor of Yue, retired and became a fabulously successful businessman. His *12 Business Principles*, with the later addition of *12 Business Pitfalls* and *16 Business Lessons*, has also proved enduringly popular. Sun Tzu's most famous epigram reads, 'If you know others and know yourself, you will not be imperiled in a hundred battles.' And in business, Tao Zhu-gong's First Business Principle is, 'Ability to know people: knowing the character of people will ensure the soundness of your accounts.' You may know yourself, your own firm, its strengths and its weaknesses, but do you know the strengths and weaknesses of your enemy, your competitor? And, do you know the strengths and weaknesses of your supplier, your customer, your joint venture partner, or of your potential employer? Today, your competitor, supplier, customer, joint venture partner, or employer may be Asian. In the near future they almost certainly will be. Are Asian firms different? What do you need to know about them to ensure success?

Large numbers of widely distributed books warn Westerners of the pitfalls of dealing with Asian firms. Asian firms, it is said, are unreliable allies, and particularly dangerous competitors. Some say this is because Asian minds work differently from Western minds.[1] Some say it is because Asian societies work differently, because the rules of 'the ancient game of "Tilt", as practiced in Asia' are different from the West.[2] Some say it is because

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Asian firms work differently, because Asian firms are 'natural organizations' that take advantage of the 'primary facet' of oriental philosophy, 'the idea that the universe is constantly changing'.[3] A parallel popular literature exists in Asia. Along with Sun Tzu's *Art of War* and Tao Zhu-gong's *12 Principles*, many Asian executives have read another Chinese military classic, *The 36 Stratagems*. Japanese executives may also have read the work of legendary samurai swordsman Musashi Miyamoto, *The Book of Five Rings*, and the so-called '*ninhonjinron*' books that try to identify the essence of the Japanese. Similarly, 'Neo-Confucian' works that emphasize the unique features of Asian societies are popular in Korea, Taiwan and Southeast Asia.

Globalization is having a dramatic impact on international business, and corporate governance therefore has become one of the main issues facing those who wish to succeed in the new international economy. To put it more bluntly, who will win and who will lose? Until 1997, many academic analysts agreed with the popular writers. They believed that Asian firms were winners, and that they were successful because they differed from Western firms. With the onset of the Asian crisis, opinion swung the other way, and Asian firms were accused of systematic weaknesses in their governance structures. 'Reform' of Asian corporate governance currently means movement towards a more 'Western' model.[4] Fashion changes, and we can predict that as Asian economies continue to grow there will be another shift in the wind of opinion. However, the question remains, whether it is true that Asian firms are different, and if so, why? More important, if there are differences, are the differences relevant? Is there anything Western managers can learn from Asian firms, or Asian managers from each other? A useful answer requires us to look at both the internal dynamics of Asian firms, and the external contexts in which Asian firms have found themselves.

Tao Zhu-gong's Twelfth Business Principle is the ability to be far-sighted. Sun Tzu said that a commander must adjust strategy to accord with the distinctive features of the terrain. This book revolves around a series of national studies of Asian business systems. We will examine the internal structures and operations of Asian firms, and relate them to their specific historical and cultural situations. We will ask not only how Asian firms differ from Western firms, but also how they have developed over time and how they differ from each other. We will also ask what it is in general that 'Western' managers are supposed to do to manage effectively, how Asian firms diverge from those norms, and whether the differences lead to better results for Asian firms.

We look first at the origins and development of the Japanese firm and the *keiretsu* or groups of large firms. The Japanese 'model' was often recommended both to Westerners and to other Asians during the period of

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Japan's rapid growth. Over the past several years the slow growth of the Japanese economy has led many to question the effectiveness of Japan's corporate structures. What changed, and what can we learn? We then consider Korean firms and especially the large *chaebol* groups, and again look first at the period of spectacular successes, and then at the problems that emerged in the aftermath of the 1997 crisis. China will become the world's largest economy some time during the third decade of this century. We look at the variety of forms of Chinese corporate governance, the traditional 'Confucian' firm in mainland China and its successors in Hong Kong and on Taiwan, and the new forms that have emerged in the People's Republic during the period of reform and opening since 1978. Southeast Asia is a fabulous region of opportunity as well, and so finally we look at the different sorts of Southeast Asian firms in Thailand, Malaysia, Indonesia and the Philippines, as well as Singapore and the 'bamboo networks' of overseas Chinese.

In each case the specific historical background factors are set in the context of general management theory. All managers manage. All managers engage in planning and decision making to determine their firm's overall strategy. All must then organize resources in pursuit of their goals. This means they must lead, convince and inspire their employees to contribute to the firm's success. All managers must then control and monitor outcomes to ensure that assigned tasks have been completed.[5] However, not all managers manage in the same way. Managers' approaches to planning and decision making, organizing, leading and controlling, differ from one country to another. Firm structures vary. Values also differ. We need to ask for instance what role religious belief plays in management behavior.

Managerial decisions are constrained by inherited structures and present conditions. We trace the historical origins of the dominant type of firm in each country, and consider its typical internal structure. Each has its characteristic strengths and weaknesses. There typically has been one of Tao Zhu-gong's principles that seems to have led managers to success in each country, and there is frequently one of the Sixteen Lessons that appears particularly appropriate. The Korean *chaebol* groups, for example, have been led by chief executives who exemplify Tao Zhu-gong's Eleventh Business Principle, the ability to initiate and lead by example, and his Sixteenth Business Lesson, that the leader must be steady and calm. But in addition there often has been one of the Twelve Business Pitfalls that has plagued managers and led firms in that country into difficulties. In Korea, as we will see, it is the Eighth Business Pitfall, 'Do not be greedy for credit', that has been the trap into which Korean firms have fallen.

