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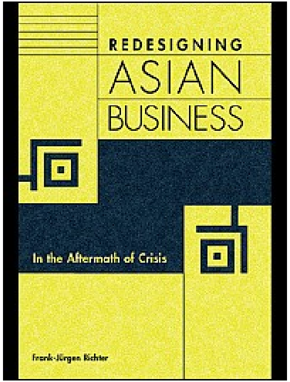
REDESIGNING
ASIAN
BUSINESS
In the Aftermath of Crisis
Frank-Jürgen Richter

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REDESIGNING ASIAN BUSINESS

In the Aftermath of Crisis

Frank-Jürgen Richter

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Preface

Even before the events of September 11, 2001, Asia was falling into a recession. Demand for IT-related products was down and countries like Singapore and Taiwan somehow started to suffer a renewed version of the Asian economic crisis of 1997–1998. After seeing a fast recovery in 1999, until the second half of 2000, the region's economies experienced a slowdown in external demand caused by the global technology slump. September 11th has been accelerating this trend.

As trade and investment flows dry up, Asia is beginning to experience the flip side of globalization. On the winner's side for the last two decades, Asia is now looking for guidance about how to deal with globalization and capitalism. Are there specific models of capitalism and management styles which are appropriate for Asian economies and economies? What about the the legacy of the Anglo-Saxon version of capitalism?

A crisis, by definition, is a period of chaos in which it is impossible to foretell how events will play out or what strategies will be successful. Thus, managers must first implement strategies and policies that they believe will be most successful, and then fine-tune or redo them as events unfold. In other words, successful corporations are those that undertake continuous self-organization and pursue the right long-term strategies to respond to the changing environments.

This book describes, analyzes, and develops management strategies of Asian firms after and beyond the Asian economic crisis. It does not merely talk about ‘‘strategic management’’ as an academic discipline, but adopts a rather broad definition of management as all kinds of textures that encompass a perceived value system of guiding firms and organizations. Moreover, it pursues a practical approach to providing observers of Asian management with

- an analysis of the cultural basis of Asian management practices, depicting their intrinsic characteristics, which are: business networks as governance structure, mutual trust as interaction mode, and collective enhancement as underlying purpose
- an evaluation of the influence of the Asian economic crisis on Asian management practices, highlighting the relationship between the Asian model of economic development and the character of the underlying management practices
- a description of Asian management practices in terms of their potential role in guiding Asian firms to sustainable competitive advantage. The book concentrates on practices being lived in the three economic epicenters of East Asia: Japan, South Korea, and (overseas) China
- examples of how Asian firms shape up their organizations during the aftermath of the Asian economic crisis
- a short-term agenda for fixing the weaknesses of Asian management based on the extent to which Asian firms will have to adapt their management practices to the postcrisis environment
- a long-term agenda for adapting the strengths of Asian management based on the cultural heritage of Confucianism

Former analyses of Asian management practices have usually highlighted each archetype's management technique, Japanese lean production or overseas Chinese networking. Or—with the outbreak of the crisis—they have directed attention to pure macroeconomic issues. This book, instead, stresses the shared perspectives of different Asian management practices and further investigates the strategic responses of Asian businesses to the altering environments. How do Asian firms adjust to the Asian economic crisis? How do they develop their management style? Does "Asian management" have to be adjusted to the world's current dominant form of economic organization—Anglo-Saxon capitalism? Or do Asian CEOs, entrepreneurs, and managers develop hybrid forms of management that combine elements of Western and Asian thinking? Do they have to undergo a "cultural revolution" by unlearning the cultural basis of managing their organizations? The aim is to guide Asian managers to shape and to live their management practices in changing and challenging times.

The book concludes that Asian organizations have to preserve their cultural foundations. A globalized world does not automatically implicate that Anglo-Saxon capitalism—as some kind of conventional wisdom—is unchallenged and valid in every place in the world. Together, the United States and the United Kingdom dominated world politics and world economies for decades, and the dominance of the English language attributed to this dominance. Anglo-Saxons often act as if their economic systems were constituting the only possible principles and that no one else, except in error, could choose any others.[1]

The breathtaking growth of the East Asian economies is linked to how Asian managers shaped their organizations, pushed them into competitiveness, and gave them an entrepreneurial spirit. Asian managers have every reason to be proud of their postwar achievements. It would be false to apply "conventional" management practices incorporated from elsewhere to Asian firms without questioning if these standards will work in Asia. Rather, what has to be done is to adapt and enrich the strengths of Asian management practices. It cannot be ignored, however, that East Asia is somewhat a prisoner of its recent history and its glorious economic success. Because the past was thought to be sustainable, Asian managers felt that the future, too, would be guaranteed. They were surprised when the Asian economic crisis told another story. Asian management practices suffered misinterpretations and flaws, for sure. Organization in business networks led to strategic overstretching and dissipation; mutual trust led to costly dependence on fixed supply sources and rigid decision making; and collective enhancement led to nepotism and hubris. If organizational orthodoxy existed, it may not survive the events of the crisis.

