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Redding: The Spirit of Chinese Capitalism

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S. Gordon Redding

# The Spirit of Chinese Capitalism



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For Philip and Peter  
and for the  
family of Han Hwa



# Preface

The title of this book pays tribute to Max Weber and suggests that what is being attempted lies in the shadow of *The Protestant Ethic and the Spirit of Capitalism*. That is so, and Weber's influence is humbly acknowledged. In doing so, however, it is important to state that much has happened in the worlds of practice and theory since 1904 when Weber's thinking first appeared. The cynic might observe that we still have no clearer understanding of the linkages between societal values and economic activity despite the best part of a century's research but at least we have a far richer set of conceptual frameworks with which to think about organizations and societies. This book is, in a sense, a test of whether these extra frameworks can produce more enlightenment or whether we really are stuck with Bonini's paradox that our models, as they get closer to the real world and thus more complex, begin themselves to be as incomprehensible as reality.

The simple notions guiding this book begin with the idea that the way managers see the world affects economic systems via the organizations those managers create. Secondly, this is especially so when the managers are owners at the same time. It is even more so when they come from a society with a strong set of values about cooperation and authority.

The particular group of interest here is a set of owner-managers among the Overseas Chinese people of Hong Kong, Taiwan, Singapore, and Indonesia.

Those are the countries in which long conversations were held with 72 senior executives about their belief systems. At the same time, research from Malaysia, Thailand, and the Philippines is brought into account, to produce a hopefully comprehensive picture of how, and more particularly why, the Overseas Chinese operate as they do, to dominate the economies of the countries surrounding the South China Sea, and in turn to play a significant part in international business generally.

That this set of people is economically important in world terms is occasionally acknowledged. It is however difficult to align recognition with their true significance, as their impact is spread across so many national boundaries that they cannot as a total be represented in any national statistics. Even adding together Taiwan, Hong Kong, and Singapore is grossly inadequate, as it leaves out so much going on in Malaysia, Indonesia, Thailand, and the Philippines, to say nothing of China, or of Vancouver, Toronto, New York, San Francisco, London, Sydney, etc.

This book begins with some attempt to place their power in perspective, and then to examine its origins and its workings. That they produce large numbers of

successful business people is beyond doubt; how and why is still remarkably obscure, as if they had deliberately avoided publicity. The number of books on them is minimal, and detailed research in short supply. They get on with it quietly, but to remarkable effect. As their influence and their power continues to grow, it is becoming increasingly important that their approach be understood, and long overdue.

Such understanding as may emerge from this still somewhat pioneering introduction, rests on the work and help of many people. Especially instrumental in this project has been the support of the Institute for the Study of Economic Culture, at Boston University, and the encouragement of its director Peter Berger. Many of the ideas were formulated and sharpened in meetings under its auspices, and the practicalities of writing were made much easier by a period of six months residence at the Institute in Boston. During that period Maria McFadden and Susan Leftwich were most helpful and Brigitte Berger most hospitable. So also were the staff of the Boston University Library.

During this period I also benefitted from visits to the Fairbank Center for East Asian Studies at Harvard, and would like to record my thanks to its director Rod McFarquhar and the staff of the Widener Library.

That leave was from the University of Hong Kong where I have been teaching Chinese managers since 1973. To those managers, and especially the DMS and MBA classes, as well as to the university generally, a large debt is owed and gratefully acknowledged.

Working with me on this project, conducting fieldwork in Taiwan and Singapore, have been Dr. Michael Hsiao and Dr. Theodora Ting Chau, and their contributions are also gratefully acknowledged. It is sad to record that Mr. Lie Han Hwa, who began the fieldwork in Indonesia, died during the work, and this book is dedicated to the memory of his polite intelligence and helpfulness.

Among the many people at the University of Hong Kong who have assisted in the project have been my research assistant Monica Cartner and departmental staff Diane Law, Vienna Li, Henrietta Yim, and Christina Siu. Sirwinnie Cheung, Toto To and Sabrina Li of the Mong Kwok Ping Management Data Bank have also provided invaluable support, as has the Data Bank facility itself. My colleagues Gilbert Wong and Simon Tam have provided many stimulating conversations and Arthur Yeung provided valuable help with Aston data. Wang Gungwu provided early and welcome encouragement in hosting a workshop at Australian National University. The Indevo company provided welcome help for one part of the study.

In Hong Kong also, I have greatly benefitted from the encouragement and practical help of George Hicks, and from the friendship of a large range of practising businessmen, notably among them Stan Cheung and Peter Tsang.

The generosity of the Euro-Asia Centre, INSEAD and, in particular, that of its founder and director, Henri-Claude de Bettignies, has always been of great help in facilitating my study of Asian business, and conversations there with



Philippe Lasserre and Hellmut Schutte have provided consistent stimulus and help.

There are many other contributors of ideas, including researchers and academic colleagues in Asia and the West, and large numbers of managers whom I have talked to and visited over the past seventeen years throughout East and Southeast Asia. They will remain anonymous here, but their help is greatly appreciated.

