

An Approach for Socio-Economic Management Consulting in China

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Management has been called the most important development of the 20th century (Drucker, 2001). However, the more we learn about creating healthy and productive work environments, the more we realize how much human potential was wasted by a century of poor management practice. Traditional management in an American context lacks accountability, two-way communication with stakeholders, and a psychological understanding of the motivations of employees, customers, and managers themselves (Ries, 2011). Americans have always been mobile and somewhat adolescent in their outlook on life (Rapaille, 2006). That is to say, they don't like to be told what to do and, rather than suffer under a poor manager, they will choose to move on to another job. Management may have been a major innovation of the 20th century, but we have yet to settle down to the real task of learning to manage well.

The purpose of this paper is to propose an approach to management consulting in China that is neither American nor Chinese, but that has the capacity to span the gap between the two cultures. The French socio-economic approach to management addresses two main shortcomings of American management and, from a cultural perspective, may be adaptable to the Chinese context. The first deficiency in American management consulting is the lack of humanism. Drucker (2001) spoke of management as a discipline, management as the executive function, and management as the results-oriented workforce that defines the identity of an organization. Perhaps the lack of a single focus is responsible for the failure to address management of the ordinary people, projects, and resources that actually result in customer value creation. However, a century of Taylor, Fayol, and Weber firmly cast management consulting and practice in a technical-economic industrial mold. The socio-psychological level has been neglected in management practice, for sustainable value creation comes from the fundamental humanistic values of recognizing employees as human beings with complex sets of needs, rather than production resources; opportunity lies within the organization as well as its vested individual members; and human beings need excitement and challenges to fulfill work and life goals (Margulies, 1972). Socio-economic management is based on the fact that the only sustainable source of long-term value creation is human potential (Savall, 1981).

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The second major deficiency in American management is the lack of an open systems perspective. The public corporation, which became the default mode of industrial organization during Drucker's century, has recently gained a number of

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serious competitors. State owned enterprises, public limited companies, limited liability companies, private equity companies, and a variety of new partnership structures offer advantages over the traditional public corporation. Traditional management's lack of accountability has led to more attempts to regulate corporations, while the vocal interests of short-term investors work against long-term sustainability. Rather than lament the demise of an iconic management structure, it may be more insightful to view the entire "ecosystem of innovation and job creation" that has evolved new organizational forms to fit changes in the business environment (The big engine that couldn't, 2012, p. 30). However, this lack of an open systems perspective was conditioned by a century of Taylor, Fayol, and Weber's "one best way" approach that managed a business more like a mechanical clock than a living organization in an ecological niche. The lack of a long-term vision is a result of viewing a business as a closed system.

From a cultural perspective, American management consulting is an inappropriate choice for the Chinese context. Management consultants working in China have found more clients among foreign companies needing assistance in navigating the complexities of the market than among Chinese firms. Backman & Butler (2004) note that Asian firms generally do not trust and are not willing to pay outside consultants to restructure their organizations for greater productivity and transparency. Further, these Western goals may not even be desirable and entrepreneurs tend to be skeptical of consultants who lack long-term experience in local markets.

Asia's entrepreneurs also tend to operate very closely to their markets. Many personally know their customers and sellers. They observe keenly and gather in all the information they need from their observations; they do not rely on outsiders to tell them what is going on. Their knowledge base is both highly detailed and built up over many years. Thus, when a management consultant comes along offering a management model that can be introduced to the firm in a matter of months, Asia's entrepreneurs might well react with skepticism. Each feels that their own market is unique and complex, and major changes cannot be sensibly proposed unless the same intimate market knowledge is first acquired. Consultants, especially management consultants who work with theories and models that are broadly applicable to whole classes of firms, simply lack legitimacy in the eyes of many Asian entrepreneurs (Backman & Butler, 2004, p. 190).

China is a high context culture, meaning that language and communication cannot be separated from the context in which they occur and America, as a low context culture, is just the opposite (Hill, 1977). A culture has a grammar or a structural pattern of meaning that enables an onlooker to understand this context (Rapaille, 2006). If we acknowledge that Chinese and American cultures structure meaning quite differently, then it seems logical to explore management consulting practices from a third culture that effectively spans the gap. French culture is a mix of high and low context, including the legal system, business practices, and "the tyranny of bureaucrats....The French as a rule are much more involved with their employees and with their customers and clients as well. They do not feel they can serve them adequately unless they know them well" (Hill, 1977, p. 199). While these high context aspects of French culture fit well with understanding the network of

relationships and philosophical history essential to Chinese business, the French also value the mental cultivation of reasoning and ideas (Rapaille, 2006). These attributes fit well with an American low context business culture that expects communication to be explicit.

