

Best Practice Series - Best Practices – China & Elsewhere

By Paul Deis

Summary - This article recaps material from our previous newsletters on leadership, best practice cultures, and the 4 Essential Factors that constitute the Best Practice Path. Here, we discuss these in the context of the rapidly emerging, highly dynamic, complex business and government environment that is business in China today. Topics include:

- Background and Context – China today
- 4 Essential Factors – brief recap
- Best Practice Path Challenges – Not Unique to China
- Changing organization culture

Background and Context - China Today

To “get a feel” for how things are in China at this point in time consider that only 25 or 30 years ago, China was essentially like North Korea is today – run by iron-fisted Communist dictators that controlled and regulated every aspect of life. The effect of this kind of government is a little like putting one’s foot on a garden hose – pressure builds up, but nothing comes out, nothing much is produced. Government only restricts people’s natural efforts to create better lives and more prosperity.

What has happened here since the death of Mao, has been a gradual loosening of the iron fist of control, allowing more and more of what is essentially capitalist free enterprise to take root and flourish. The result is the fastest growing economy in the world, averaging nearly 10% per year in overall growth.

While the emphasis has been on growing companies that export products, generating a USD\$ Trillion trade surplus balance (China Daily, November 2, 2006) much prosperity has resulted in the populace, with huge traffic problems, construction everywhere, and an inability to keep up with the demand for electric power. China builds new power generation capabilities roughly equivalent to that of Australia’s total capacity every year, and it’s not enough.

A Chinese friend said it is forecasted that approximately 400 million rural Chinese will migrate to cities over the next 20 years, necessitating the construction of urban growth equivalent to 100 Los Angeles-sized cities and associated infrastructure.

Traditional Chinese private business practices have been oriented around a single person keeping control. Only one person has signature authority, called the “chop” here. The “chop” refers to a rubber stamp, similar to a corporate seal, used to authenticate checks, purchase orders, contracts and other official documents. Everything is brought to the head man, who briefly reviews each document (emphasis on *briefly*), then “chops” it with his official seal. In the West, the person’s handwritten signature (or a rubber stamp of it) is used to do the same thing.

One explanation of this practice is because of the endemic corruption that has been here for centuries. To this we would add that China did not originate corruption – the potential for it is present everywhere. There is also a similarity to traditional government and military practice for everything to be done “in the name” of the senior official – commanding officer, department secretary or minister, etc.

Because of the decades of Communist government dominance, there is a heavy layer of bureaucratic habit and practices, which has also affected older worker’s attitudes and work habits. However, younger people have little knowledge or experience of the old heavy-handed, fear-driven Communist days where the last guy that took some initiative to make things work better disappeared.

4 Essential Factors – Recap

To place our discussion in the Best Practices context, these are the 4 Essential Factors that we identify as being the Best Practice Path:

1. **Effective leadership and culture** – leadership by vision and example, empowering of individual workers, delegating of as much authority and responsibility as possible.
2. **Effective enterprise systems and processes** – the combination of people-based actions (procedures) and software performed functions to form an overall work flow or “business process.”
3. **Continuous improvement process** - formal, organized, and systematic activities by almost everyone in an organization to examine every aspect of work flows / processes to improve their quality, productivity and reduce cost and problems.
4. **Education and training** – an ongoing, formal program, a curriculum of classes, courses and practical training, separate from “on-the-job” training to improve the conceptual understanding and build proficiency of everyone – a primary input to the continuous improvement process.

As the work and related experience here in China has repeatedly, consistently validated, these four factors are not culturally specific. As elsewhere, when one or several, but not all, of these factors are present, the business may perform adequately, even successfully for a time.

But, when they are all present, there is a synergistic effect that multiplies the effects of the others to transform the business from a so-so performer that may be dependent on competitors simply being worse than they are for success, into a globally competitive, high quality, high performing, hard-to-catch organization.