The respondents in this study who were kind enough to join the interview process were promised anonymity. This was necessary to protect confidences and to tempt out their versions of the truth. I regret, therefore, that I cannot thank them by name. I would nevertheless like to thank them by initial, whereby they can in turn decide whether to disclose their involvement. This is thus a gesture of sincere thanks for the universal courtesy, frankness and sincerity of:

<i>Hong Kong</i>	AC, AC, PC, SC, WC, CF, AH, RH, SH, WH, AL, CL, CL, FCL, GL, HLL, JL, ML, NL, PL, SL, TL, HTL, KWP, KNT, KYT, PT, RT, ST, TT, DW, PW, JY, NY, VLW, YCW,
<i>Singapore</i>	JNC, SG, FHH, KPH, MCL, CHL, AM, JT, TWT, SPT, WST, KKT,
<i>Indonesia</i>	BHH, IYS, TU,
<i>Taiwan</i>	SSB, FC, YMC, NC, BTH, TH, MHH, DK, HK, CHL, JL, GTL, BL, AS, RT, CKW, AW, CTW, YLW, CW.

The book has benefitted greatly from the advice of many academic colleagues. Most significant has been the detailed and helpful scrutiny of Gary Hamilton, but similar debts extend to Peter Berger, Bob Dernberger, Richard Whitley, Bod Tricker, Brian Stewart, Bob Garratt, Adam Lui and Stewart Clegg. Derek Pugh's instrumental help in facilitating the organization structure research is also gratefully acknowledged. Nevertheless, and particularly in a study in a new field, it is important to state that final responsibility remains my own.



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## Chapter 1

# Introduction: The Overseas Chinese as an Economic Culture

It is a common observation that on returning to Hong Kong after a short absence you will find yet another tall building which was not there before. This somewhat complacent cliché takes on more force when you realize that that is what actually happens, and that it is possible to see the growth taking place, not so much like watching the grass grow but more like the speeded-up film of a flower opening.

The growth of the economies of East Asia is a new phenomenon not just in the sense that it is happening for the first time in the region, but more significantly in the sense that no previous burst of economic activity has been so dramatic anywhere in the world, recently or historically. Europe's economic growth unfolded slowly, North America's perhaps more dramatically but still not in the same league table as that of East Asia which has for three decades maintained annual growth at figures between seven and ten percent.

The search for an explanation of such events must come to terms with three sets of questions. Firstly, what kinds of business people and what kinds of businesses are operating in the region and how different are they from those in other areas? Secondly, how do such organizations manage to generate such apparent effectiveness and efficiency? Thirdly, what else, as well as managerial behavior, has to be brought into account to explain what is going on? This book attempts to examine such questions for the Overseas Chinese, particularly from the standpoint of their own theories of management. This chapter begins by placing the Overseas Chinese in perspective within the region, and in doing so to explore the notion of economic culture.

The use of the convenient phrase East Asia (first made familiar in Orwell's *1984* where he described the area as distinct for the fecundity and industriousness of its peoples) carries with it an implication that the region is homogeneous. At a superficial level it is. These are the "chopstick" cultures, and their peoples are universally mongoloid, as well as being universally in debt to ancient Chinese civilization, just as Westerners are to Greece and Rome.

To understand economic life, however, requires acknowledgement of substantial variations within the region. More particularly, given the managerial power of Japan and the vast amount of attention recently given by Westerners to understanding it, it is necessary to observe that Japanese and Chinese ways of

doing things, despite common cultural origins, are now very different indeed. As Joseph Needham once observed, Japan is as different from China as if it had been towed away to Europe and anchored off the Isle of Wight.

The performance figures point to three leading contenders for respect and attention in understanding East Asian success. The first and most obvious is Japan, now so well studied that further analysis would be redundant here. The second is South Korea, currently developing very fast and still relatively little studied.

The third group is that of the Overseas Chinese. In East Asia, as it is normally thought of, this would include Taiwan and Hong Kong, plus for most observers Singapore. This puts together three countries dominated by people originally from China, all of whom still think of themselves as unquestionably still Chinese. It should however also include very significant numbers of ethnic Chinese in Thailand, Malaysia, Indonesia, and the Philippines.

We must therefore re-focus away from East Asia to a larger sphere which encompasses Southeast Asia also. The Chinese diaspora has been until very recently the region to the south of them, surrounding the South China Sea. The Americans historically went west, the Russians east, the Chinese south. For the Chinese, this is an ancient migratory tradition, and it contains a feature unusual in such migrations: the Chinese who moved have remained in some deep and significant sense still Chinese; the majority of them have not psychologically left China, or at least not left some ideal and perhaps romanticized notion of Chinese civilization. This is the feature which unites them, and which provides them with one of their most distinct strengths—a capacity to cooperate. That it has not often been displaced by other forms of identity, of the kind experienced when, for instance, a Pole becomes an American, says something about the vitality, validity and fundamental good sense of the set of traditional beliefs and values which unites Chinese people. To label this civilizing value-system Confucianism is convenient but simple. I propose for the moment to accept the convenience, and to remove the simplicity later. Directly Confucian ideals, and especially familism as a central tenet, are still well enough embedded in the minds of most Overseas Chinese to make Confucianism the most apposite single-word label for the values which govern most of their social behavior. This does not imply that they are unusually devout, consistent, or narrow. It is simply a convenient label for a complex and changing set of values.