And not all managers manage exactly as they please. External operating environments differ as well. Asian states have played a large role in the

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economy, and therefore we need to pay particular attention to the relationships between private firms and government agencies. At this strategic level Sun Tzu's dictates seem most appropriate, and again each country seems to have its characteristic features. 'Therefore measure in terms of five things,' said Sun Tzu, 'the Way, the weather, the terrain, the leadership, and discipline.' And in the Korean case we find indeed that 'Leadership is a matter of intelligence, trustworthiness, humaneness, and sternness.' But we also will see that the most effective leadership during Korea's period of rapid growth came from the state, and especially from President Park Chung Hee himself, and that the absence of a strong and effective President has significantly altered the environment.

THE HISTORICAL, INSTITUTIONAL AND MANAGEMENT GRIDS

All firms in all countries must respond to a complex and shifting environment. Sun Tzu suggested that commanders should vary the direction of attack. We can approach the position of any firm from three directions, or rather, we can think of the position of any firm as the intersection of three sets of influences, or grids. The *historical grid* identifies factors inherited from the past, including ongoing cultural patterns, but also memories, both direct personal experience and the national histories taught in school systems. The *institutional grid* identifies the factors impinging on the firm in its present environment, most obviously the relations between private firms and public agencies. The border between public and private varies among countries and over time, and in Asia especially it can be blurred and indistinct. The *management grid* identifies the ways in which firms respond to opportunities. Any firm's actions will always be constrained by its 'administrative heritage', the outcome of its organizational history and its management culture.[6] In addition, however, as we will see, a firm's actions are further constrained by its position embedded in its nation's historical and institutional grids.

The Historical Grid: Modernization, National Values, Stages of Development and the World Economy

Every society's history is unique, but all societies have some features in common. Much of the discussion of Asian development rests on a definition of 'modernization' based on the work of sociologist Talcott Parsons.[7] Parsons believed that societies developed from 'traditional' to 'modern' along a continuum with four dimensions:

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- *From* 'particularist' *to* 'universalist' in value orientation. Members of 'traditional' particularist societies assume no one outside their society is capable of being civilized, and that different groups have their own particular values, which are appropriate to their class; for instance peasants, nobles, or merchants. 'Modern' universalist societies assume a single set of values applies to all societies and to all people within all societies.
- *From* 'functionally diffuse' *to* 'functionally specific' in the degree of specialization of social roles. In a 'traditional' society, the same group of people may exercise religious, political and economic power. Or, in administration, a single official may be responsible for the entire range of government activities in a district, as in the case of Chinese scholar officials. In a 'modern' society, elites are specialized, and government officials have only one 'function', for instance tax collecting or child welfare.
- *From* 'affective' *to* 'affectively neutral' in emotional tone. Affective means you care about people you meet as persons, but in a 'traditional' society it also means you care about some people more than others, for instance whether a customer is male or female, a member of the nobility, or a member of the same ethnic group as the shop owner. Affectively neutral means you do not care about a person except insofar as they are useful to you. For a shop owner in a 'modern' society, all customers are alike, so long as they can afford the goods on display.
- *From* 'ascription' *to* 'achievement' orientation. Ascription means you 'ascribe' certain characteristics to a person, based on their membership in a class, religious, or ethnic group. Members of your own group, or members of high-prestige groups, are automatically valued more highly than members of other groups. Achievement orientation means a person is valued on the basis of individual accomplishments. This means that 'modern' organizations do not hire someone because of their race, religion, or family connections, but only because they have the best qualifications for the job.

Parsons envisaged every society as a balanced system in equilibrium. The social system adjusts to external shocks by developing new, specialized institutions, and their operation then forces additional adjustments in social structures and the accompanying social roles. Parsons, and his influential students such as Neil Smelser, considered economic change to be the main force moving societies from traditional to modern. Therefore it was their long history of dynamic economic growth that had set Western Europe and the United States apart from the rest of the world and led to their rise to dominance in the nineteenth and twentieth centuries.[8]

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The most common reason advanced for the development of Western Europe and the United States was their distinctive values, and in particular religious values. Modernization theorists frequently relied on the work of German sociologist Max Weber, one of the founders of modern sociology and the pre-eminent theorist of the relation between religion and economic development, whose major works were translated into English in the 1950s. In *The Protestant Ethic and the Spirit of Capitalism*, originally published in 1904–5 and in fact translated by Parsons himself in 1958, Weber argued that the Protestant Reformation in the sixteenth century had supported the rise of capitalism and led to the subsequent higher levels of development in the predominantly Protestant countries of Northwestern Europe. In Southern Europe, in contrast, Catholic values had not supported capitalism, and development had been retarded. In *The Religion of China*, originally published in 1920–21, shortly after his death, Weber developed a parallel argument that Confucianism had hampered the emergence of capitalism in China, and therefore was responsible for China's economic backwardness.[9]

Weber has exercised an immense influence across the social sciences, and we will look at his arguments in more detail in Chapter 4, but both he and the modernization theorists were products of their times. As of 1905, all the Protestant countries of Europe were wealthy and developed capitalist societies, and the Catholic countries were mostly poor and underdeveloped. Asia appeared hopelessly backward to Western observers. A half-century later, in the 1950s and early 1960s, when Parsons and his followers produced their major works, it still made a certain amount of sense to look for underlying reasons for the disparity in development between Northwestern Europe and Southern and Eastern Europe, and between Europe and Asia. However, by the late 1960s, Southern and Eastern Europe had also become fully industrialized societies. Therefore the long-term impact of religious differences lost relevance, and discussion of the role of Protestantism disappeared from studies of European economic development. There are some management studies that continue to trace a connection between Protestantism, individualism and entrepreneurship.[10] However, it would be broadly correct to say that today no historian of Europe would argue that Protestantism caused the rise of capitalism, or that Catholicism caused Southern European backwardness.

