Discussing the differences in leadership styles, practices and skill sets of Chinese and Western CEOs
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“Chinese CEOs attributed their sustained business success to their sense of moral or social responsibility”
China is becoming ever more attractive as a market. In a recent survey of global senior executives across 19 industries which was jointly conducted by the Hay Group and Economist Intelligence Unit, over 80 per cent stated that they expected to be doing business in China within three years.

The challenge of China

Commercial liberalization of the largest and most populous economy in the world is allowing companies to tap huge pent-up demand. Add to this China’s ability to attract billions of dollars of foreign investment; the steady deregulation of its industries and we have a clear explanation for its projected annual growth rate over the next five to 10 years of eight to nine per cent.

With many organizations looking for new markets for their products and services; seeking to forge new supplier relationships or to acquire new manufacturing capability in China, Hay Group conducted an in-depth study of successful CEOs of Chinese enterprises.

We wanted to understand the strengths and the particular competencies that underpin China’s phenomenal growth - the competencies that its best business leaders have used to deliver excellent business results. Understanding these characteristics can provide guidance for aspiring Chinese CEOs, as well as giving Western businesses insight into issues to consider when working with Chinese CEOs.

The study yielded interesting findings. This group of Chinese CEOs demonstrated a unique set of skills which enabled them to thrive in the Chinese social and economic environment. In comparison to business leaders globally, they have significant strengths as well as certain skills gaps which may affect how they compete in the global market.
The study

Conducted over the course of 18 months, the Hay Group study comprised rigorous in-depth, behavioral event interviews, as well as extensive surveys of the CEOs and their direct reports of 37 Chinese organizations. During the interviews, each CEO spent three hours recounting stories of what they said, thought and felt as they encountered some of their most important recent business experiences.

The surveys included a Picture Story Exercise, reflecting the leaders’ non-conscious concerns and motives – the underlying drivers of their behaviors. A Personal Values Questionnaire indicated their conscious values and our Individual Learning Style Inventory’ showed how they process information and make decisions.

In addition, most participants and a group of their direct reports also completed surveys regarding their leadership style and the organizational climate that they created.

Three unique strengths of Chinese CEOs

Our study revealed a number of specific and sometimes unique skills and competencies amongst Chinese CEOs.

**Social responsibility**

What is perhaps most surprising, given the widely-held perception of the tendency of Chinese business to corruption, is the frequency with which social responsibility featured in the interviews and in the events recounted. Anecdotes in which the leaders acted according to their sense of social responsibility featured most frequently in the events with the best business outcomes, and among the fastest growing businesses.

At its core, social responsibility, as seen in the best Chinese CEOs, involves conducting business in a manner designed to improve the business environment, particularly in one’s own area or industry. This can involve actively supporting stronger regulation of one’s own industry; the refusal to participate in common but ‘unfair’ business practices or even voluntarily limiting one’s own profits to a reasonable level for the good of the industry and the society.
One example is of a CEO of a business specializing in furniture trading. Concerned at the lack of control and corporate governance that they had witnessed within their large organization, this leader was constructing a new management structure. The objective was to establish rigorous accountability for fair business practices as well as increasing employee motivation through profit sharing.

Leaders demonstrating this competence are likely to act according to these values and to ensure that normal business practices in their organization are consistent with them. They may also promote social values both inside and outside the company and ‘fight’ for them even at the cost of short term profit, or the displeasure of their peers.

In this way, some of the very best Chinese businessmen are actually striving to build a healthy and responsible economic system. These leaders felt they had little in the way of precedent within the Chinese economy and so were using their own judgement as a guide and using their own behaviours to promote transparency and integrity.

Chinese CEOs also attributed their sustained business success to their sense of moral or social responsibility. As one said, “corporate culture is closely related to the personality of the top leader... Only when you have high moral standards can you lay the founding stone of success.” Such stories provide cause for optimism among Western companies who are considering doing business in China but who are concerned about standards of probity and governance. However, there is still progress to be made in this area.

**Harmony**

Other Chinese leadership competencies complement and support this sense of social responsibility. The seeking of harmony in business relations is a striking example. Chinese leaders are often faced with complex, multi-party negotiations involving other businesses and different parts of the local and/or national government – situations that would tax anyone’s negotiating skills.