A variation on it is “post-Confucian,” used to extend the idea to other cultures, notably Korea and Japan, and to allow for the idea of modern re-interpretation of the original ideas, and also for variations in interpretation. For the Chinese themselves there is less need to explain re-interpretation, and the simpler notion of Confucianism will be retained.

No treatment of things Chinese, even though focussed on the South China Sea and its borders, and not aiming directly to discuss current events on the mainland, can totally ignore China itself. An understanding of present-day forms of



business behavior among the Overseas Chinese will owe much to Chinese history, both social and economic. An understanding of the Overseas Chinese psyche will owe much to knowing what has happened to China over the last hundred years as well as to its earlier cultural heritage.

It is however important to draw a line and make clear that this book is not about China now, and will only make passing reference to what is happening there. There will be more substantial consideration, at the end, of possible implications for, even possibly strong influence on, a notional future China, but our agenda here is the Chinese as capitalists, not as communists or socialists.

A rather startling justification for such a focus of attention comes from adding up some indicators of economic power. The GNP of China is somewhere in the order of US \$ 300 billion, with 1,008 million people. An estimate of the equivalent for the Overseas Chinese, taking account of their officially unacknowledged power in the ASEAN economies, would be somewhere in the region of US \$ 200 billion GNP, with around 40 million people. With only one twenty-fifth of the manpower, the Overseas Chinese are playing in the same league-table economically as the whole of China. Even though this contrast is heightened by the massive and very fundamental poverty of China, the significance of the Overseas Chinese in world terms may perhaps now be glimpsed. Their significance for China is also now more starkly obvious, even though the question of putting it to good effect is as complex as its import is great.

A further reason for treating them as one group, despite the variety of environments in which they operate, is that the Overseas Chinese have developed one particular form of organization—the family business—and kept to it. Admittedly there are refinements of it, a wide range of sizes and technologies in use, a great variety of products, services, and markets, and an adventurous set of new variations on how to spin it out to larger and larger size, but certain common denominators seem never to be departed from. It remains in essence a family fortress, and at the same time an instrument for the accumulation of wealth by a very specific set of people. It is guarded against incursions from outside influence, and its workings are not publicly known. It is usually run nepotistically, with a benevolent paternalism throughout. Much of its effectiveness derives from intense managerial dedication, much of its efficiency from creating a work environment which matches the expectations of employees from the same culture. It is, in a very real sense, a cultural artifact.

It has, of course, much in common with family business elsewhere, with what is normally described as the first stage of organizational evolution. A question thus arises—what is special about it? Is it not already understandable from the literature on family business generally? The answer as to its special nature is that it retains many of the characteristics of small scale, such as paternalism, personalism, opportunism, flexibility, even to very large scale. It does not follow the Western pattern of professionalization, bureaucratization, neutralization to anywhere near the same extent. Nor does it follow the Japanese pattern of the

powerful but informal trans-organizational bonding found in the *sogo-shosha* or *keiretsu*. It is capable of extending its transactions and influence by complex external networking, but the basis and mechanisms of this process seem quite distinct. It is its own animal, and seemingly unique.

Nor can this be argued to be a matter of time. The Chinese family business has had plenty of time to develop new forms. Sophisticated Chinese organizations have flourished both in and out of China for as long as Western organizations, perhaps longer. They have interacted with powerful markets for just as long and have been accessible to modern managerial technology had they wished. The fact remains that a traditional form of control is retained, and a particular form of legitimacy seen as appropriate. It is the purpose of this book to examine that perceived legitimacy, to seek its sources and to understand its results.

An underlying theme will run through much of what follows. It is that this special form of organization is peculiarly well adapted to its socio-cultural milieu and is thus not replicable elsewhere where that milieu is different. It is also peculiarly effective and a significant contributor to the list of causes of the East Asia miracle. At the same time, there are certain lessons which may be learned from it, for application in other parts of the world. Just as the West, stimulated by the example of Japan, has been recently rediscovering the significance of organizational culture, so may there be some lessons from the Overseas Chinese about paternalism, flexibility, and networking. Theory Z may be joined by Theory C. Their application will remain frustratingly difficult out of context, and the non-Chinese practising manager will perhaps eventually come to accept that he is likely to benefit more from the process of understanding his adversary than from trying to copy his tactics.

Such understanding is likely to increase in value over the next few decades. The organizations of Japan, Korea, and the Overseas Chinese will inevitably extend their impact on Western companies and markets. Western companies in devising appropriate strategic responses, whether those responses are to compete head-on, or to engage in some form of partnership, will need to understand what makes the other organization tick. This is equally valid within Asia itself, as the Chinese family business is likely to be just as opaque to a Japanese from Komatsu as to an American from Caterpillar.