Meanwhile, by the 1980s, the rise of Asian economies had inspired some to reverse Weber's arguments. In a famous article in 1988, Geert Hofstede argued that those teachings of Confucius that were oriented towards the future, what he called 'Confucian dynamism', explained the exceptionally rapid economic growth of certain East Asian economies over the previous two decades.[11] And, as we will see, so-called 'neo-Confucian' scholars argued in opposition to Weber that Confucian values were positively related to

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economic growth. Others moved even further, and began to insist that Asia's rapid economic growth rested on unique 'Asian values' that differed from 'Western' values, and therefore that there was no need for Asian societies to change in the ways predicted by modernization theorists. And if this is the case, then Asian firms may continue to differ from Western firms as well.

The Asian historical grid does possess distinctive features, and anthropologists and sociologists have indicated many ways in which cultural differences may affect behavior. In management theory this perspective underlies studies of varieties of capitalism.[12] If American, English, French, and German managers differ from each other, then we might also expect that they would differ from Asian managers, and that Asian managers would also differ from each other.[13] But we need to be careful not to overdo this. Historians today are very skeptical of explanations that rest on unchanging cultural factors, such as Asian 'tradition' or 'Asian values'. These are more likely to be myths propagated by politicians rather than factors directly influencing the managers of firms.[14] In the case of Confucian values, for example, among the Chinese students I have taught, no more than a handful have been able to name the fundamental five relationships of parent to child, husband to wife, older brother to younger brother, ruler to subject, and friend to friend.[15] In addition, as has been frequently pointed out in the discussion surrounding the work of Michael Porter, it is individual firms that compete in the marketplace, not nations.[16]

Nevertheless, it is true that what one believes about one's own national traditions can influence behavior. For example, the actual degree of concentration in large-scale industries does not in fact vary much from one highly industrialized country to another, nor does the general structure of most large organizations, and governments in all countries intervene in the economy more or less continuously. But the work of Alfred Chandler and others shows that the approaches of German, British, and American managers vary. German managers believe themselves to have a history of formal cooperation under state guidance, British managers believe themselves to cooperate informally with each other and with government officials, and American managers believe themselves to be intensely competitive and hostile to state interference, and these beliefs affect their actions, even when there is little or no objective reason for their behavior to vary.[17] Similarly, although Chinese students say for instance that they would not hire someone solely because of personal relationships (*guanxi*), they do believe that 'Chinese' firms often rely on *guanxi* to achieve their goals, and there is little doubt that this expectation will influence their own behavior.[18]

In addition, there are some historical factors that are common to all countries throughout the world. These have influenced the development of business structures both in the West and in Asia. Firstly, there is a series of

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stages of industrial production and exports that all developed economies have passed through in turn:

- The first stage of industrialization typically sees the expansion of textiles, clothing, consumer goods and, more recently, electronics assembly.
- In the second stage industrial expansion is led by iron, steel, basic chemicals, and heavy machinery.
- In the third stage the industrial sector shifts towards higher quality machinery, advanced chemicals and, more recently, production of electronics components for assembly elsewhere.
- In the fourth stage firms in the advanced countries concentrate on the design, coordination, and marketing of manufactured goods, and these countries also become centers for the provision of financial services such as banking, insurance, and investment.

Secondly, economic fluctuations determine the opportunities available in any period. Since the mid-nineteenth century the world economy has passed through several generation-long cycles. Buoyant upswings powered by investment in major leading sectors have been periods of relatively rapid growth in world trade, and they have also been periods of relatively rapid expansion of the supply of money. The intervening decades have been much more difficult periods of downswing or low growth. These have also typically been periods of slower growth in trade and of monetary deflation, although interspersed with episodes of inflation (the 1970s in the United States and Europe) and even hyperinflation (Germany in 1922–23). The cycles have been the following:

- 1850–1873, an upswing, a long boom driven by investment in railways, facilitated by a rapid growth of credit, and accompanied by a series of treaties that substantially reduced trade barriers.
- 1873–94, a downswing, the ‘great depression’ marked by slower growth in money supplies, declining prices, and new protective tariffs that hampered trade.
- 1895–1914, an upswing, the ‘second industrial revolution’ in machine tools, electricity, and chemicals, but also with heavy investment in urban development, aided by more rapid increases in the money supply, and rapid growth in world trade.
- 1918–39, a downswing, with postwar inflation followed by stabilization, deflation, and another ‘great depression’ in the 1930s, much lower levels of investment than before 1914, and competitive tariffs and quotas that choked trade.