The best Chinese CEOs display a distinctive and effective way of negotiating these complex environments. They do so in such a way as to create a harmonious result in which all parties are at least reasonably satisfied with the result.

Achieving this degree of harmony involves complex influence strategies designed to bring each party to support the same solution. Chinese CEOs construct and present several alternatives in such a way that each party will voluntarily choose the same alternative – the one the leader sees as best overall. Care is taken to ensure that no party fully ‘wins’ at the expense of others. The foundation of this competency is an assumption that the relationships will be long-lasting – it is in no one’s interest for one side to be seen as totally ‘winning.’

Western leaders would do well to learn how to understand the perspectives and concerns of their counterparts and observe how Chinese CEOs craft mutually satisfactory options in this way.

However, Chinese CEOs want to improve not only their society and their business relationships, but also themselves.
Our study identified a marked lack of complacence amongst Chinese business leaders when it came to their own abilities and an appetite for continuous self improvement.

This competency is manifested in a willingness to review and reflect on oneself, to learn from experience and to improve on performance and behavior. It is based on an awareness of one’s own behavioral patterns, attitudes and moods; recognition of one’s own limits and a desire to learn and to do better.

It is associated with better business results when it is associated with taking practical action to improve and inspiring others to do the same.

Business leaders exhibiting this competency are also likely to request feedback and advice for improvement and seek continuous improvement in their own skills and behaviour as much as in their business results. They organize teams to conduct their own self reflection and take actions to implement changes based on it, sometimes making this a special event for the organization.

While from a Western perspective this process might be unnerving to witness, self-criticism is considered a virtue in China and can be a valuable exercise both at the personal and the organizational level.

In the Hay Group study, one CEO practised Buddhist meditation to check his own temper and impatience. Another judged the fortunes of his organization to be tied to its ability to acquire knowledge and contacts globally. Mastering spoken English, he argued, was essential not only for him, but, also for his team.

Chinese CEOs may have to exploit these characteristics further in order to fully address the challenges they face. Appreciating the virtuous intent behind such critiques should encourage Western leaders to share best practice and expertise. In so doing, they will not only help their Chinese partners to improve but grow and improve themselves.

Self-criticism is considered a virtue in China and can be a valuable exercise both at the personal and the organizational level.
Many Chinese businesses seek to expand and to become international or global businesses. However they face three particular challenges. While these three areas highlight room for improvement within the Chinese domestic market, they become even more important in the light of the international ambitions of many Chinese businesses.

**Talent management**
China, like many other parts of the world, is facing a significant shortage in talent. The situation is particularly acute as firms are undergoing rapid expansion and with scarcity driving up wages, high turnover is a key issue.

Some 23 out of the 30 CEOs surveyed identified talent management as one of their own three biggest challenges.

However while talent management was identified as a critical issue, only six leaders actually told stories about developing or managing talent. Of these, only three indicated real success. Perhaps one reason for the lack of attention to talent is that rather than addressing talent management issues, Chinese CEOs are devoting a significant amount of time to raising capital – a responsibility normally associated in the West with the role of the chief financial officer.

Clearly, in the future, the ability to fill the talent gap will be critical to the success of Chinese CEOs, as much as CEOs elsewhere. They must develop their ability to build organizational capability in order to be successful.

This requires a commitment on the part of leaders to taking practical action to improve the long term talent capability of their organization.

In practice this involves ensuring that the right people are in key strategic roles. It is also demonstrated by establishing the operating systems and processes and organizational structures necessary to respond to current skills shortages in capability as well as to develop capability in the long term.

Leaders possessing this competence in good measure will be concerned to foster the long-term development of others, and will seek to leave a legacy by developing good leaders who will be ready to take over.

**Organizational climate**
The question of the organizational climate created by the leader is a significant one as the success of an organization depends on fully engaging the efforts and commitment of the top team and larger employee population, not just the CEO.

While the tendency towards self criticism has already been noted as a distinctively Chinese management trait and one that will be new to many in the West, our interviews also identified other leadership styles which could initially be confusing to Westerners.