That it has remained such an enigma is due to a number of forces. Firstly, Chinese businesspeople mind their own business. They have learned to be secretive because they have had to. This is a long-standing historical legacy. We shall see later that many of the environments in which they are accustomed to operate have not been notable for their hospitality to business enterprises or to Chinese entrepreneurs. Such entrepreneurs have developed a well-justified wariness in the face of officialdom and a well-honed set of defensive weapons to ensure their survival in an uncertain world. One of these is to keep information in the family.

A second cause for the relative neglect of them by the world of management theory is their dispersion over so many countries, and the lack of a critical mass

in one place sufficient to justify the luxury of research institutes devoted to their study and perhaps sponsored by an interested government.

Thirdly, their organizations tend to take a low profile in the wider commercial world. You may go into Bloomingdales, or Selfridges or Matsuzakaya, and find an intriguingly large number of labels saying "Made in Hong Kong" or "Made in Taiwan." They will not however be on garments sporting a brand identity which you could associate with Overseas Chinese. They will say "Yves St. Laurent" or something reassuring in Italian. Except for Wang, it is hard for most people to think of an obviously Overseas Chinese brand name, and that exception itself appears now under threat. The contrast, in this respect, with Japan is dramatic. Overseas Chinese power is thus hidden. They operate in the interstices of the trading world, back down the channels of distribution, making components, manufacturing for others, sub-assembling, wholesaling, financing, sourcing, and transporting. They keep well away from copying the huge organizational hierarchies which coordinate supplies, designs, production systems, marketing needs, and distribution systems to finish up with a Sony TV or a Westinghouse fridge or an Olivetti typewriter. They appear to have an instinct for avoiding such an option, and the significant ramifications of this, and the understanding of why it is so, will become key themes later.

Reference has been made a number of times so far to the organization as a cultural artifact, a response to what form of cooperation a particular set of people either want or are willing to accept, depending on their negotiating position.

Before proceeding further with this assumption lying vaguely in the background, it would be proper to bring it out for close examination, and in doing so take the opportunity to outline the investigative framework which lies behind the research for this book [1]. Needing clarification also is the more general notion of economic culture and where it fits into explaining business success and national economic success. Lastly, it will be necessary to explain what information this book is based on.

Explaining how particular patterns of economic growth develop is fraught with difficulties both practical and theoretical. Significant among the practical difficulties is the tendency among theorists doing the explaining to operate from one discipline, such as economics, or sociology, or history, and to have the greatest difficulty coordinating an explanation across disciplines. It is perhaps understandable that we do not have many theorists truly competent in more than one field, but it is regrettable if they refuse to acknowledge alternative perspectives and insist on the dominance of one theme. I would wish to avoid such intellectual imperialism, and even though the focus of this book on socio-cultural values and organizational behavior will at times make it appear biased towards one standpoint, the occasional tentative venturing into economics, psychology, or history may at least stand as symbolic of a wish to acknowledge the value of alternative perspectives.

Problems to do with theory itself arise because of the complexity of the issues

faced and the number of strands to be gathered together. Another factor making life more difficult for the theorist is that history, despite rumors to the contrary, does not repeat itself. The human race learns too much, especially technologically, as it goes along, for one total societal experience to replicate an earlier one (Popper 1957). It seems only in the micro field of individual human judgement that the often regrettable repeat performances occur. In facing these two issues, complexity and constant new circumstances, E.L. Jones, having attempted the task of explaining the "European Miracle" came to the view that it was like unpicking a giant combination lock for which there is no one key and no unique combination, yet with parts which fit together well enough to work (Jones 1981: 238). The whole developmental process will not fit into any simple model as "too many parameters shift and dissolve." Compromise is inevitable as it is not possible at the same time to derive generality, realism, and precision. His claim is that the particular combination of circumstances which made for Europe's very long-term development was sufficiently fortuitous to be in the category of miracles. A replica of that pattern, and particularly the "invention" of modern capitalism over the same period in Asia, would have been super-miraculous. Our concern now is with how certain groups in Asia this century, and one in particular, have beaten the laws of probability to move from the virtual impossibility of pulling off a super-miraculous feat to the just possible circumstance, aided to some degree by borrowing, of pulling off a miraculous one.

The complexity of explaining economic success, then, has two aspects: firstly, the number of possible influences is very large; secondly, the way they are connected together does not make for easy explanation. In regard to the first issue, it is possible to find plausible explanations for the recent economic success of East Asia in terms of (a) economic policies adopted by governments, (b) worldwide shifts in the processes of industry and trade, (c) socio-cultural factors operating at the individual and organization levels, (d) structures in the society which support business such as banking, capital raising, etc. (Hicks and Redding 1983). In each case, there is apparent logic. In no case has a single cause won universal acceptance. At the same time, almost no one has attempted to put the various contributing causes together. The dominance of intellectual specialization may have made that now impossible, or at least only attempted by the risk-prone.