Moreover, many firms have been worrying about the external factors of the economic crisis, and rightly so. However, many became too distressed and forgot about internal ones within their own organizations. External factors like the foundations of economic policy and the efficiency of the finance sector are almost beyond their control. Internal factors, on the other hand, like the molding of their management practices, are well within their power to change. The premise behind this book is that Asian managers do not have to wait for their future; they can shape it themselves.

The Asian economic crisis has destroyed much of the ‘‘Asian miracle" and the confidence about what was once titled "Asian management." As a direct consequence of the crisis, organizations in East Asia are changing at such a speed that most of our knowledge about them is out of date. This book presents a stock-taking of East Asian management practices as they have been perceived so far, and discusses strategic propositions of how Asian management could be redesigned in the future. However, I am not prescribing cures from conventional wisdom—management practices as they have been experienced in the Anglo-Saxon world. My vision is to consider and harness the cultural profile of East Asia. Creative adaptations of Western management practices are needed to reflect East Asia's unique organization of business.

Although I was formally trained in business administration and management, I am not an academic. As manager of a European multinational corporation, for several years I have been based in Japan and China; I am continuing this experience in my current position at the World Economic Forum. This book is the result of my experiences in dealing with Japanese, Korean, and Chinese business professionals. Writing in plain language that suits the needs of CEOs and business managers both of Asian and Western origin, I tried to avoid jargon. Nevertheless, the book may also serve the needs of academics interested in teaching and further study of Asian management practices.

Many people have helped me with the research for this book. They are far too numerous to mention by name, but I acknowledge that this book is the fruit of my contact with them. A very special thanks is due to Eric Valentine, my editor at Quorum.

East Asia is a great place to be—not only for business. I am extremely grateful to have had the opportunity to live first in Tokyo and then in Beijing, traveling around most countries in the region, including such seldom visited places as Bhutan, Micronesia, Mongolia, Myanmar, North Korea, and Vietnam. Thus, I have experienced Asia's bustle and liveliness directly for myself. And I am confident that the period of crisis and readjustment shall pass. East Asia will return to the fundamental course of growth that has been characteristic of the last two decades. The old school of economic thinking, which prescribed economic growth at all costs, however, has to be overcome.

I believe that the new Asian management practices will continue to have an essential place in the world economy as they did in the past.

PART ONE
INTRODUCTION

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1
Why Asian Management?

Now that the storms of the Asian economic crisis are slowly letting up, Western business analysts are telling us that Asian firms have to adapt their management practices according to what they perceive to be "conventional wisdom." The United States and the Western world in general have set benchmarks for management practices and capitalism by putting together new combinations of technological input, open markets, and deregulation to create organizations that are expanding rapidly along a sustainable path of growth and wealth. However, the reality is that Asian firms have been different—and will be different in the future. Asian firms act within a very special frame of interlinked economic agents, a high degree of trust among these agents, and collective enhancement of society in general. It goes without saying that Asian firms are adapting to postcrisis economic realities, otherwise they would have no chance to survive in increasingly turbulent environments. But how many of these adaptations are "appearance" versus "reality''?

Confucianism as the common link of East Asia's main economic powers, Japan, South Korea, and the overseas Chinese communities in Southeast Asia, is part of the region's social texture of business. The founder of Confucianism, Confucius (Kong Qiu, Kong Fu Zhe, 551–479 B.C.E.), saw time-honored and traditional rituals as the basis of human civilization, and he felt that only a civilized society could have a enduring social order. He further believed that the self is the center of relationships and that the nature of society is a community of trust. The Chinese character *ren* (humanity, also translated as forbearance or benevolence) literally represents the relationship between "two persons," or co-humanity—the potential to live together humanely rather than be hostile toward each other. Rituals—and in the broader sense transactions in business—performed with *ren* have not only form, but ethical content.[1] This thinking is in contrast to the Western tendency toward arm's-length decision making, short-term profit taking, and frequent change of employment. Although Asian firms have to comply with the new economic circumstances in the aftermath of the Asian crisis, the ongoing globalization of business, and the revolutionary spread of the Internet, they may recollect their cultural roots and try to adapt the strength of their "Asian style" of management.