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- 1945–1973, an upswing, the 'golden age' of rapid growth, as families in the United States, Europe, and Japan acquired automobiles and other consumer durables for the first time, and world trade boomed under the General Agreement on Tariffs and Trade (GATT).
- 1973 to the mid-1990s, a downswing, with rates of growth less than half those of the golden age and periodic severe recessions, lower levels of investment, the period of 'stagflation' in the 1970s followed by increasingly restrictive monetary policies, and disputes over market access and non-tariff trade barriers.[19]

The 1990s were mixed. The United States grew more rapidly than in the previous two decades, but Europe in general did not. In Asia, China continued to expand, and South Korea and Southeast Asia boomed until the crisis of 1997, but Japan grew very slowly. The expansion of the United States in the second half of the 1990s was powered by information and communications technologies, but following the collapse of the 'dot-com boom' the economy slumped in the early 2000s, and whether the 'new technologies' will trigger another upswing remains for the future to reveal.[20]

The current situation of Asia can be placed in this perspective. Management in an era of slow world growth differs from management in an era of upswing, and Asian managers therefore face greater challenges than for instance United States managers in the 1950s and 1960s. Management also varies depending on a country's current stage of development. Asian economies differ in experiencing the difficulties of transition from one stage to the next. Japan needs to move from the third to the fourth stage, from advanced production to design and provision of services. South Korea needs to move from the second to the third stage, to more emphasis on high-end production. Southeast Asia needs to move from the first to the second stage, away from simple manufacturing based on low labor costs. China is still moving into the first industrial stage, but its sheer size means that different regions may experience very different trajectories. The problems confronting managers in each of these environments therefore will differ, and we would expect their responses to differ as well.

A final question is whether Asian firms will *ever* be able to compete in the global marketplace. Peter Nolan and his colleagues, in their encyclopedic study of large-scale enterprise in China, adopt an approach similar to that of Alfred Chandler. They argue that all industries tend towards oligopoly. Large firms force intense competition and price cutting, driving out weaker competitors. They then reinforce their position through their ability to invest in research and development. These advantages, which Chandler identified as those of 'scale and scope', lead to overall technical improvements in the quality of their products and even lower costs of production.

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The resulting international oligopolies consist of only the few huge firms with sufficient economies of scale and scope to complete.[21]

We may also add that the world's leading corporations have normally enjoyed strong support from their governments, both direct and indirect. Britain maintained high tariffs and prohibited the export of machinery until the mid-nineteenth century, while refusing to allow its imperial possessions to protect their own industries. The United States subsidized strategic industries such as the railways, for over two centuries has imposed tariffs averaging 30 per cent or more, and in the current round of bilateral trade agreements has consistently refused to open its own markets to foreign competition. 'There has never been a "level playing field" in international competition, and it is doubtful whether there ever will be one.'[22]

According to Nolan the point, for China and for Asia, is the inevitable preponderance of large firms, and the overwhelming advantage of the 'first movers', the large firms of the United States and Europe. In many sectors the advantages of the major 'first mover' corporations headquartered in the United States and Europe may be insurmountable. Access to global supply chains and the massive resources they can devote to investment in research and development protect them from less well-endowed competitors. Coca-Cola may, as Nolan says, 'become more and more Asian, as East Asia's share of the global market . . . steadily rises', but the firm itself will remain American, and its Asian branches will remain dependent on decisions taken by its American headquarters.[23] Studies of the international supply chains of the 'big buyers' such as the Gap, Reebok, Price Club, and Walmart, have also suggested that Asian firms may be confined to niche roles in the global sourcing strategies of huge Western firms.[24]

These issues have not escaped the notice of Asian managers or of Asian governments. China has designated certain favored firms as 'famous Chinese brands' and in 1997 identified six that it would support in their efforts to join the group of the world's 500 largest corporations. One of them, the Haier home appliance group, fourth largest in the world, aims to produce one-third of its output in China for domestic sales, one-third in China for export, and one-third overseas for foreign sales. In 2004, a senior official at Japan's Ministry of Economy, Trade and Industry said that for Japanese firms to survive they would need an annual investment of 200 billion yen (around US$2 billion) in 'carefully chosen businesses', that 70 per cent of their sales should be overseas, and that they should command a share of at least 10 per cent of the global market in their chosen businesses. Toshiba, Sharp, Matsushita, and Canon in electronics, Daihatsu and Mazda in automobiles, and Sumitomo Metal Industries, all plan new production facilities to be located in Japan, a 'vertical integration' strategy they hope will protect their cutting-edge technologies.[25]

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In addressing these challenges, Asian managers will draw on their countries' experience. History does matter, and so do inherited patterns of thought. To understand these influences in Asian business, we need to begin in the nineteenth and early twentieth centuries, with indigenous market systems, Western imperialism, and responses to the opportunities of the world economy. In the inter-war period Japanese imperialism and the depression of the 1930s had important but varying effects. The Second World War, the defeat of Japan, the Chinese Revolution and decolonization altered the environment once again. Japan, 'Asia's New Giant',[26] shared in the world upswing of the 1950s and 1960s and the following era of slow growth of the 1970s and 1980s. Much of the rest of Asia was out of phase, with very difficult conditions through the 1960s, but then followed by the beginnings of the Asian boom, and particularly the emergence of South Korea, Taiwan, Hong Kong, and Singapore, the original 'four tigers'. The 1990s saw continued difficulties in Japan, but also the spreading boom in Southeast Asia and China, the rise of new tigers and new giants.[27] The boom was followed of course by the Asian crisis, the financial collapse of 1997, and a short, sharp recession, and then by an uneven recovery.[28]

The historical grid's influence can be seen in the self-image, preconceptions, and habitual responses of individuals raised in a distinct national environment. We need to extend our imaginations a little, to get inside the skin, for instance, of someone who is born, goes to school, lives, and works in a society traumatized by European imperialism, Japanese invasion, civil war, repeated state mobilizations leading to mass famine, and ruled by a single Communist political party, but where the economy has grown by a spectacular 8 to 10 per cent on average every year since 1978. After such a history, we can well imagine that Chinese managers might be different. Just how different is difficult to say, and indeed today in China a new generation of management theorists is debating the question of whether there is a new 'Chinese' style of management.