The use of the word "cause" also raises more fundamental problems. Social science is not physics, and even so, physics is not what it was in the simple days of cause-and-effect. What the layman thinks of as cause-and-effect must give way to a whole complex of chains of factors, each one, if it is separated out for analysis, being determined by others, and being influenced in return by its results. Let me illustrate with the notion of family ownership of business. This simple fact of almost universal relevance to the Overseas Chinese *results from*

- (a) the Confucian political philosophy of designing a state based on the stable family;
- (b) a set of values instilled in consequence over centuries of socialization;
- (c) facts of Chinese history which have made it sensible for the Chinese family to act as the main source of identity and succor;
- (d) psychological characteristics of dependence and loyalty;
- (e) patrilineal and patrilocal kinship structures;
- (f) more recent politico-economic environments which have encouraged family business units;

*is a determinant of*

- (a) high levels of identity/loyalty/commitment in key organizational roles;
- (b) paternalistic organizational climates and worker dependence;
- (c) a narrowly defined set of stakeholders in the organization;
- (d) nepotism, together with its accompanying tension;
- (e) common economic outcomes of increasing family wealth;

*and is affected in reverse by these results* which tend to reinforce the established pattern by

- (a) releasing motivation in key organizational areas and thereby promoting efficient performance;
- (b) perpetuating the welfare of the key stakeholders, both practically and psychologically.

To understand fully this stream of connections would also require some incorporation of ideas from what might be seen as parallel streams of explanation; looking at, for instance, political factors, institutional structures, social psychology, history, economics, etc.

It is necessary then to abandon any notion of “mechanical” cause, that one thing results from another in a simple linear way like one billiard ball pushing another. Instead, we are faced with a vast net of connected elements, none of which is especially dominant, and all of which have somehow to be acknowledged, even though they may be only seen with peripheral vision.

It is in this context that the argument is placed for the notion of economic culture; in other words, that there are, within a certain geographical boundary, sufficient connections between socio-cultural values and economic behavior to make for a distinctive and unique constellation of features, identifiable both by particular economic characteristics and results and by overlapping social values (Berger 1986, Granovetter 1985). Japan is an obvious example, so too is South Korea; so too, beyond any single national boundary, is the realm of the Overseas Chinese. Others (e.g. Lodge and Vogel 1987, Morishima 1982, Rodinson 1974, Wiener 1981) have argued for the value of such a notion in understanding the behavior of many specific countries or cultures, and although the analysis is

often carried across political boundaries, the most common envelope in which to place a particular economic culture is the nation-state.

Such an idea does not, of course, solve the problem of explanation, as causes and effects still remain ambiguous, but by drawing boundaries around successful cases, and by implying the combination of two main forces, the economy and the culture, it can facilitate the intellectual effort of untangling the connections within the object of interest.

Lying behind such literature, as an *eminence grise*, is the still authoritative statement of the core idea, Max Weber's *The Protestant Ethic and the Spirit of Capitalism*. The way in which he traced the connections between the behavior of modern capitalists in Western Europe and the precepts of seventeenth-century Protestantism, and the way in which he attempted to place religion alongside other factors in the formulation of a spirit of capitalism, need not be considered in detail, but some brief account of the Weberian position is justified.

## The Spirit of Capitalism

Weber began in an intellectual milieu where much explanation of economic behavior made the common enough theoretical assumption that people were rational economic actors. His perspective was that this should not be simply assumed but, instead, explained. Although the import of what he proposed has been subsequently seen as highly significant, partly at least for its capacity to counterbalance the materialist explanations of Marx, in fact his agenda was carefully bounded.

Put at its sharpest (Poggi 1983: 83), what Weber is saying is: no capitalist development without an entrepreneurial class; no entrepreneurial class without a moral charter; no moral charter without religious premises. This contains a number of important implications. In the first place, it treats the ideas contained in the "spirit" of capitalism as parts of a more complex explanation. They are necessary components but not sufficient in themselves to produce the result in question. Secondly, the context of his study was European capitalism of the early twentieth century the forms of which were, in his view, influenced critically by an ethic shared by businessmen and traceable to the doctrines of seventeenth-century Protestantism. The arguments are not designed to transfer out of that particular time or place.

Given those reservations, however, a number of forces have conspired to make Weber's analysis attractive to many of those dealing with questions which are in fact located in different places and different times. In the first instance, the notion of ideas as moving societies in certain directions continues with all its intuitive appeal to have a narcotic attractiveness. Secondly, the sheer power of

modern capitalism has extended massively the size and significance of the phenomenon Weber tried to explain and embedded it deeply into other cultures since then, causing them in turn to change significantly. Thirdly, the progress of social science, by encouraging multidisciplinary and complex forms of explanation, has confirmed the salience of such belief systems as necessary although not sufficient components of the understanding of economic behavior.