Until the mid-1990s there was widespread confidence that the East Asian miracle of rapid growth would persist and that the region would continue in its role as the main powerhouse for growth in the world economy.[2] Real per capital incomes in East Asian economies have grown at an average rate of four to six percent per annum since the 1960s. East Asia performed well above the world average for some three decades. In less than fifty years, Japan rose from the ashes of World War II as an Asian phoenix, and by the 1980s had become the world's second largest economic power after the United States. The four NIEs (newly industrialized economies)—South Korea, Hong Kong, Singapore and Taiwan—then followed and became the first tier of "Asian tigers" or ''Asian dragons" as they are sometimes called.[3] Later, growth in Malaysia, Thailand, Indonesia, and the Philippines picked up, and after the beginning of the 1990s even the "slumbering giant" China awoke to market reforms and entrepreneurial spirit, and started a spectacular run of economic growth.

Asian firms that have expanded to an increasingly global reach not only challenged Western firms in terms of market share, but also questioned the fundamental assumptions about economic action that guide Western firms' behavior. Business networks like the Japanese *keiretsu*, the Korean *chaebol*, and the overseas Chinese groups, have been widely acknowledged as alternative modes of governing industrial organizations. Mutual trust between business partners, whether perceived as *guanxi* (connections) in China or as close customer-supplier relationships in Japan, found enthusiastic disciples in the West. The underlying purpose of economic behavior in Asia—collective enhancement, that is, the goal to make a group of economic actors self-sufficient so they do not have to rely on outsiders for survival—was frenetically introduced in order to improve operations' performance and to lend a human and social touch to organizations.

In the last two decades, the influence of Asian management systems in general and Japanese management systems in particular on Western management practice has become evident. Management thinking from Japan has been regarded as superior, and many management gurus and consultants have been eager to tell Western CEOs to adopt Japanese management techniques. Before the Asian crisis lowered confidence in Asian economies and Asian management practices, many Western commentators praised Asian management practices or even warned of an economic threat from Asia. Some scholars have envisioned a "Confucian challenge" to the West by emphasizing the increasing importance of East Asian culture and economic power.[4] Only a few commentators like the Japanese scholar Kunio Yoshihara and MIT professor Paul Krugman[5] warned about the coming crisis of the Asian economic system and the regression of Asian management practices.

Asian firms are currently developing at such speed that most of our knowledge about them is outdated. In mid-1997 the expectation that Asian management is somewhat different or even superior to Western forms of organizing was shattered, as currencies plunged, financial institutions closed their doors, and rapid growth turned to recession, resulting in the failure of many Asian firms. Indeed, the golden era of Asian management practices has been rather short, as Asia has always known periods of intense change in its economic structures. East Asia's spectacular success after World War II, and its rise to an economic powerhouse, may have led to the assumption that Asian firms were based on a stable and unchangeable model.

The Asian economic crisis destroyed businesses, banks, and reputations with enormous efficiency. Between 1997 and mid-1999, instant noodles were among the few products to report growth, a substantial thirty percent growth in some places![6] Instant noodles—in Thailand, for instance—cost about 5 baht, while rice with curry (considered as local fast food) costs 20 baht. In short, instant noodles became one of the key indicators of the economic downturn and is perhaps a general indicator across Asia. Variations in potato sales may be a similar indicator in Europe.

When Asian economies were growing fast, governments and firms paid little attention to returns on capital investment. Similarly, as long as labor was cheap and export markets were widely receptive, labor efficiency was not an issue. Asian firms focused on creating growth—and less on shareholder value as perceived within the framework of Western capitalism. Conglomerates proliferated across a wide range of industrial activities, hindering a clear focus on core competencies. Today, improved labor efficiency and a clear focus is a priority in every part of business, from R&D to production to sales. The immediate steps Asian firms need to take to improve efficiency are standard practices. However, the extent of the improvements they must make represents a massive challenge. Improving their way of doing business is being driven by a simple factor: necessity.

What has changed along with the Asian economic crisis is not just that Asian firms are struggling against a prolonged recession, pressing though it is. Nowadays, the prevailing view is that Western companies had learned everything they needed to know about Asian management, and that it is the Asian companies that now have to learn again from the West. As globalization gained momentum in the 1970s and the 1980s, Japanese companies, in particular, seemed to be the winners in the emerging global industries such as consumer electronics, computers, semiconductors, machine tools, and automobiles, where they challenged their Western counterparts. During this time, Japanese management was considered a valuable answer to the fading glory of Taylorism and Fordism. Yet, by the early 1990s, with U.S. and European firms regaining market shares, the challenge seemed to be over and Japanese firms were apparently the losers in some industries. The Asian economic crisis of 1997 caused many Japanese and East Asian firms to crash.

