This book is an outstanding piece of work that combines profound knowledge of China’s economic history with methodological creativity to establish a new paradigm, *China’s ritual economy*. Drawing on an impressive amount of sources and tackling brilliantly the complex relationship between cultural tradition and economic behaviour, Herrmann-Pillath may have come up with the ultimate explanation of what Chinese capitalism in modern times is all about. A must-read!

Gunter Schubert, *Professor of Greater China Studies*,
*University of Tübingen, Germany*

Rituals are fundamental institutions, but often ignored by people. Apart from researching on rituals as classics, most scholars know little about them. In this book, Professor Herrmann-Pillath gives us a key to understanding China’s business culture, which is to regard rituals or customs as the behavior patterns which still exist fundamentally and universally in modern society. To understand rituals or customs is more important than to understand written laws, if one would like successful commercial cooperation in China. Meanwhile, this analysis develops a new, correct research approach academically.

Sheng Hong, *Unirule Institute of Economics, Beijing, China*

This is a very thought provoking and important book. It takes a big step towards a more systematic understanding of Chinese economy and society by unfolding the bold hypotheses of understanding the process of modernization in China in terms of ritual. It is unusual by its interdisciplinary approach combining anthropology and philosophy with economics. It puts China’s present into the context of China’s past and thus transgresses the border between those who focus on modern China and those who strive to understand ancient China.

Susanne Weigelin-Schwiedrzik, *Professor of Sinology*,
*University of Vienna, Austria*

This work is an exemplary study in the tradition of Max Weber and Karl Polanyi yet going beyond these ‘Old Masters’ in its theoretical ambition and analytical scope. Carsten Herrmann-Pillath demonstrates beyond any doubt that no one can understand China’s economy (everything from family firms to state-owned enterprises to macroeconomic policies) without investigating the entire cultural-institutional package that comes with it. In China economic practices are not simply *embedded in culture*, they are the culture. The economist can do no worse than embracing theoretical insights from anthropology, sociology and cultural history, and as a result better grasp the *style* of any particular economic culture. This book provides the methodological roadmap for this kind of genuinely multi-disciplinary work. Highly recommended for students of China, economists as well as intellectually-oriented executives.

Adam Yuet Chau, *University Senior Lecturer in the Anthropology of Modern China*,
*University of Cambridge, UK*
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China’s spectacular rise challenges established economic moulds, both at the national level, with the concept of ‘state capitalism’, and at the firm level, with the notion of indigenous ‘Chinese management practices’. However, both Chinese and Western observers emphasize the transitional nature of the reforms, thereby leaving open the question as to whether China’s reform process is really a fast catch-up process, with ultimate convergence to global standards, or something different. This book, by a leading economist and sinologist, argues that ‘culture’ is an exceptionally useful tool to help understand fully the current picture of the Chinese economy. Drawing on a range of disciplines including social psychology, cognitive sciences, institutional economics and Chinese studies, the book examines long-run path dependencies and cultural legacies, and shows how these contribute crucially to the current cultural construction of economic systems, business organizations and patterns of embedding the economy in society and politics.

**Carsten Herrmann-Pillath** is Permanent Fellow of the Max Weber Centre for Advanced Cultural and Social Studies, Erfurt University, Germany, Research Professor of Economics and Evolutionary Sciences, Witten/Herdecke University, Germany, and a Distinguished Visiting Professor of Schwarzman Scholars at Tsinghua University, China.
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133 China’s Economic Culture
The ritual order of state and markets
*Carsten Herrmann-Pillath*
China’s Economic Culture
The ritual order of state and markets

Carsten Herrmann-Pillath
Dedicated to the memory of
Professor Masahiko Aoki
and
Dr Werner Jackstädt

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Preface

This book has had a very long gestation period, being actually the successor volume to my book *Institutional Change, Power and Inflation in China: Approaching the Political Economy of Transition from the Perspective of the Theory of Order* (‘Institutioneller Wandel, Macht und Inflation in China: Ordnungstheoretische Analysen der Politischen Ökonomie eines Transformationsprozesses’) published in 1991. In this book, I unfolded a panorama of the Chinese economy and politics focusing on the genesis of the events of 1989, venturing to unearth the economic, institutional and cultural deep structures that underlay the interaction between macroeconomic dynamics and political events. As I do in my new book, I went back to distinct theories in German-speaking economics of the first half of the twentieth century, which opened up the vista for the pivotal role of the interplay between state building and market transition, and which I combined with new theoretical notions that, at that time, had just been introduced into the study of China’s recent history, namely ‘economic involution’ and ‘state involution’, coined by Philip Huang and Prasenjit Duara, respectively, which I connected with detailed accounts of the ideational history of reforms in the 1980s.

My new book is written in the same spirit, but against the backdrop of 25 years of historically unprecedented economic growth and social change, combined with the resilience of Communist Party rule. In 1991, many observers, including myself, envisaged China as approaching a trap of stalled economic and social change, facing high risks of instability and, given the events in the Soviet Union, even the possibility of collapse. Nothing could be further from what really happened. Thus, throughout these 25 years, I pondered the simple question, ‘Why’? As an economist, philosopher and sinologist I was convinced that the answer to this question cannot simply rely on historical accidence, such as the lucky conjunction of internal economic reforms and the newly emerging patterns of globalization. Further, I believed that the central hypothesis in my 1991 book, namely that the interaction between state building and marketization is a key to understanding the dynamics of Chinese development, would still remain valid. Meanwhile, I continued to invest much effort in
developing theoretical and conceptual foundations for institutional and evolutionary analysis in economics, ranging from international economics to behavioural theory. This work provides the background for deploying the core concept in this book with which I have been concerned since my time as a student of economics: the concept of ‘economic culture’.

