



# Development of management philosophy for Chinese business environment

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## Abstract

**Purpose** – This paper aims to explore how management approaches are adopted in the modern Chinese business environment.

**Design/methodology/approach** – A questionnaire survey was conducted among the companies based in Hong Kong with manufacturing processes in China and supplying their products to the global market. The results of the survey are analyzed in conjunction with traditional Chinese philosophy, Malcolm Baldrige National Quality Award Criteria and ISO 9001 requirements.

**Findings** – The findings confirm that most companies operating in the capacity of original equipment manufacturer (OEM) suppliers will use ISO 9001 to set up their management systems. With the development of business, the companies will move from OEM to original design manufacturer (ODM), and some of them to original brand manufacturer. The management approach used at the OEM stage is basically ISO 9001; however, more comprehensive management approaches such as MBNQA criteria would be used when the company developed into OEM and particular ODM. In the Chinese business environment, the values of traditional Chinese philosophy are often shared by the senior leaders of the company.

**Originality/value** – This paper confirms that different management approaches should be used at different stages of business development. Furthermore, the management approach adopted should reflect the culture of the people concerned. Traditional Chinese philosophy is a rich source of management concepts from which foreign investors in China will be benefited.

**Keywords** ISO 9000 series, Quality awards, Oriental philosophy, Hong Kong, China

**Paper type** Research paper

## Introduction

China is implementing deeper and deeper economic reforms ever since its new-won membership in the World Trade Organization. This represents great opportunities for many enterprises, but also fierce competitions and threats for others. The key is how far an enterprise is able to catch up with the development of the market.

Having developed from an original equipment manufacturer (OEM) background, many factories are facing an increasing pressure of cutting cost. In fact, to lower the cost is the only tool for survival for most OEMs. Some manufacturers diversify into the capacity of original design manufacturer (ODM) that adds value to the customers through innovation and design. Many more established manufacturers realize, however, that they have to build their own brand names and trade in the capacity of original brand manufacturer (OBM) in order to get a more secure position in the highly competitive global market.

The route from OEM to ODM to OBM is well reckoned. However, how shall the leadership and management system support the development of an organization in this



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development process is an interesting area of study. This paper endeavors to explore the current management systems used by enterprises in China and the problems they face. It will then discuss the leadership and management system that is adopted by well-established enterprises in the more developed countries. The issue of making Chinese culture an integrating part of the system will be explored.

### **A questionnaire survey**

#### *Objective*

Since 1980s many manufacturers in Hong Kong have shifted their production operations to Pearl River Delta and most of them are OEM suppliers. Facing the ever-increasing price competition, some enterprises gradually move into ODM businesses in recent years. A few of them have moved into OBM through merger and acquisition of world brand names.

The study of this paper was done in Hong Kong and the following discussion will focus on Hong Kong and the associated investment in Pearl River Delta. A questionnaire survey was conducted among enterprises based in Hong Kong in January 2004. The objective of the survey was to determine the management issues that are important to the Hong Kong enterprises having operations in China. In particular, the study attempted to provide an answer to the question: what should be the management approaches suitable for enterprises in China, a home base rich in Chinese culture, that face the challenge of global competition?

#### *Approach*

The questionnaire requested the company to identify the industry it belongs to, number of employees in Hong Kong and China, and the revenue in 2003. The company was then asked to select from a list the management systems they had used and the benefits obtained. The company was asked its goals for the coming one to three years and how would it rate the importance of a list of management issues that would be important in achieving these goals.

The last question showed a list of Chinese philosophies, western philosophies and management principles. The company was invited to indicate the philosophies that would help to elevate the leadership effectiveness.

The questionnaire was mailed to a sample of well-established organizations and small and medium enterprises.

#### *Response and results*

A total of 350 questionnaires were sent out and 54 companies replied, a return rate of 15.4 percent. Out of these 54 companies, half of them have operations in China. Since this paper concerns about the companies having operations in China only, the data reported and discussed in the paper will focus on this group of questionnaire feedback. As mentioned above, 27 companies have operations in China. Total number of employees working for these companies in China was 26,141 people and the revenue for 2003 was HK \$3.3B.