The quest for a new role model is obvious: As Lee Hong-koo, an outspoken member of the South Korean National Assembly, said, "The model is now clear. It's not Japan. It's the West. The current crisis has convinced almost all people that the old style doesn't work. We will adjust ourselves rapidly to the new requirements, which means we will fashion ourselves more like the West, like the U.S. and European model."[7] Asian management practices are under attack! Fashion, however, is always fleeting.

The label "Asian management" has been taken to refer to the paradigm that has aspired to encompass the approach to management and business practiced by Asian managers. The increasing articulation of a distinctive approach to management is closely linked to the phenomenal growth of Asian economies and the surprising decline due to the Asian economic crisis. Moreover, Asian management has been perceived as a counterbody of thought in delimitation of Western management practices. Seduced by the strength of their economies, Asian managers became convinced that the long-term growth of their economies would continue, and they were sure of the uniqueness of their style of management. Their thoughts were congruent with assumptions widespread in Asia, where business networks count more than individual firms, trust relationships usually matter more than market mediation, and wealth creation for society as a whole takes priority over individual short-term profit taking.

In redesigning Asian firms, one should bear in mind the cultural profile of the region. Solutions that worked in other parts of the world may be difficult to implement in Asia because they clash with the underlying culture of Asian firms. Western-style corporate restructuring, for instance, usually entails massive job losses and management purges. Yet in Asian cultures, their collectivist nature often results in the requirement to save face. Hence mergers and acquisitions and corporate restructuring rarely lead to as many job losses as would be the result of an approach focused on fully leveraging economies of size.

Creative adaptations of Western management practices may be useful, and occasionally one may be able to find solutions that harness Asian cultural traits. Awareness of these traits can reduce the pitfalls experienced by those charged with the task of creating economic recovery. Few Western analysts may acknowledge the essential nakedness of the new Asian management practices if they recommend that Asian firms now go by the "conventional wisdom" that has been designed by Anglo-Saxon capitalism—investment bankers, business analysts, and management gurus. I believe that we should be brave enough to resist that. Asian firms have to invest time and effort to develop their own style of business. It is not about Anglo-Saxon hegemony, about *disneyfication* of all corners of the earth, as Thomas Friedman convincingly explains in his bestseller, *The Lexus and the Olive Tree*.[8] Finding the right balance between the global and the local is the great challenge of globalization. There are many instances of East Asian firms emerging from the crisis rather strengthened. These firms often reflect Confucianism as the cultural roots of their business practices and adopt certain "best practices" as experienced elsewhere, and may well retain their esteem very soon.

ASIAN FIRMS ARE DIFFERENT

Management practices are not developed in a vacuum but within corporate organizations and social environments that cannot be easily replicated. They cannot be introduced overnight like managerial directives but have to be integrated in corporate visions and immersed in the appropriate social values and attitudes. Despite the common blame of oversimplification, there is a rather strong empirical support for value orientations in conducting business across differing cultures. Substantial progress has been made in cross-cultural and comparative management studies depicting those differing values and practices. The Dutch anthropologist Geerd Hofstede,[9] for example, has divided culture into four dimensions: power distance, uncertainty avoidance, individualism, and masculinity. By applying the concept of these four dimensions, he examines major Western management theories to see if they are universally applicable. One of his findings suggests that Asian nations and organizations fall toward the lower end of the "individualism vs. collectivism" scale while the United States show high values in individualism. He concludes that the difference of Asian organizations is due to the common heritage of Confucianism.

Confucianism can clearly be identified with the foundations of most East Asian management practices, in particular those of South Korea, Japan, and the Chinese communities in Southeast Asia. In many areas of East Asia, Confucian values provide the basis for societal norms of interpersonal relationships and behavior. Confucianism as the common cultural heritage of the region is reaching back through a long time span. Variations in its modern interpretations are emerging in the same way that Western countries manifest a wide variety of their common occidental heritage.

The success of Asian management practices in the international arena has caused a strong debate between two different schools: the "culture-bound" and the "culture-free" theories.[10] The first states that Asian management cannot be transferred successfully abroad because it is highly dependent upon the unique ethics and culture of Asian societies. The latter prescribes full globalization of culture, human behavior, and management practices. A widely accepted wisdom determines what is best practice and what is not. Organizational ecologists like Hannan and Freeman and management scholars like Therese Flaherty, for instance, base the supposed invariance of culture on the observation that the contingencies of competitiveness impose a logic of rational administration, which it becomes functionally