A common cultural attribute to both China and America is the delicate nature of receiving constructive criticism about one's work. Americans derive their identities from the work that they do. Loss of a job or a suggestion that their work performance is deficient devalues their self-image (Rapaille, 2006). Likewise, it would be disrespectful to a Chinese manager to suggest that he or his employees were underperforming, however, for a very different reason. Chinese people derive their identities from the organization in which they are employed or from the social status of their positions (Backman & Butler, 2004). In both cultural cases, there is a barrier to diagnosing and correcting problems, a process that would decrease frictions and increase harmony in the workings of the organization. Americans err on the side of direct action without considering social consequences, while in China, "Individuality, minor dissent, and clashes of personality are handled by pretending that they do not exist. If one acknowledges the things that happened, then one must take action, and action is very, very serious" (Hill, 1977, p. 161). Kluger and DeNisi (1996) observed that task-oriented behavior feedback can lead to behavior change, while person-oriented feedback leads individuals to question their confidence, thereby undermining desired performance improvements. However, we must realize that behind every task, there is a person that cannot be objectively detached from the task itself. A common theme running through Taoist, Indian, Greek, scientific, and many other philosophies recognizes that everything and everyone is interconnected. People are psychologically complex and when you try to force them to separate or compartmentalize their lives into arbitrary parts (e.g. work, family, education, health, and well-being), people become ill because it is against the natural patterns of the human mind. Savall (1981) calls the resulting unhealthy, yet common condition, *the split man*.

From a detached academic perspective, one can easily see that taken together, the American and Chinese perspectives on work and management cannot form a coherent whole. Authentic performance improvements depend on the understanding of the organizational and individual psychological contexts that are breeding dysfunctional patterns and prohibiting organizational advancement (Peron & Peron, 2003). Mindless celebration of the positive, ignorance of the harmful, and omission of the seemingly threatening are detrimental to organizational advancement and long-term profitability. Savall's (2008) socio-economic approach to management has been proven effective across a variety of cultures because it involves a comprehensive and long-term study of all relevant stakeholders, contexts, and interests.

The value of socio-economic management consulting is in its long-term investments and sustainable returns. Collective learning involves the organization and all participants in working toward the common goal of understanding and releasing hidden human potential, as well as taking actions necessary to reduce preventable costs. A socio-economic management consulting task force is composed of trained internal and/or external intervention researchers and the organization's horizontal and vertical representatives from top management and supervisors, to technicians,

workers, and staff. Through in-depth interviews, observations, dialogue, and critical thinking, the task force conducts a diagnostic to collect and mirror a metanarrative, anti-narrative, and hidden narrative embedded within the organization (Stephens & McCullum, 1998; Boje, 2001).

The role of the intervener-researchers is to facilitate the organization's understanding of its problems, discover the less visible but fundamental causes, and develop strategies to reduce them. Although difficult, an intervener-researcher must learn to capture every shared story because all stories reveal an inner truth and have a purpose. Dialogical stories in direct quotes from members of the organization are the basis for mapping complex vertical and horizontal relationships within an organization. After stories are collected, recorded, and transcribed, they are mirrored back to the organization for reflection. This is a crucial step because during this phase the organization has the opportunity to clarify their stories to prevent contextual distortion. The complex relationships expose underlying dysfunctions that may be masked by other problems and a key contribution of socio-economic management is transforming qualitative information into quantifiable financial data. Accepting the root dysfunction is often another challenge in itself, as most often, the root cause is psychological in nature.

The consulting process is not linear with a clear beginning and end, but rather, the process itself is a living story evolving with the organization and the environment. The interaction between organizational structure and behavior endlessly narrates a life-story of the organization, of both glories and failures. Helping the voices living inside the organization to understand the qualitative and quantitative implications of their interactions would lead to the comprehension of actions to improve harmony and profitability. To this effect, socio-economic management facilitates the creation of internal consulting groups to strengthen the organization's own long-term outlook. The socio-economic approach to management is a life-long commitment to organizational development.

Fast economic growth in China has resulted in an increasing shortage of qualified managers to meet the demands of the 21st century competitive landscape (Branine, 2005). China, like many societies utilizes the education system to integrate younger generations into societal systems, a reality of conformity and social control (Liu, 2006). Chinese managers view learning as a passive activity in which teachers deposit knowledge in students, like a bank (Branine, 2005). Students constantly seek a "right answer" from their teachers, not from their peers. In contrast, Western education is problem-based to encourage mutual participative learning between the teacher and student. Mutual participation requires dialogue, yet fragmented and incoherent thinking and action can lead to defensive human interactions that prevent listening (Liu, 2006). Introducing problem-posing learning models into Chinese education is a challenge due to the ingrained banking model. A further challenge is the difficulty in applying new learning models at work. Taylor's scientific management is considered good practice and contemporary Chinese managers perceive management as "a set of guidelines and techniques" (Branine, 2005:462). Even when students' curiosity and interest increase in the classroom, their dependency as employees on higher authorities for decision-making will prevent the practice of problem-solving at work (Liu, 2006). In reflection, the socio-economic

approach delivers a systematic and methodological management process that can be easily understood and absorbed by Chinese managers and students.