A list of 11 most popular management tools/approaches is shown on the questionnaire for the companies to indicate their preferences. ISO 9001 is by far the most popular management approach adopted by the companies. Eighty-nine percent (89 percent) of the companies are ISO 9001 certified. Following ISO 9001,

Business Process Re-engineering (PBR), 5S, and Performance Criteria for Quality Award are adopted by more than half of the responding companies. Table I shows the percentages of companies that have adopted the management tools.

The companies are then asked to assess the benefits achieved through implementing the management tools. All of the companies (100 percent) indicate that the work processes are improved. Over 90 percent of the companies claim that they have established a good management system, improved product/service quality, elevated team spirit, and increased customer confidence. Full details are shown in Table II.

The answer to the question what are the goals for the coming one to three years is not so definite. Top on the list is "To improve service quality" (67 percent), followed by "To increase market share" and "To establish clear corporate vision, mission and values" (both 56 percent). Seven goals are suggested in the questionnaire and a full account of the response is shown in Table III.

The companies are then invited to rank the importance of seven factors that are considered to be essential for achieving the goals. The company can rank each factor from most important (ranked 1) to less important (ranked 7). "To better understand customer requirements" is ranked the highest with an average ranking of 1.33 and "To improve leadership and decision quality of senior management" the second highest with an average ranking of 1.41. Table IV shows the ranking for all the seven factors.

**Table I.**  
Management systems  
adopted by the  
companies

Management systems	Percentage
ISO 9000	89
Business process re-engineering	63
5S	55
Quality award performance criteria	52
Benchmarking	48
ISO 14000	41
Quality control circles	41
Total quality management	41
Balanced scorecard	33
Q-mark	30
Six sigma	22

**Table II.**  
Improvement achieved  
by the companies

Improvement	Percentage
Improve work process	100
Establish management system	96
Improve product/service quality	96
Elevate team spirit	93
Increase customer confidence	93
Improve staff quality	85
Better control of suppliers	74
Increase efficiency	74
Lower costs	67
Increase profitability	59

The last question is related to management philosophy. The company is asked to show the philosophies and thoughts that it believes will help improve the quality of management. Besides western management theories and Japanese management theories, typical traditional philosophies that are familiar to Chinese people are also included. Sun Tzu's *"The Art of War"*, Confucianism, Taoism, Legalism, and Buddhism are on the list. Figure 1 shows that the companies consider western management theories most helpful for improving quality of management. *"The Art of War"* and Japanese management theories come next.

*Analysis*

ISO 9001 has become a basic requirement for most OEM contracts nowadays, there is no surprise why majority of companies have implemented this quality management system. The ISO Survey (ISO, 2002, [www.iso.org/iso/en/iso9000-14000/pdf/survey12thcycle.pdf](http://www.iso.org/iso/en/iso9000-14000/pdf/survey12thcycle.pdf)) reports top ten countries for ISO 9001:2000 certificates in December 2002 (Figure 2) and China is top on the list by having issued nearly 41,000 certificates.

As reflected by the survey results in this study, ISO 9001 will generally bring such advantages as improved work processes, established management system, and improved product/service quality. However, the company will need more than these when competition becomes fiercer and especially when it endeavors to develop its business into ODM or OBM status. For the more established companies such as Haier Group, ISO 9001 certification is a basic strategic step but not the destination (Yi and Ye, 2003).

In management the most difficult part is on people. Perhaps this is why most companies set "To improve service quality" as their one-to-three-year goal. Service quality relates more to people as service is provided by people for people. Success

Corporate objectives	Percentage
Improve service quality	67
Increase market share	56
Establish clear corporate VMV	56
Increase profit	52
Improve product quality	48
Develop new product/service	48
Build company-owned brand name	44