The Institutional Grid: Strong States and Privatization

The institutional grid is the distinctive outcome of history in each country. Governments in general, and possibly Asian governments in particular, have always intervened to influence the direction of economic development. The results are disputed. International agencies tend to view development from a market-oriented neoclassical perspective. The Organization for Economic Co-operation and Development argues that the origins of Asia's rapid growth lie in 'trade liberalization' and 'an open trade regime'.[29] The World Bank argues that, when the governments of Asia's 'high performance' economies do intervene, they do so in ways that in fact cause

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their economies to behave *as if* they were freely operating market economies.[30] In contrast, many see Asian development from a government-centered or 'statist' perspective, and argue that successful export promotion resulted from continuous and active state intervention and guidance. Asian governments have targeted particular industries and particular firms they believe to have special strategic significance. Japan is the archetypal 'developmental state'.[31] In addition, Taiwan and South Korea have probably been cited most often as the Asian states in which the government agencies responsible for economic development have possessed the characteristics necessary to foster rapid growth.[32]

We need to understand this institutional context. It is especially important to examine the relations between government and business. Although experts continue to debate the impact of government policy, it remains true that the state, and the relationship between the state and the private sector, always establish the framework for business decision making, a point emphasized for instance in the work of Richard Whitley.[33] Many Asian states are 'strong' states that attempt to control the direction of economic development.[34] The Japanese 'system' has been influential as a model in a number of other Asian countries. The essence of the Japanese system is often taken to be the 'iron triangle' of bureaucrats, business executives, and politicians.[35] As in the case of Asian values and cultures, the claims made for the Japanese or other institutional systems such as 'the Korean way' need to be subjected to a critical examination. Asian governments do not always succeed, but their desires are a fact of business life that both local and foreign managers must recognize. Another generalization that holds generally across Asia is the relatively high degree of respect and prestige enjoyed by government officials. They may not in fact be as competent or as effective as they believe themselves to be, but these status relationships are another aspect of the institutional environment that affect the conduct of business.

Governments in general, and again possibly Asian governments in particular, have exercised especially strict controls over the banking sector. Asian governments frequently direct their banks to lend to preferred sectors, industries, or firms. The directions are often confidential, and the relations among government officials, bankers, and borrowers are often not transparent. Banking analysts universally disapprove of non-transparent directed lending.[36] In contrast, numbers of economists argue that government directed lending can contribute to accelerated economic development.[37] Again, the point is to understand these crucial relationships because they set the terms on which business can obtain working capital. Therefore we will consider the development and structure of the banking system in each of our studies.

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Firms differ in size, but not the same way in every country. It is important to identify the role of large firms, the position of small firms, and the relations between them in each country. Japan's giant firms, for instance, sit atop dense pyramids of hundreds or even thousands of medium and small firms linked vertically and horizontally by longstanding relationships as allies, suppliers, and subcontractors. Korea's *chaebol* groups in contrast typically have attempted to provide their needs in-house or through specialized subsidiaries. The strengths and weaknesses of both systems may provide insights that can be applied more generally.

Government policy always sets the terms on which firms can operate, how large they can become, and how they interact. Asian governments in the 1950s and 1960s frequently pursued policies of 'import substitution' that favored domestic manufacturers. Foreigners were often excluded from broad sectors of the economy, and governments established large state enterprise sectors. Over the next two decades many of these same governments embraced policies of 'export orientation' that encouraged foreign manufacturing firms to settle, sometimes in special economic zones, but many restrictions on foreign investment remained. From the 1990s onward, Asian governments have pursued programs of deregulation and privatization of state enterprises. New areas have been opened to foreign investment, and domestic firms have been encouraged to 'modernize' their structures through enforced compliance with new standards of corporate governance. However, areas that governments perceive as of strategic importance may be reserved for locals, the incidence of taxation may favor them, or the legal system may support them in disputes. Alternatively, governments may encourage foreign firms to settle with special deals that in fact discriminate against local firms.

Government policy reaches over into social relations as well. In Southeast Asia we need to look at ethnic divisions among firms, especially the position of firms owned by the minority of ethnic Chinese. 'Chinese' firms dominate across broad areas of Southeast Asian economies, but their structures, and their relations with their suppliers and customers, have been conditioned by the hostility of the surrounding majority populations. Prejudice has periodically erupted in tragic violence, and has frequently been institutionalized through the legal system. Their need to adapt and protect themselves has had an ongoing influence on the conduct and structures of ethnic Chinese firms. For example, in Malaysia, ethnic Chinese believe that they will lose any court case they enter against a *bumiputra* or Malay firm, and they knew until changes announced in 2003 that 55 per cent of university places were officially reserved for *bumiputra* students. They may therefore hesitate to deal with a Malay firm, and many families send their children overseas for their education. A working knowledge of

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these sorts of relationships, the 'system' or 'the way things work here', is essential to success, for locals and foreigners alike.

The Management Grid: Planning and Decision Making, Organizing, Leading and Controlling

The management grid suggested here is an amalgam of approaches to firm governance. If we ask how firms are supposed to operate, it is generally accepted that the standard neoclassical model suffers from severe weaknesses. Firms do not always exist in competitive markets, and they do not always produce the economically optimum output with the economically optimum mix of inputs. Theorists have taken new approaches to address these problems, including transactions costs analysis (how much does it cost to acquire information?), agency models (how can an employer extract maximum effort from an employee?), property rights approaches (how much does it cost to enforce a contract?), and studies of firm competencies (how does the firm identify and manage its own resources?).