The Chinese leadership style is predominantly paternalistic in nature. Chinese CEOs are less likely to give
rationales for decisions and more inclined to issue directives – this is known as the ‘directive’ leadership style. At the same time, Chinese leaders communicate a sense of caring for their people – an ‘affilative’ style. They also often demonstrate concern for the education and development of their reports in a manner consistent with Chinese cultural values for education through a ‘coaching’ style.

Chinese leaders are much less likely to manifest a ‘visionary’ style of leadership – involving the provision of a clear overall vision, direction and explanation. Nor do Chinese leaders much seek to involve their team in decision-making – otherwise known as the ‘participative’ style.

This typically Chinese, paternalistic style can be disconcerting to Westerners and is not the most effective possible style for Chinese employees. Our study found that when Chinese leaders do include the visionary style as one of their strengths, they produce much more energizing climates. Within the group of leaders we studied, the visionary style and its associated more energizing climate were also more characteristic of the faster-growing businesses.

One of the consequences of the CEOs’ leadership styles is that the climate, as experienced by their direct reports, is less energizing than it could be. Substantial gaps are found between the ‘ideal’ climate dimensions these CEOs’ direct reports aspire to and the ‘actual’ climate they are experiencing. The biggest gap lies within the area of cooperation or ‘team commitment.’ Currently, the direct reports to Chinese CEOs do not seem to exhibit the level of team commitment and collaboration needed for performing well as a team.

While some of them might contribute to this by preferring to work directly to the CEO, the CEO can promote more effective teamwork by providing clarity and by seeking the team’s ideas and input. This style of leadership simultaneously helps to develop the capabilities of the direct reports themselves.

The question of leadership styles is of particular interest in light of many Chinese companies’ interest in international expansion — which will necessitate leading international teams. Widening their range of leadership styles, to include the visionary and participative styles, could help energize the current Chinese teams as well as enable the Chinese leaders to get top performance from global teams.

Innovation: from red sea to blue ocean
The rapidly growing Chinese economy is testament to the energy and high achievement drives of Chinese CEOs. Their energy and commitment to delivery is documented in our survey findings with ‘entrepreneurial growth’ rating as the highest scoring competency demonstrated by Chinese CEOs.

This energy and high achievement drive is demonstrated for example in the ability of Chinese businesses to replicate processes and operations, adapting them in order to deliver improved efficiency and cost.

However, with markets opening up and globalization taking hold, China’s fledgling private businesses are experiencing more intense competition. After 20 or so years of rapid growth, many Chinese companies have witnessed narrowing margins and decreasing profit.
Many of them believe that foreign markets may present better profit opportunity. They are also supported by the government in their intention to go global.

This presents many Chinese CEOs with a challenge. In order to compete abroad, they can no longer rely on their highly developed skills as adaptors. In order to compete they must generate value and/or differentiate, they must innovate.

In place of the low cost, mass market ‘red sea’ model currently employed, many Chinese leaders already aspire to a new ‘blue ocean’ strategy of competing on the basis of quality, innovation or other differentiating and higher-value characteristics. Others are actively looking for a new ‘blue ocean’ strategy for sustainable growth.

China’s struggle to innovate has been widely noted and numerous explanations for it posited. A recent Financial Times article referred to a report by the regional brokerage CLSA which maintains that the country lacks the legal and economic environment to foster innovation.

Until now, with plenty of revenue to go around in sectors largely owned and controlled by government, significant profits have been generated simply through nurturing contacts and acquiring information as opposed to creatively responding to and serving markets. What’s more, small, private entrepreneurs often struggle to obtain finance in China.

Moreover, the country’s Confucian heritage places great emphasis on education, yet there is also a long tradition of deference to authority which does not lend itself to intellectual enquiry.

Hay Group’s findings confirmed these observations. Many CEOs did identify the need for a new business operating model and some did recount occasions where they had responded directly to market changes, but without the kinds of deep and market-focused innovation we have seen elsewhere. Only seven of the stories told during interviews addressed new business model issues directly and even then with more focus on finance and ownership structures than on markets and customer needs.

In addition, while there is a bias on the part of Chinese CEOs towards prompt action they are less likely to seek information to inform and shape that action than their Western or Indian counterparts. The seeking of new information, for example about social trends, new technologies, shifts in consumer trends, is crucial to the process of innovation. Within a business culture that has not historically placed value on creatively serving domestic markets, it would appear that compared with western benchmarks a key leadership competency is also missing. Moreover, culture, economics and experience act as a barrier to thinking in terms of customer-focused innovation.