**Table III.**  
Main objectives for the next one to three years

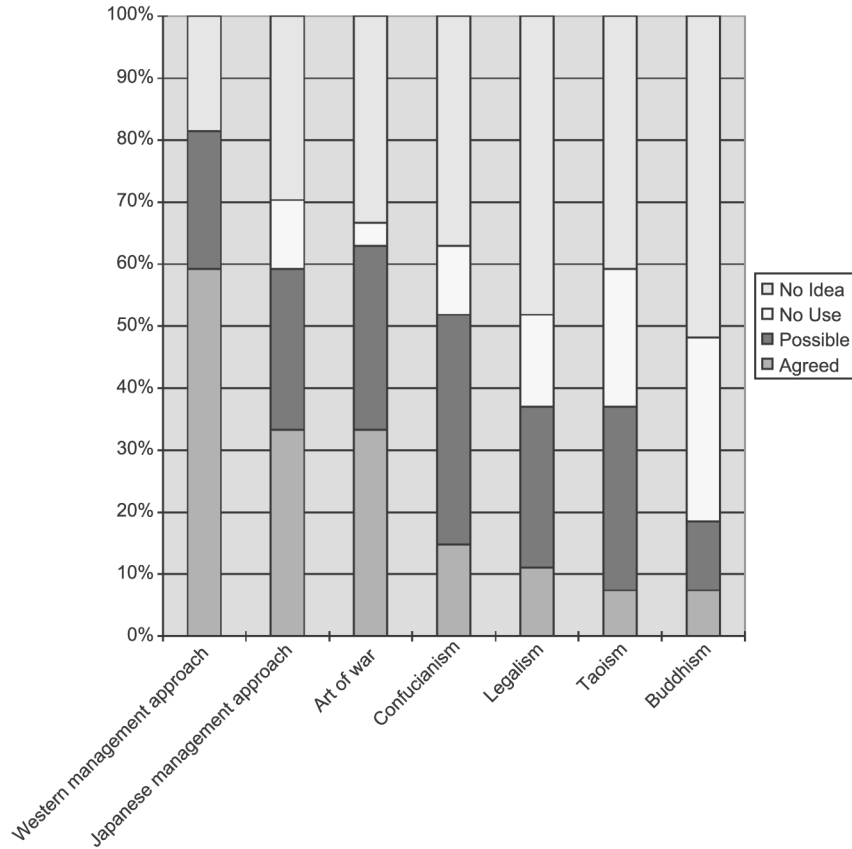
Factors	Rating (average)
Understand customer requirements better	1.33
Improve leadership and decision quality of senior management	1.41
Develop employees' creativity and potential	1.93
Know more about business environment/government policy	2.00
Understand competitors better	2.08
Improve global vision of senior management	2.19
Improve EQ of senior management	2.69

**Table IV.**  
Important factors for achieving the objectives (1 – most important to 7 – unimportant)

MD  
43,4

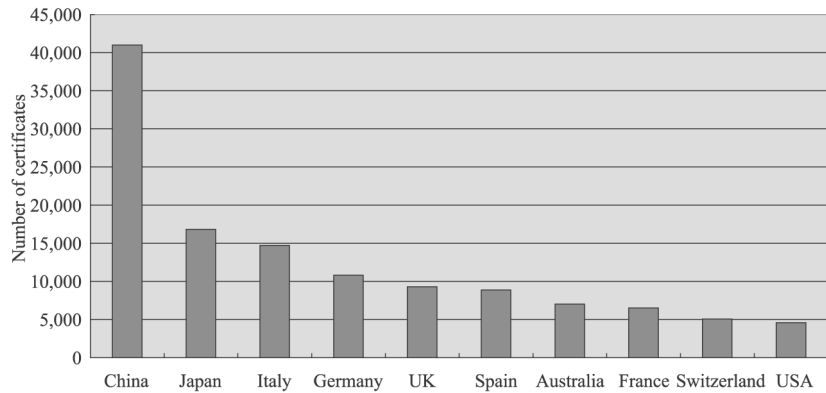
546

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**Figure 1.**  
Response to the question  
“Can these philosophies  
help improve leadership  
and management of the  
company?”

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**Figure 2.**  
Top ten countries for ISO  
9001:2000 certificates

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stories of new comers in many industries, such as Haier in white goods and Dell (1999) in personal computers, reflect that service is the key. In order to align the employees to work toward the common goal, many companies establish and communicate clear corporate vision, mission and values (VMV) throughout the organization. In the VMV, most companies will clearly define who are the target customers and what are the service standards.