As human resource management research in China moves from the surface of a phenomenon to investigating hidden experiences (Kong & Zhang, 2011), Chinese management scholars and practitioners are able to better conceptualize socio-economic management. The presence of a problem often signifies a deeper cause. Socio-economic management consulting investigates organizational hidden and wasted human potential from six aspects: working conditions, work organization, time management, training, strategic implementation, and communication/coordination/collaboration (Savall & Zardet, 2008). The investigation process is systematic, in-depth, and results in a strategic action plan with measurable metrics.

Socio-economic management is also in harmony with Chinese ancient management philosophies. The philosophies of Confucius, Lao Zi, Sun Tzu, Xunzi, Guanzi, and others reveal that people are socially dependent with a strong need for connections (Kong & Zhang, 2011). Li & Madsen (2010) found that Chinese managers' generally perceived work attitudes and values in state-owned enterprises could be synthesized into four influential behaviors: work is the center of life, social life is tied to work life, the boss holds absolute power, and hope is in the hands of the boss. Yet, people must be valued and respected. When a person with great virtue is ranked and valued low on a company ladder, it is usually a sign of dysfunctional management practices. Confucius' idea of working together harmoniously is believed to lead to business success (Kong & Zhang, 2011) and illustrates the human need for communication/coordination/collaboration. The source of a manager's power and capabilities comes from his/her people/subordinates. Recognizing and nurturing employee hidden potential empowers managers and strengthens organizational capabilities. This philosophy is central to socio-economic management and philosophers such as Confucius and Guanzi recognized that education shapes behavior, and therefore, should be a long-term strategy of an organization (Kong & Zhang, 2011). Investing in people rewards an organization with self-renewal capacity, as "learning is a never ending process" (Kong & Zhang, 2011, p. 375) and a much more sustainable return than any other type of investment.

Investments for state-owned enterprises (SOEs) are funded through domestic bank loans and the state budget in China. These funds have decreased from 30% of total investments in 1980 to roughly 5% today (Hersh, 2012). Changes in SOEs have led to emerging changes in Chinese management and human resource practices. Chinese employees have become gradually more mobile and flexible with the lessening of social and economic limitations. With more choices of state-owned or privately-owned opportunities, Chinese employees at privately-owned enterprises were found to be more intrinsically satisfied with their jobs and had increased levels of affective and normative commitments, while employees of SOEs showed higher levels of continuance commitment (Wang, 2008). Together, capitalism, communism, and Chinese ancient management philosophies interactively shape the 21st century Chinese management trends. Without appropriate training, collaboration, and other healthy organizational mechanisms, companies tumble into disharmony, thereby encouraging preventable dysfunctions to germinate. Socio-economic management systematically diagnoses, analyzes, and reflects on an embedded organizational

work/life community to uncover valuable hidden human potential and the costly hidden dysfunctions prohibiting growth.

The management consulting industry in China has existed for over a decade, but demand has shown an increasing growth during the past five years (IBISWorld, 2012), which is a direct result of China's WTO accession since 2001. Primary services include strategy, operations, marketing, and human resource management. The majority of management consulting companies in China are the big global giants like McKinsey, Accenture, and BCG who primarily serve multinational corporations, the Chinese government, and state-owned enterprises. They do not have broad partnerships with local businesses, a market served primarily by local Chinese consulting firms. Although limited, these firms are also thriving by borrowing theories and practices from the global giants.

The future of Chinese management research lies in two directions, developing a theory of Chinese management or developing a Chinese theory of management, with both grounded in deductive reasoning (Barney & Zhang, 2009). The *Theory of Chinese management* path amplifies Western theories through studies of uniquely Chinese phenomena. Whether Western theories are simply placed in a Chinese context or whether the apparent contradictions and underlying principles are simply hammered into submission, the new Chinese theory is often just a shadow of the Western theory. The *Chinese theory of management* path seeks to develop uniquely Chinese management theories without the references of Western theories. Chinese management scholars cite early U.S. management theories that were based on inductive and deductive studies of early 20th century U.S. managers and organizations. Therefore, these theories lack the relevant context of Chinese history and its implications on 21st century Chinese enterprises. Neither path is optimal, but academia thrives on creating and exploring false dichotomies.

No matter the route Chinese management scholars choose, the best way to understand practical and contextual implications of global economic phenomena and management practices is through global collaboration among management researchers. Instead of force fitting specific Western management consulting techniques into a uniquely different culture, or creating something so entirely exclusive that implications cannot expand into the global economy, we propose an alternative path. The socio-economic approach to management seems to have the capacity and flexibility to integrate a very contextual, collaborative, and learning-based management consulting approach into a Chinese economic and social setting. Its cultural roots, theoretical base, and practical application offer a mix of East and West, while remaining highly compatible with Chinese ancient management philosophies.

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