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Business Leadership in Modern China

In China, there are three main types of commercial organization: the State Owned Enterprise (SOE), the Multinational Company (MNC) and the Chinese Private Company (CPC). SOEs and CPCs have existed for 30 years; MNCs became part of the mix 10 years later, in the early 1990s. These three types are very different in their organizational structure and culture, and thus in the kind of leadership exercised within them.

An SOE is government-run. Its primary purpose is to pursue the interests of the state: financial profit comes second. Social stability and harmony is paramount. It is highly centralized, hierarchical and formal. People working in an SOE look not just for a career in business but one in government. Confucian culture and leadership based on Humane Theory are predominant in this sector.

MNCs are disliked: they are seen as the vassal of foreign empire. Naturally, profit maximizing is their main pursuit. These organizations are decentralized, with flat structure and systematic operation processes; people within them are driven by personal development, financial reward and promotion. MNCs provide a relatively democratic environment with a Western leadership style – largely done by expatriates.

A CPC is mainly a family-run business. It is highly centralized, autocratic and paternalistic. As the owner is the only one to determine structure, process and culture, this sector is like an experimental field: you may see all types of culture and leadership. Mohism and Altruistic leadership prevail to some extent.

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For many Chinese in search of a career, an SOE is the first option because of job security, political options, and social status as a “Red Hat,” linked to government which is still the most powerful agent in the Chinese business world. Furthermore, the Confucian maxim “To be a state official is the ultimate individual pursuit” is still very influential. An MNC is the second most popular option, especially for people who wish to be professional managers and to get good pay. The “Foreign Comprador” may not be liked but is grudgingly respected.

A CPC is the least popular choice, except for career transit or short-term high pay. The stereotype of “Peasant Entrepreneurs” still prevails.

LEADERSHIP CHALLENGES AT SOES

There are approximately 150,000 SOEs, of which about 155 are large ones. These are still under the direct management of a government body, SASAC (State Assets Supervision and Administration Committee). This retains tight control, despite the movement to “separate government functions from enterprise management” that has been under way since 1978 and pushed hard since 2001.

In 2010, the biggest SOEs, Sinopec (China Petroleum Corporation) and State Grid, were ranked No.7 and 8 in the Fortune Top Global 500. For both, the top management team – Chairman, CEO and senior VPs – is actually appointed by the Ministry of Organization of the Central Committee of the Party and by SASAC. All these leaders have positions both in their companies and the national government; for example, the Chairman of Sinopec has a ministerial position.

Most of these leaders have a background of higher education in science, alongside experience in government. Few of them are accomplished in Western management (and actually few of them know much about Chinese traditional philosophies – which does not, of course, mean that they are not influenced by these!).

Most of them “lead” their organization in the context of a vision and strategy set by government: to be a business leader in this sector is to be a politician rather than an entrepreneur.