Management texts ask how successful firms operate. They concentrate on the four overlapping functions of management identified above, planning and decision making, organizing, leading, and controlling, and attempt to define the best or most effective approach to each.[38] However, the firms they describe are Western firms, European or, more likely, American. They do not look much like Asian firms at all.[39] Further, Asian firms differ from each other in significant ways. This is sometimes taken to mean that they should 'modernize' their structures, that is, that they should become more like Western firms. However, Asian firms have often been extremely successful. Of course it may be that these successes are merely exceptions to the general rules. But it also might be that when successful Asian firms deviate from the theoretical norms, this could mean we have to change our theory.

Most Western management texts, for instance, do not take into account the very different treatment of men and women across industries and within firms. Much of what women do does not appear in conventional economic accounts at all. Professions dominated by women are relatively poorly paid, and the 'feminization' of a profession means it will slip downward in the relative rankings. Consistently women are paid less than male colleagues in the same or similar jobs. Most women in most firms are confined to the lower levels, and women in management bump against the 'glass ceiling' when they aim for senior positions. But these factors drop from view when 'management' in general is the theme.[40] In a number of Asian countries gender differences are not only more obvious, but also explicitly defined by custom and sometimes enforced by law. Appreciation of these differences

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not only allows us to understand better how Asian firms operate, but also leads us to reflect on the unstated assumptions that guide much of Western management behavior.

The following chapters assume, not that there is a single 'best' way of managing, but that managers from different backgrounds will manage differently. Each of the chapters therefore asks how the functions of planning and decision making, organizing, leading, and controlling are fulfilled in each country, how this differs from the prescriptions of Western management theory, how well it works, and why. There are general principles of planning and decision making. Decision makers need to identify the problem, they need to generate alternative solutions, they need to evaluate and choose an alternative, and of course they must implement and monitor the chosen solution. However, although Sun Tzu has much to say about appropriate decisions, he is silent on the way in which a commander finally reaches a decision. Tao Zhu-gong recommends leading by example while enforcing discipline and high standards (the Eleventh Business Principle), but he too is silent on the way this goal might be achieved.

In fact there is considerable dispute over the way in which decisions are actually made in Western businesses. Decision makers may be rational, or not. Prejudice may influence decisions. Entrepreneurial 'founders' may make decisions by insight, and their successors may inherit their ability, but most likely they will not. The successful founder may leave behind a large firm. Large firms are by definition bureaucratized, but the forms vary. All suffer from problems of balance between hierarchy (top-down control) and coordination (cooperation of parallel elements). Within such firms, even if they are rational, decision makers may have their ability to be rational constrained or 'bounded' by inadequate information, search costs, time limits, or inaccurate perceptions. They may 'satisfice' rather than optimizing, making decisions that seem to be satisfactory but not searching for the best solution. They may be 'incremental' and make the smallest or least disturbing response to problems. Or indeed they may be essentially random in their response to new situations.[41]

Each of the following chapters focuses on the ways in which firms' responses may be conditioned by historical factors and by contemporary institutions, and each focuses on those aspects of firm governance that appear to be distinctive, that is, those that differ from the forms suggested by Western management theory. The structures of Asian firms have themselves sometimes generated myths, of 'systems', 'values' and 'models'. But there are differences in management, in recruitment of senior executives, and in their modes of operation, particularly the role of family and personal connections. Labor relations also differ. Although many Asian firms appear paternalistic, the forms of paternalism vary dramatically. As noted

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above, within firms the gap between men and women appears especially wide in Asia, but again the impact of gendered perceptions varies. As also noted above, relations between large and small firms, and relations between domestic and foreign firms, differ as well. Patterns of technology transfer can vary, for example, depending on whether the foreign partner is from the United States or Europe, from Japan, or from one of the newly industrializing countries within Asia itself.

We would like to know the prospects for Asian firms in an era of globalization. To judge this we need to take the broad approach to corporate governance, and not only examine owners, managers, and workers, but also suppliers, customers, and markets, community structures, and government involvement in the economy. Firms differ, and national traditions differ, but times change. Tao Zhu-gong's Third Business Principle is 'Ability to focus on the business: forgoing the old for the new is the curse of many businesses', but his Eleventh Business Pitfall is 'Do not ignore changing business conditions', and the Twelfth Business Pitfall is 'Do not over-rely on current products.' A distinctive approach may succeed in one decade and fail in the next. The perspectives of domestic and foreign observers also differ. Views of Asian firms have changed over time. In addition to telling the historical, institutional, and management stories, therefore, each of the following chapters also considers the variety of experience in case studies arranged as 'point and counterpoint' to highlight these changes. We need to see both the point and the counterpoint. Only then can we begin to appreciate how it might feel to be embedded in a different framework, and how that framework might shape action.

FURTHER READING

Translations vary widely, and everyone has their own favorite. The quotations I include from Sun Tzu's *The Art of War* are from the translation by Thomas Cleary (Boston and London: Shambhala, 1988), which I believe combines clarity with literary sensitivity. Cleary emphasizes the difficulties arising from the ambiguities of all classical Chinese texts, and *The Art of War* is no exception. There are many points that are allusive or simply obscure. Cleary emphasizes Sun Tzu's connection to the Taoist tradition in Chinese philosophy, especially the idea that the highest achievement of a general is to gain victory without fighting. Cleary also includes remarks drawn from a standard collection of 11 commentators usually associated with the text. There is a pocket edition (Boston and London: Shambhala, 1991).