Two factors are identified to be most important for achieving corporate goals, namely to better understand customer requirements and to improve leadership and decision quality of senior management. The first factor is obvious and is a forever challenge to all companies. The second factor reflects that the senior leaders are conscious about their own weaknesses and keen to seek improvement.

Three major “tools” are identified to be useful for improving quality of management. They are western management theories, *The Art of War*, and the Japanese management theories. Both the western management theories and Japanese management theories represent management concepts of their own right. It is believed that these two management theories reflect the western and eastern cultures, respectively. Sun Tzu’s *The Art of War*, on the other hand, has been regarded an enlightening wisdom for strategic planning in business sectors over the world.

**Discussion**

*ISO 9001*

As mentioned above, many companies in China started their businesses as OEM suppliers. It is most important for them to demonstrate their ability in meeting quality requirements to their customers, in most cases the customers are international buyers. Being an internal standard, ISO 9001 is by far the most recognized management system that is essential to international orders. On the basis of ISO 9001 certification, the companies will find it easy to extend to ISO 14001 or other safety, health, hygiene, human rights standards that are increasingly in demand.

*Malcolm Baldrige National Quality Award criteria*

Established by Public Law in 1988 in the USA, Malcolm Baldrige National Quality Award criteria (MBNQA) are regarded the key guidelines for performance excellence. The Commerce Department’s National Institute of Standards and Technology (NIST) in the USA has conducted a stock performance study of the award winners for seven years since 1995. The findings show that the award winners group stock has significantly outperformed the S&P 500 (ISIXSIGMA, 2001, <http://isixsigma.com/library/content/c010426a.asp>; NIST, 1998). The results are shown in Table V.

Year	MBNQA outperforms S&P 500
2001	4.4-1
2000	5-1
1999	2.6-1
1998	3-1
1997	3.5-1
1996	4-1
1995	6.5-1

**Table V.**  
Stock performances  
of the MBNQA winners  
compared with S&P 500

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In principle, only the companies in USA are eligible for the MBNQA. However, the award criteria have been adopted in other countries and cities with or without modification. In Hong Kong, for example, Hong Kong Management Association (HKMA) has organized the quality award based on the same judging criteria since 1991. The experience of companies with different backgrounds shows that individual companies can benefit from a management framework set out by MBNQA even if they do not enter the award competition (Vokurka and Lummus, 2003). Simplified checklists are available for companies to test how ready they are in meeting the MBNQA standard (Lee, 2000).

The MBNQA criteria can be used as a guideline and checklist for a performance-based management framework. It does not provide solutions but guides the company to critically review its leadership and management system. The underlining principles are total quality management with emphasis on business results. This is why the winners of the award are able to maintain outstanding profitability.

The MBNQA criteria are not a management methodology. To solve their management and organizational problems, some companies may adopt such management tools as business process re-engineering, balanced scorecard, or six sigma. As far as assessing the successfulness of management approaches is concerned, MBNQA criteria provide a benchmarking reference.

Though MBNQA is not only for big companies, many well established companies have won the award. In the USA, such renowned names as 3M, AT&T, Xerox, Boeing, Corning, IBM, etc. are on the list of past winners. In Hong Kong, past winners of the HKMA award include Island Shangri-La, MTR, COSCO, Ricoh, and McDonald's, just to name a few. It is reasonable to believe that for the companies that aim to exceed ISO 9001 will find MBNQA criteria a good reference.

#### *Sun Tzu's The Art of War*

*The Art of War* was first introduced to Japan in 1716 and translated into French for the first time in 1772 (Griffith, 1963). The work has attracted immediate attention and received complimentary reviews since then. It is still a popular course in both business and military studies in western countries.

*The Art of War* is best known for its enlightening concepts on strategy formation. People find new ideas for their business strategic planning through visiting and revisiting Sun Tzu's teaching. Taken as an example, Sun Tzu said, "Anciently the skilful warriors first made themselves invincible and waited the enemy's moment of vulnerability. Invincibility depends on one's self; the enemy's vulnerability on him." (Chapter 4 of *The Art of War*, see Griffith (1963)). Most well established companies nowadays place great emphasis on quality and continuous improvement. This is exactly trying to make the company invincible. However, products and services of good quality cannot automatically defeat its competitor. It has to wait until the competitor becomes weak by itself.