The understanding of Chinese capitalism, which this book makes a start at, begins with an assumption that there is a distinct and bounded phenomenon to be explained, that it is the culmination of a set of processes which need to be seen historically, and that the beliefs and values of businessmen have a part to play in the understanding of it. To set the scene for such an analysis, it will be salutary to look at the Weberian model as exemplar, although in doing so to acknowledge the impossibility of matching the monumental scholarship which formed the original. Instead, the emphasis in this study will be quite deliberately empirical, an element notably lacking in the Weberian literature and its critical progeny (Marshall 1982: 132).

Modern capitalism, as Weber saw it, has the following components (Marshall 1982: 56, Poggi 1983: 23):

- (1) Fixed capital invested in the production of goods on which depends the satisfaction of everyday mass needs;
- (2) rationally capitalistic organization of formally free labor, including discipline;
- (3) separation of business and household capital;
- (4) rational bookkeeping and accounting aimed at long run, ever-renewed profitability;
- (5) rational structures of law and administration;
- (6) the rationalization of economic life in a shared "spirit" or ethic;
- (7) orientation to opportunities open on the market.

The power of the modern capitalist system over others that had gone before (but not necessarily, we must note, over others that have emerged since) was based on the persistent theme of rationality. This releases the efficiency derived from compelling businesses to operate via the most accurate calculations possible about the results or potential results of their activities. In the use of information for the pursuit of profitability, and in the peculiarly strong commitment to the objective selection of the most appropriate means for given ends, sharpened also by the capacity to foretell the equally rational behavior of others, this system has imposed a matter-of-factness and a capacity to rise above more "local" considerations, which largely explain its transcendence. In the process, in treating the world as a set of objective arrangements "to be continuously and ruthlessly tinkered with" (Poggi 1983: 91), it has made marginal the irrationalities of superstition, and deprived the world of much of its enchantment.

The prior, more "traditional" world, with its superstitions and magics was also

characterized by attitudes which ran counter to the accumulation of wealth. The traditional peasant would work to provide himself with enough to satisfy basic needs and had no ambition for further riches. The doubling of wages could result in the halving of work if needs were the same. This changed in parts of Europe after the seventeenth century and a new spirit, justifying hard work and the accumulation of wealth, began to spread and work its effects.

Weber was not so much concerned with explaining how the spirit of modern capitalism affected its day-to-day workings, as he was to explain where the spirit came from in the first place (Marshall 1982: 18) [2]. He traced it to the ascetic versions of Protestantism which grew up after the Reformation broke the monopoly held by the Roman Catholic church over the rights to worship. When these rights were dispersed to individuals, new ethics grew up and were reinforced by new sanctions to compel adherence. The main Protestant ethics of significance in this case were

- (1) diligence in worldly callings or vocations, including business;
- (2) asceticism;
- (3) the systematic, i.e. non-wasteful, use of time.

The sanction which compelled adherence was founded in Calvin's doctrine of predestination, the force of this stemming from the following horrific logic:

- (a) You are either elected as a child of God or condemned as a sinner to eternal damnation.
- (b) You cannot know which you are.
- (c) The distinguishing feature of the elect is that they trust through faith and live the godly life.
- (d) The systematic and relentless practice of appropriate worldly activity therefore allows the individual to conclude that his or her faith is true and thus that he or she is "elected."

In consequence, a great deal of diligent and ascetic worldly activity ensued. The assiduous pursuit of efficient transactions became a way of demonstrating faith. The rationality which was arguably inspired, or at least strongly reinforced, by such an ethic then in turn contributed, along with a multitude of other determinants, to the increasing power of the system which emerged as modern capitalism.

## A Spirit of Chinese Capitalism?

A plethora of questions surrounds the notion of a spirit of Chinese capitalism. Is that capitalism in itself distinct? Is its way of working the result, at least in part, of an identifiable set of people acting out a certain set of beliefs? Is that spirit



coherent and internally consistent? What are the components of such a world-view? How did they come to crystallize out in this form? Where do they come from? How are they maintained and reinforced? How do they affect behavior? This book is about those questions, and in beginning a process of answering them, it must present at the outset some conditions for the analysis, and some assumptions about how causation will be viewed. The questions will serve to focus the discussion.

*Is Chinese capitalism distinct?* The seven components of modern Western capitalism listed earlier only partially describe Chinese capitalism. The separation of business and household capital is not complete in the Chinese case, certainly psychologically. Financial control practices are still so clandestine that they are only partially rational. The surrounding structures of law and administration are not entirely indigenously derived. In sum, a different list of characteristics would be needed to encapsulate the Chinese form.

This still does not justify its classification as distinct, as it may well be simply an example of more traditional business forms which have many variants. One needs to consider how different it is from Jewish business, from Armenian, from Marwari, before concluding that it is in fact a distinct type. This latter question can only be answered by implication later, as it is too large an issue for this text to address specifically. It will however be argued that, although there is much overlap with these other types, the combination of features in the Chinese case leaves it in a separate and distinct category.