One possible solution to this dilemma would be for Chinese CEOs to use their sense of social responsibility as a driver for innovation, similar to what has recently been observed in India. Leaders there combine their sense of social responsibility, a concern for the under-served Indian market and their innovative ‘adaptive thinking’ to produce market driven innovation, both in products and in business models.
If Chinese leaders apply their sense of social responsibility to serving their own markets in creative, innovative and culturally adapted ways, they will find a ‘safe’ environment in which to develop their organization’s ability to innovate. Eventually, they could expand this capability to the global market.

In order to do this, they have to develop the ability to create and use a deep understanding of their markets and end consumers to produce new products. They have to serve consumers who were previously under-served, find new ways to go to market and even entirely new business models.

Western executives working in or with Chinese businesses may be able to share their experiences in tapping into the unmet needs of customers or creating new markets. Some Western techniques of market research may be particularly useful, along with management styles that help to foster innovation in the organization.

Some of the new generation of leaders are demonstrating this ingenuity, embracing the opportunity to build new business models. These managers are younger, with a different education as well as grounding in business. They signal the prospect of an evolution in Chinese business leadership.

Perspectives for Western executives in China

Western business leaders who are working or thinking of working in China may take from this study certain perspectives.

While it is extremely difficult to compete with the Chinese on price, Western companies should compete on innovation and responsiveness to market needs. Since Chinese business leaders strive to build win-win relationships, for western competitors there are many opportunities to develop mutually beneficial partnerships with Chinese counterparts and even competitors.

The Chinese desire for harmony certainly supports partnerships with Western businesses. Western businesses can play their part by also adopting a longer-term view and a creative, open approach. Chinese businesses may particularly value the opportunity to learn from their Western partners’ experiences and best practice.

Companies subject to acquisition by Chinese organizations should be aware of the Chinese paternalistic leadership style which could cause some discomfort. Companies who are acquiring Chinese companies should be aware of the expectation on the part of Chinese employees of a more paternal style of management. They want to learn from their manager, be told what to do and for their manager to take a personal interest in them.
Our study revealed that the best Chinese business leaders possess many competencies and skills that will take their businesses and, ultimately, the Chinese economy forward. It noted the existence of quintessentially ‘Chinese’ qualities which have supported success so far and also some unique challenges for Chinese businesses and their leaders as they move towards a global future.

They demonstrate a sense of social responsibility with regard to building a responsible and sustainable business community. Chinese leaders also differentiate themselves in terms of their willingness to examine their motives and skills critically. There is a corresponding willingness to engage in activities which develop and improve their skills and, as a result, the prospects of their organizations.

Moreover, this group of Chinese business leaders demonstrated a distinctive and sophisticated method of negotiating complex relationships, to achieve a harmonious result and long-term business partnerships.

However while there is a consciousness of the imperatives of globalization and an ability to manage scale, these leaders have to hone their ability to create and to respond inventively to demand. Chinese managers have yet to develop a sense of innovation — a component of business success.

There is also a discernible lack of attention to developing talent below the CEO level — this too could ultimately slow growth and limit innovation. Chinese businesses need to develop the skills in order to take the steps to identify and nurture talent.

Yet it is not just about developing talent, Chinese CEOs must also evolve their leadership styles. In order to foster a climate conducive to collaboration and the creation of innovation they must build effective teams, employing more visionary and participative styles of leadership.

However a new breed of Chinese managers is rising up through the ranks and their ability to meet and overcome these challenges will determine the success of China’s economy.
The sample

This study yielded a balanced sample of the leading Chinese companies across different governance structures, industry sectors and geographic locations.

Over half of the sample headed privately owned businesses, a quarter managed state owned companies and the remainder, mixed organizations, companies that are going through significant transformation and change of governance structure.

The manufacturing, high-tech, finance, banking and real estate, construction, consumer goods, airline and media sectors were represented in the sample with the manufacturing sectors featuring the most frequently. These companies are headquartered in big cities (e.g. Beijing, Shanghai) as well as inland smaller cities.

Two thirds of those interviewed were aged over 45 years, while some were under 35 years old when interviewed.
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