There are a number of other translations. An older version by Samuel B. Griffith (Oxford: Oxford University Press, 1971), with a foreword by military

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specialist B.H. Liddell Hart, takes the straightforward approach that Sun Tzu's essays 'might well be termed the concentrated essence of wisdom on the conduct of war'. Griffith includes a somewhat different selection from the commentators. More recently The Denma Translation Group has produced a polished literary version (Boston and London: Shambhala, 2002). They indicate which portions of the Chinese text are rhymed couplets, for instance. Their translation embodies an explicit philosophical approach. The Sun Tzu, they say, 'invites us to enter its teachings fully. When we do so, we find we come naturally to the same insights that are contained within its text.' For them the text 'shows how we can work with conflict both within and outside ourselves'. They omit the standard commentators, including instead their own interpretive essays and directing the reader to their website, www.victoryoverwar.com, for ongoing discussion.

In addition, numerous authors have used Sun Tzu as a framework for books on business management. Donald G. Krause, *Sun Tzu: The Art of War for Executives* (London: Nicholas Brealey Publishing, 1996), for example, is not a translation, but rather a work 'designed to help the modern business reader use the material in everyday business situations'. Krause divides his text into quasi-Biblical numbered verses. There are scattered quotations, or 'insets', intended 'to give the reader a flavor for the original text', but the 'major interpretation' rests on 'the ideas of modern business thinkers'. Krause mentions Tom Peters, Peter Drucker, and Warren Bennis explicitly, and it is clearly the ideas of Western management theorists that are being presented. Other popularizations include Khoo Khen-tor, *Sun Tzu & Management* (Malaysia: Pelanduk Publications, 1997), Mark McNeilly, *Sun Tzu and the Art of Business: Six Strategic Principles for Managers* (new edition, Oxford, 2000), Gary Gagliardi, *The Art of War – Plus – The Art of Management* (Seattle: Clearbridge Publishing, 2000), and Gerald A. Michaelson, *Sun Tzu: The Art of War for Managers; 50 Strategic Rules* (Avon: Adams Media Corporation, 2001).

Tao Zhu-gong's original *12 Business Principles*, and the later additions, the *12 Business Pitfalls* and *16 Business Lessons*, are listed in full in the Appendix. Tao Zhu-gong's thought is analyzed in detail by Chow Hou Wee, *The Inspirations of Tao Zhu-gong: Modern Business Lessons from an Ancient Past* (Singapore: Prentice-Hall, 2001), and I have used Wee's translations. Wee believes that the Chinese philosophical approach is indirect and 'artistic' in contrast to the 'how to' approach of the West, but he also believes that Tao Zhu-gong's original principles are universally valid. 'It is amazing to note,' he says, 'that their applicability transcends both time, space and even the type of business or industry.'

The following chapters each have suggestions for further reading in their specialized areas. For general background on the Asian context there is my

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own book, Frank B. Tipton, *The Rise of Asia: Economics, Society and Politics in Contemporary Asia* (Basingstoke: Macmillan, 1998). For the impact of the 1997 Asian financial crisis, see Ross H. McLeod and Ross Garnaut (eds), *East Asia in Crisis: From Being a Miracle to Needing One?* (London and New York: Routledge, 1998); Stephan Haggard, *The Political Economy of the Asian Financial Crisis* (Washington, D.C.: Institute for International Economics, 2000); Philippe F. Delhaise, *Asia in Crisis: The Implosion of the Banking and Finance Systems* (Singapore: John Wiley and Sons [Asia], 1998); Tan Kong Yam (ed.), *Asian Economic Recovery: Policy Options for Growth and Stability* (Singapore: Singapore University Press, 2002).

On the important role of Asian states in economic development, the classic statement is Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982), and his more general comparative article, Chalmers Johnson, 'Political institutions and economic performance: the government–business relation in Japan, South Korea, and Taiwan', in Frederic Deyo (ed.), *The Political Economy of the New Asian Industrialism* (Ithaca and London: Cornell University Press, 1987), pp. 136–64. The most recent extended statement of the developmental state perspective is Alice H. Amsden, *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies* (New York: Oxford University Press, 2001).

Australia, Department of Foreign Affairs and Trade, Economic Analytical Unit, *Changing Corporate Asia: What Business Needs to Know* (2 vols, Canberra: EAU, 2002) surveys the structures of Asian corporate governance from a Western perspective. Richard D. Whitley, *Business Systems in East Asia: Firms, Markets, and Societies* (London: Sage, 1992) and *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization* (Oxford: Oxford University Press, 2005) emphasizes what I have called the institutional grid. Malcolm Warner (ed.), *Culture and Management in Asia* (London: RoutledgeCurzon, 2003) contains short chapters on individual countries, tightly focused on the identification of national variations in culture, their impact on corporate cultures, and the question of convergence towards global norms. Min Chen, *Asian Management Systems* (1st edn 1995; London: International Thomson Business Press, 1997), takes a more 'Asian' perspective and is particularly good on the overseas Chinese. Henry Wai-Chung Yeung (ed.), *The Globalization of Business Firms from Emerging Economies* (Cheltenham and Northampton: Edward Elgar, 1999a) looks at the same range of issues from a different angle, the cross-border activities of non-Western firms.

On the role of women generally, see Louise Edwards and Mina Roces (eds), *Women in Asia* (St Leonards: Allen & Unwin, 2000) which contains

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very good survey chapters for each country. Amarjit Kaur (ed.), *Women Workers in Industrialising Asia: Costed, Not Valued* (Houndmills: Palgrave Macmillan, 2004) focuses on the gender gap that marks the institutional grids of Asian economies and the management grids of Asian firms.