*The Art of War* is much more than a strategy book. In Chapter 1, Sun Tzu said, "By command I mean the general's qualities of wisdom, sincerity, humanity, courage, and strictness". Here people find traces of Confucianism because it stresses the importance of being kind to warriors (people). This hints that *The Art of War* is not only about strategies and tactics. Human factors are a major concern. Human factors

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include the values and belief of the leader, the quality of the followers, and the effectiveness of the management system.

The discussion of human factors is very rich in traditional Chinese philosophies. Confucianism believes in benevolence, righteousness, and social norms. Through role modeling of the leaders and educating the people, an ideal management system will be maintained. Taoism proposes that the leader (sage) should “manage his affairs without ado, and spread his teaching without talking” (Wu, 1989). Legalism emphasizes the use of law, methods of governing, and authoritative power (Sato, 2003). It is believed that modern leaders of enterprises will be able to gain food for thought from all these traditional wisdoms. This is an interesting area of study that has been attracting attention in recent years. Taken as an example, the relationship between ISO 9001 and Taoism, Confucianism and Legalism has been explored (Lee, 2001).

#### *Traditional culture and modern management*

It is widely recognized that modern management has close links with tradition values and cultures. Many studies have been carried in this field though most of them tend to focus on the behaviors of Chinese businessmen rather than trace back to traditional cultures. See for example, Graham and Lam (2003).

There are ample examples that can be quoted to explain how traditional Chinese philosophies can be related to the MBNQA criteria. Criterion 1.1 of MBNQA questions “How do senior leaders create an environment for empowerment, innovation, and organizational agility?” (MBNQA, 2004) This emphasizes the importance of empowerment, innovation and agility, but it does not tell what approach should be adopted. A senior leader armed with belief and values in Confucianism, Taoism, or Legalism, can easily find his/her way to address this question. Being an examiner for HKMA quality award for eight years, the author has seen different approaches adopted by companies with good results. However, the more popular approach is through role modeling of the senior leaders and providing intensive training and education for the staff, which is quite a Confucian management style.

Also in criterion 1.1, it asks “How do senior leaders translate organizational performance review findings into priorities for continuous and breakthrough improvement of key business results and into opportunities for innovation?” This makes us recall The Image of Chien in I Ching, it says “The movement of heaven is full of power. Thus, the superior man makes himself strong and untiring.” (Baynes, 1989).

Criterion 1.2 requests that a company should support its key community. It asks, “How does your organization actively support and strengthen your key communities?” In his teachings, Mencius once said, “When poor, they (the superior men) tried to better their own condition. When in power, they tried to better the condition of the whole world as well” (Zhao *et al.*, 1999). We can see how closely the MBNQA criterion can be linked to Mencius teaching.

Many other examples can be quoted and this is an interesting area of further research. Besides thoroughly understanding the strengths of western management theories, there is a need to develop management theories that suits the Chinese culture better. It is believed that traditional Chinese philosophies will provide us with enlightenment in this aspect. The new management model is yet to be established and we can perhaps call it the Chinese management of excellence (CME) model for the time being.



*A development model*

The business development journey of progressing of from OEM to ODM to OBM can be mapped with the management approaches from ISO 9001 to MBNQA to CME. A few Chinese brand names such as Haier and Legend have established foothold in the international market now. On the other hand, an increasing number of existing brand names have come under the control of Chinese entrepreneurs through acquisition. There is an urgent need for these companies to enhance their management through adopting such performance-based management system as MBNQA. For the companies to excel in the global market, CME will be the goals for not too long a future.

**Conclusion**

ISO 9001 is the most popular management system adopted by OEM companies in China. This meets the requirements of most customers and sets the foundation for further development of management approaches to cope with the need for upgrading the capacity of the OEM to ODM and OBM. MBNQA criteria are frequently referred to as guidelines and checklists for performance excellence but no specific management approach is prescribed. This provides opportunity for combining the MBNQA criteria with traditional Chinese wisdom to form a CME model that suits the specific business environment in China.

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