*A coherent spirit?* For there to be an affinity between business behavior and the spirit which infuses it, assuming consistency of behavior requires also consistency of the notionally independent spirit. It will be argued that Overseas Chinese businessmen think sufficiently alike, and differently from others, for such consistency to be proposed. Internal consistency is a matter of the parts of the belief system making sense as contributing components to a sensible overall framework. This will be argued to be the case, and will strengthen the case for the distinctiveness of the belief system. The role of Confucianism as the bedrock set of beliefs is crucial in this regard.

*Components of the world-view.* These will be reconstructed from the statements of the businessmen in such a way as to interpose as little as possible between their expressions and the description of them. It is their categories which are sought and their reasoning. The method of research for this book paid particular attention to gaining access to deeply felt, but rarely articulated, beliefs.

*How do the beliefs form?* As a sum of the individual accounts of 72 businessmen in four countries, the description here focusses on typical processes of socialization and sources of influence in a person's own experience.

*Where do beliefs come from?* It is taken that the traditions of Chinese society, going back into mainland Chinese history are transmitted and maintained in the Overseas Chinese subculture, and that the beliefs come from such social and historical experience.

*Maintenance and reinforcement?* It is taken that there are forces which play on individuals, in the specific Overseas Chinese context, which reinforce adherence to the basic tenets of their ethic, and serve to renew and perpetuate it.

*Beliefs and behavior?* At the individual level, the connection between beliefs and behavior is loose and variable. At the societal level, doubtless it is more so. Nor can cause be seen to be going one way. The suppositions in this research are that understanding how the spirit of Chinese capitalism influences the practice of Chinese capitalism requires acceptance of the following caveats about causation:

- (a) the determinants of a pattern of business activity are multiple and not analysable within one discipline;
- (b) some will be more salient than others but not necessarily following precedents in other areas or other times;
- (c) they will be interconnected among themselves;
- (d) they will be influenced reciprocally by their effects.

We must now move on to claim in summary that the Overseas Chinese have an apparently distinct economic culture, that it is describable, and the outline of its determinants can be drawn. It is still necessary to place it in a larger framework of explanation if the question of macro-economic performance is to be a consideration.

In taking culture as a principal theme in this book, it is necessary to reassert that it is not seen as *the* dominant cause of economic success, obliterating or ignoring other factors like economic policy. Culture is one of several key features, deserving of a respectable place in any account. No more than that, but no less either. That this claim is necessary is in part due to an intuition that economics particularly has tended to (a) be accorded a form of automatic right to initiate explanation, but (b) has forfeited that right by staying somewhat disdainfully within its own cautious boundaries. No more embarrassing indicator of this can be found than the supercilious treatment by Samuelson in the textbook which so dominates that field of enquiry (Samuelson 1979: 718). In a section headed "Superficial Theories of Development," the question of custom and culture is granted 35 lines (in a text of 828 pages, double-column). Paradoxically he lists a range of cultural traits which are acknowledged to be influences on material progress. These include

- (1) a replacement of a belief in magic and superstition by discernment of and belief in the cause-and-effect relation of engineering and science;
- (2) the work ethic;
- (3) materialism as opposed to other-worldliness or emphasis on the hereafter;
- (4) tolerance of dishonesty and corruption;
- (5) tendency toward thrift;
- (6) ideological battles over the distribution of wealth.

Having acknowledged their influence, he says, somewhat obscurely, that "put-

ting stress on these non-economic factors does not solve the problem of *explanation*. It poses new problems." Samuelson's solution to this apparently frustrating untidiness is to remove such issues from the account! Such epistemological naivete fits well with someone who then goes on to dismiss Weber's work with insulting curtness claiming that the Protestant ethic thesis "proves nothing, because there is almost nothing to be proved."

More recent thinking has seen economists beginning to deal with some of the more intangible features of life which sociologists have always dealt with. The work of Morishima (1982) on Japan for instance and Morawetz (1980) on Colombia are indicators of a desire to range more widely in search of answers, to respond to complex questions with complex explanations.

To see the culturally based explanation in context, it may perhaps be useful to summarize briefly the set of key approaches found so far in the literature.

Two recent reviews of the literature on East Asian success have categorized the approaches used, and may serve to introduce the field. Chalmers Johnson who is concerned to explain Japanese performance at the national level sees the main schools of thought in the following terms (Johnson 1985). There are three main approaches:

- (a) the "MacArthurian" explains the country's success as the result of being like a child protected, and to some degree spoiled, by a rich uncle, and so far still able to behave self-indulgently;
- (b) the "Nihonjinron" view explains Japanese success entirely in terms of cultural uniqueness, stressing such features as cooperativeness and identity with the work group, intergroup competition, sacrifice for common goals, etc.;
- (c) the "Venetian" model explains the success in terms of the structural underpinnings of the trading nation, these being: stable rule by a political-bureaucratic elite immune from the kind of political pressures which would undermine economic growth; cooperation between public and private sectors within some understood strategy; heavy investment in education; equitable income distribution; sensitive use of intervention by the price mechanism.