There are many texts on management. The framework for the management grid as I describe it generally follows the outline presented by Kathryn Bartol, Margaret Tein, Graham Matthews and David Martin, *Management: a Pacific Rim Focus* (enhanced edn; Boston: McGraw-Hill, 2003). Charles W.L. Hill and Gareth R. Jones, *Strategic Management Theory: An Integrated Approach* (4th edn, Boston and New York: Houghton Mifflin Company, 1998) considers the problems of management at the most general level. Charles W.L. Hill, *International Business: Competing in the Global Marketplace* (5th edn, Boston: McGraw-Hill Irwin, 2005) and Arvind V. Phatak, Rabi S. Bhagat and Roger I. Kashlak, *International Management: Managing in a Diverse and Dynamic Global Environment* (Boston: McGraw-Hill Irwin, 2005) look at management in international business specifically. Philippe Lasserre and Hellmut Schuette, *Strategies for Asia Pacific: Beyond the Crisis* (South Yarra: Macmillan Education Australia, 1999), focus on the specific question of management in the Asia Pacific region. Two collections of cases that include a number of Asian firms are Paul W. Beamish, Allen J. Morrison, Andrew C. Inkpen and Philip M. Rosenzweig, *International Management: Text and Cases* (5th edn, Boston: McGraw-Hill, 2003), and Christopher A. Bartlett, Sumantra Ghoshal and Julian Birkinshaw, *Transnational Management: Texts, Cases and Readings in Cross-Border Management* (4th edn, Boston: McGraw-Hill Irwin, 2004).

The work of Geert Hofstede has been one of the important foundations for the study of the cultural origins of national variations in management practice, and remains influential despite ongoing criticism of his underlying essentialist view of culture. Two of his major works are Geert H. Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations across Nations* (1st edn 1980; 2nd edn Thousand Oaks: Sage Publications, 2001) and Geert H. Hofstede and Gert Jan Hofstede, *Cultures and Organizations: Software of the Mind* (revised and expanded 2nd edn, New York: McGraw-Hill, 2005). Hofstede considered the relationship between specific Asian values and economic growth in Geert H. Hofstede and Michael H. Bond, 'The Confucius connection: from cultural roots to economic growth', *Organizational Dynamics*, **16**(4) (1988), 5–21.

There is an extensive literature on the variations among advanced capitalist economies that is relevant to the comparative study of Asian management systems as well. See Michael E. Porter, *The Competitive Advantage*

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of Nations (updated edn, Houndmills: Macmillan, 1998); Richard D. Whitley, *Divergent Capitalisms: The Social Structuring and Change of Business Systems* (Oxford: Oxford University Press, 1999); Richard D. Whitley (ed.), *European Business Systems: Firms and Markets in their National Contexts* (London: Sage, 1992b); Peter Hall and David Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (New York: Oxford University Press, 2001).

NOTES

1. Chu (1995).
2. Backman and Butler (2003).
3. Krause (1996).
4. Australia, Department of Foreign Affairs and Trade, Economic Analytical Unit (2002).
5. See Bartol, Tein, Matthews and Martin (2003).
6. Bartlett, Ghoshal and Birkinshaw (2004).
7. Parsons (1954).
8. Parsons and Smelser (1956).
9. Weber (1958); Weber (1951). McClelland (1961) was an influential example of the application of Weber's ideas. See Green (1973).
10. Shane (1992), Thomas and Mueller (2000).
11. Hofstede and Bond (1988).
12. Hall and Soskice (2001).
13. Warner (2003).
14. Tipton (1998).
15. Specifically, of a total of some 600 Master of Commerce students at the University of Sydney who identified themselves as 'Chinese', approximately half from the People's Republic and the rest from Taiwan and Southeast Asia, surveyed over the three years from 1999 to 2004, only 20 could immediately name all five relationships. Of these, at least three had learned them in other university courses, and another four (all from Singapore) said they had learned them at school, not at home.
16. Porter (1998).
17. Chandler (1990).
18. Of the same 600 Chinese students noted above, four-fifths said they would not hire solely on the basis of *guanxi*, and the rest were on average 'unlikely' to do so, but over two-thirds agreed that 'Chinese' firms relied on *guanxi*.
19. Tylecote (1993); Maddison (1982); Maddison (1995).
20. Leyden, Schartz and Hyatt (2000).
21. Nolan, Sutherland and Wu (2001), ch. 1.
22. Ruigrok and Van Tulder (1995), p. 221.
23. Nolan, Sutherland and Wu (2001).
24. Gareffi (1993).
25. 'Firms look to protect sensitive technology at home', *The Japan Times*, 14 October 2004, Kyodo report.
26. Patrick and Rosovsky (1976).
27. Perkins (1986); Amsden (1989); Kulick and Wilson (1992); Hill (1996).
28. McLeod and Garnaut (1998); Bridges (2001).
29. Richards (1993); Richards (1994).
30. World Bank (1993).
31. Johnson (1982).
32. Johnson (1987); Wade (1990); Weiss and Hobson (1995); Weiss (1998).

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33. Whitley (1992a).
34. Migdal (1988).
35. Trevor (2001).
36. Delhaise (1998).
37. Amsden (2001).
38. As noted above I have generally followed the outline of Bartol, Tein, Matthews and Martin (2003).
39. Hofstede (1994).
40. As an example of this blind spot, in the generally excellent text by Bartol, Tein, Matthews and Martin (2003), there are no index entries for women, gender, sex, or glass ceiling, and there are no references to the problems of women in the chapter on human resource management. The passage on 'Workforce diversity, conflict and' (p. 589) says that diversity can generate conflict, and along with older workers resenting orders from younger workers or Asians feeling singled out among a group of white workers, notes without further discussion that 'a female top manager may feel her mostly-male top-management team are ganging together when one of them disagrees with a proposal of hers'. See Waring (1988).
41. Bartol, Tein, Matthews and Martin (2003); Bazerman (1986).

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