Chapter 3

Imitation and innovation

Imitate to survive
(from Darwin to Deng)

The simplest way to bring about change is through imitation. If a problem solution is successful in one dynamic system then copying it in another can produce a quick fix. The style of organization, for example, often indicates industrial imitation. Manufacturing companies tend to structure themselves along process or divisional lines, conglomerates by product, banks by function. As evolutionary theory puts it, the controls over organizations tend to resist mutations, even when presented as desirable innovations.

Many Western companies possess an adaptable, flexible flat structure. Asian institutions, by contrast, are more hierarchical. In the global arena, imitation of structure is changing the international Chinese companies into flatter, pro-active structures whilst domestic organizations mainly retain hierarchical decision making. This section shows how Asians are adapting and are increasingly fleet of foot.

Chinese global managers are recognizing modern styles of international contract and the nature of enforcement. The Western position on contract law, we must remember, developed over the past five hundred years. In Europe, up to the Middle Ages, contracts were enforced by relational means. Any failure in a valuable relationship risked one’s reputation and resulted in the threat of economic ostracism, a highly effective sanction, prevalent still in China. Yet opportunistic behavior in the legalistic West has not been eliminated. Organizations and their activities have at once become more legally restricted and more opaque.

The Western penal code could not and did not prevent the leaders of organizations such as Enron, Tyco International, WorldCom, Par-
malat and Refco from taking opportunistic advantage of shareholders and investors. Nor are the bankers, brokers and advisors guilt-free. Opportunism is not confined to the lower orders in mercantile trade. ‘Sub-prime’ describes financiers as well as mortgagees.

Complexity in the West creates chances for the sharp operator. Opportunistic Chinese are not, therefore, likely to feel intimidated by complex arrangements. Indeed, the more complex a deal the better the opportunity to imitate Western failures to enforce its terms. Hedge funds and their opacity could prove to be imitative gold mines for the Chinese financial entrepreneur.

A sincere form of strategy

Initial resistance to change is common. Evolutionary thinking argues that large organizations and Chinese networks, across the national spectrum, will avoid decisions which are truly innovative. The state enterprises in China are in a period of uncertainty and partially resistant to change. To retain stability at an interface, it is adaptive imitation, not innovation, which is the sincerest form of strategy.

The Chinese will therefore look for opportunities overseas where the rules are clear. The capitalist system is very good at laying down rules and the Chinese are seizing their chance. It is preferable, cash in hand, to purchase a company than to start as a competitor. Private equity firms such as Kohlberg Kravis Roberts use extensive gearing to raise the cash. The Chinese will just raise the cash.

Innovation is unlikely to occur (from a purely economic perspective) if the use of others’ acceptable solutions is preferable to hazard ing new solutions. The Chinese have recognized that when is ‘now’, but also that how is ‘whatever works’. Imitation is self-correcting through trial and error. The benefit to the Chinese organization is that the trial and error outcome is likely to be more acceptable over the longer term if they imitate the private equity companies. And the benefit to the Chinese government and military is no less. By copying Western styles of government, when subverting individual rights to economic development or to the war against terror, the Chinese are simply imitating a ‘democratic’ process.