Also, on a scale from truly mediocre through adequate but less than true best practice (where most companies are), each of these four factors has a major impact in and of itself. We have really seen the truth of this here in China. Several brief observations in this regard:

- The majority of China’s export business is from foreign owned firms with their superior management, business processes, and improvement-driven cultures. Many are Japanese, as well as North American and European. The computer this article is being written on was built at a Toshiba plant in Shanghai, shipped via FedEx to me in Los Angeles.
- State owned enterprises often lose lots of money. The government is trying to make them more like private enterprises, by listing their stock and other measures, but in many areas things have a long way to go, a fact that is publicly admitted even in the state-controlled press.
- In personal interviews and work experience here we have been struck by the clarity of people’s response to good leadership vision and lead-by-example, their strong desire for things to work well, be done professionally, with high quality and make a profit.
- Many of the business processes we have reviewed, when set up by a Western-trained Chinese professional, are as good as, or better than many companies in the US. Efficient, good controls, and other elements are clear, even through the Chinese language and “flavor.”
- Go-forward plans are all based on improving or implementing more in the way of what we call Best Practices – there is little difficulty in having people here see that these are the way to make a company work better, be more successful and thrive. There is no national bias.

Best Practice Path Challenges – Not Unique to China

There is no question that many of the attitudes and practices in China, as elsewhere, are contrary, or are in opposition to Best Practices. Were this not so, the work of teaching and implementing Best Practices would be quite easy. Instead, it is often a challenge – where one faces misunderstanding, ignorance, or paradigms that may blind a person to a degree as to what is actually going on.

Our forthcoming book, *Understanding and Generating Best Practices* has a whole chapter devoted to these challenges, and they are more numerous than one might think. Origins of these challenges stem from accounting practices, beliefs about human nature, laziness, fear of losing control, and dozens of others.

Throughout our career we have consistently come into conflict with the belief, for example, that inventory is a good thing, resulting from the accounting practice of calling it an “asset.” When a business is viewed from a cash flow perspective, it becomes immediately clear that inventory causes one to spend cash now, with an uncertain cash inflow date and amount – hardly a good idea. But this fact is completely obscured by accrual accounting that recognizes a record profit while simultaneously holding massive finished goods inventory balances that will eventually have to be marked down to sell.

Also, centralization of decision making and approvals – summarized above in the Chinese “chop” practice – is, as we pointed out, hardly a Chinese only practice. Intelligent, clear delegation of authority increases a vital Best Practice characteristic – ownership by those who perform a business process or work flow. Also, delegation of authority without appropriate dual controls, periodic audits and other controls that enable the delegation to work without exposing the company to risk of theft (“corruption”) is also contrary to Best Practices. The two work together. Again, this is not unique to China, the US, or anywhere in particular.

Changing Organization Culture

Those who are faced with a business situation where the culture must be changed to bring Best Practices into daily use have the same challenge. To change them involves the same process, regardless of whether the culture present comes from local traditions thousands of years old, from other sources such as habits that never changed, a hostile union/management relationship that has festered for decades, or other source.

They key steps we have identified in this process involve:

- Leadership by example – those in charge must “walk the talk.”
- “Servant” leadership – appears to be the most effective style in bringing about change in people. This is the orientation by managers that it is their primary job to find out what their people need to be successful and then get it for them – to enable *them* to be successful. Quote from a senior Toyota Executive “Lead as though you had no power.”
- Explanation – in often personal terms, candid and frank about how a new practice affects personal security, social standings and status, and other seldom-talked about “sacred cows.”
- Benefit – how the company will benefit, and how the individual will benefit from the change.
- Assurance – support, via actions, more than words, that the person who accepts and adopts the requested change / practice will not be “left out in the cold” or abandoned.

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In conclusion, we suggest that you undertake, as additional reading, W. Edwards Deming's 14 Points (<http://www.endsoftheearth.com/Deming14Pts.htm#14%20points>). These were articulated by him in the 1950's and 60's during his work with Japanese companies, which had, at the time, a highly autocratic culture. This changed, slowly, but dramatically. Deming became a national hero in Japan as a result.