Johnson comes down clearly in favor of the "Venetian" model, arguing that the successful economies of East Asia share the same structural features. For the purposes of the argument of this book, however, it is worth noting that in arguing the significance of the infrastructure, Johnson is also aware of a closer-grained reality. He faces the title-page of his distinguished book *MITI and the Japanese Miracle* (1982) with a quotation from Peter Drucker: "It is only managers—not nature or laws of economics or governments—that make resources productive!"

An alternative review is provided by Gary Hamilton and Nicole Biggart, although their approach differs from that of Johnson by making organization and management the centerpiece of their inquiries (Hamilton and Biggart 1988).

As this accords with the perspective taken in this book, perhaps their review will set the scene appropriately.

They distinguish three main approaches, within the social sciences, to the study of organizations:

- (a) The *market* approach looks at the issues in a fairly mechanical way, attempting to draw up laws of market behavior, and analysing economic decision making in relation to market-mediated transactions. Thus the development of multi-divisional corporations is seen in terms of the efficiencies they bring to the reduction of the costs of transacting economic activities.
- (b) The *cultural* approach takes it as a starting point that cultural beliefs and behavior patterns in the society will shape economic behavior, as deep-seated "character traits" of the society come to the surface.
- (c) The *authority* approach concentrates on "principles of domination," which, although clearly related to culture, are not reducible to it, as historical, political, and economic elements also get involved. A more commonly understood title for this field is political economy, and it rests mainly on the foundations set by Marx and Weber.

As Hamilton and Biggart point out, the market approach suffers from the central problem of its mother-discipline, economics, in that it uses too simple and restricted a notion of cause-and-effect. It is difficult using it to explain the *variety* of organizational types in East Asia. It is, for instance, not convincing to explain large Japanese corporations, many of which pre-date the period of modern industrialization, without some incorporation of historical elements, or of societal attitudes to cooperation. It is not convincing to explain the Chinese family business in purely market-transactional terms and ignore the pressures on family survival and internal support which were common through Chinese history, related as they were to political control structures, and reinforced by a powerful set of social values.

The culture explanation, on its own, is equally unconvincing unless it, at the same time, acknowledges the reality of economic life and the inevitably powerful influence of market forces in reinforcing successful formulae.

And there is still something crucial left over, which is that organizations qua organizations are cooperative systems which imply domination and (perhaps more crucially) the acceptance of domination by the majority of people in them. Neither culture nor market can explain this totally, and resort must be made, in understanding this decisive central component, to the wider context of authority relations in the society.

One is led to three conclusions:

- (a) economic explanations are more convincing if they acknowledge culture;
- (b) cultural explanations are more convincing if they acknowledge the market forces of economics;

- (c) the explanations which have most effectively stood the test of time have started with the society's view of authority and then attempted to incorporate the other features.

This latter approach, if taken too far, suffers from the danger of a permanent trap—that of saying simply that everything is connected with everything else. While this may end the nail-biting over choice, it produces no consolation for the enquirer looking for guidance through the swamp. A degree of risk is involved in making any model of reality, and one must trade off the waspishness of specialists who will attack what they see as an approach which is either biased or too general, against the extra illumination which simplicity will provide for the newcomer to the question.

That there is movement to reconcile these tensions is suggested in a review by Richard Whitley (1987). In this he argues that economic analysis would be better informed by acknowledging the significance of the fact that firms develop different characteristics which in turn affect subsequent resource allocation and use. They have, in other words, borrowing a notion from Spender (1980), different “recipes.” Looking at the matter by industry, one could note that there are many similarities in the organizational behavior of say airlines, department stores, software houses. These could be argued to be responses to certain common technical and market forces. The point is that the form of organizational behavior, the “recipe,” becomes an important part of any understanding of what is going on in an industry.

Similarly, and crucially for the concerns of this book, the cross-national understanding of why and how organizations behave as they do must take account of the possibility of “recipes” varying by culture, or country. Within the economic cultures of East Asia, such as the Japanese, Korean and Overseas Chinese, have emerged certain dominant organizational “recipes”: the Japanese *keiretsu* and *kaisha*, the Korean *chaebol*, and the Chinese family business. To see them as relatively stable configurations, answering the need for coordination in quite specific contexts with quite specific impulses, constraints, and material to work with, is to see them in a way which connects the institutional approach of Hamilton and Biggart, with the organization-based approach of Whitley, while at the same time allowing culture into the explanation of why and how the recipe stabilized in its present form. Thus an informed sociology of firm behavior would enrich the study of economic logics with the study of the social processes and conditions for those logics. The notion of economic culture becomes a vehicle for that endeavor.

The main platform for the study of economic culture in this book will be the depiction of the beliefs of Chinese chief executives which together constitute a spirit of Chinese capitalism. It is intriguing in this context to note a significant point about the workings of capitalism, made recently by Peter Berger (1986: ch. 9). This is that it is essentially taken for granted, and in fact “has a built-in