German-speaking economics has a long tradition of explicitly including culture into economic analysis that goes back to Germany’s experience as a ‘latecomer’ in development, and the corresponding intellectual needs to ground the notion of autonomous paths of development in theorizing about history, beginning with seminal contributions such as List’s. There is a deep affinity with current Chinese developments, as Germany’s catch-up happened in the context of an authoritarian political system, yet undergirded by distinct forms of liberal thought, such as Hegel’s emphasizing both state and market as fundamental aspects of social order. These intellectual traditions nurtured approaches to economic analysis that differed substantially from what was eventually established as ‘economics’ in the twentieth century, and which were cross-disciplinary in nature. This included intellectual giants who today are not even perceived as contributing to the development of economics proper; above all, Max Weber. I think that this is very unfortunate, because the sheer complexity of cases such as the Chinese one forbids deploying single-disciplinary approaches, and calls for methodological pluralism.

This book builds on another antecedent volume published in German most recently: Growth, Power and Order: Approaching China from the Viewpoint of Economic Philosophy (‘Wachstum, Macht und Ordnung: Eine wirtschaftsphilosophische Auseinandersetzung mit China’) in which I concentrate on these theoretical and methodological underpinnings, though it is also based on thorough and detailed empirical analysis. The fundamental difference between the two books results from the fact that I now explore the central idea that emerged from the previous book, only incipiently visible, namely taking the notion of ‘ritual’ as the unifying distinct marker of China’s economic culture. Thus, I joke that the German book is a ‘working paper’ in preparation for the basis of this book.

I try to present a condensed analytical picture of the Chinese economic system as embedded into larger social, cultural and political contexts, and I ground these analyses on very detailed pictures of empirical realities, as expounded in what is an astonishingly broad and penetrating body of China research accumulated over past decades, integrating different disciplinary resources, in particular economics, anthropology, sociology or political science. This extremely large literature has created the literal risk of ‘seeing the trees, but not the forest’, also inducing the danger of being increasingly driven by academic fads and fashions in today’s hypercompetitive academia. The argument in my book is deliberately, even provocatively simple, yet claiming comprehensive reach. In order to make my points as clearly as possible, the book actually consists of two parts: the
main text and the chapter endnotes. The endnotes play an essential role, as I have included in them most of the academic discussion and empirical details, including all the references, whereas in the main text I present my argument in an almost apodictic way, for clarity, but also out of personal commitment.

I am grateful to many people who accompanied me on my intellectual journey during the 25 years following the publication of my first attempt at integration and synthesis in studying the Chinese economy: too many to pay tribute to all of them here (I give more details in the Preface of the 2015 German book). In the context of the present book, I want to mention just a few who played a crucial role in its gestation, also in representing all the others (and with apologies to the latter). These are, of course, my Chinese intellectual friends with whom I have collaborated, who were my Ph.D. students initially, and are now respected scholars in Chinese academia, namely Feng Xingyuan and Hu Biliang. One of my recent Ph.D. students, Guo Man, played an important role in envisaging the theoretical importance of the notion of ‘ritual’, since I had first proposed this idea to him, and he explored its ramifications and potential in his own thesis independently (recently published as Rituals, Performativity of Economics and Chinese Management in Chinese). I was lucky to be able to pick up many suggestions and remarks made by other colleagues: Gunter Schubert read the entire manuscript and allowed me to share his immense knowledge on China, and the title of the book is based on a suggestion by Adam Chau. My old friends at the Unirule Institute, Beijing, in particular Sheng Hong and Yao Zhongqiu, were always a source of inspiration.

This book is dedicated to two individuals who were essential to my personal development during the past decade. Dr Werner Jackstädt was an entrepreneur who established a foundation in Wuppertal (the Dr Werner Jackstädt Foundation), which has supported my work on China since 2004, and who regarded China as pivotal also for Germany in the future; I was lucky to meet him before he passed away, receiving one of the last grant approvals that was decided by himself in person. In particular, the Foundation supported the establishment of the East West Centre of Business Studies and Cultural Science (now defunct) where I was able to assemble a wonderful China team (Genia Kostka, Alexander Libman, my Ph.D. students, Yu Xiaofan, Philipp Boeing, Ke Xing). from which I learned a great deal. I combined this with financial support from the Federal Ministry of Education and Research in the context of the research network ‘KomPost’ on Post-socialist evolutions: I am grateful for many inspiring conversations with my project partner Joachim Zweynert. Most recently, additional fieldwork support came from the Hermann und Marianne Straniak Foundation, Vienna.

The Jackstädt Foundation also supported a two-year stint at Witten/Herdecke University in order to complete this book, where I enjoyed strong personal and institutional support from Birger Priddat. I was
extremely lucky to combine this with a long-term Fellowship at the Max Weber Centre for Advanced Cultural and Social Studies at Erfurt University, where Bettina Hollstein and Jörg Rüpke have always encouraged my work. During that time, I joined the DFG (Deutsche Forschungsgemeinschaft) international research group on religious individualization and received much inspiration for developing my ideas on individualism and popular religion in China, which play an important role in my thoughts on economic style. Moreover, the group supported the publication of this voluminous book with a generous subsidy.

Masahiko Aoki is the other person to whom I dedicate this book. When I was a Ph.D. student, his book on the Japanese economy was an essential reading experience in my intellectual growth. In the past decade, he supported my work in many ways, and his influence is highly visible in the theoretical chapter of this book (Chapter 1). Before he recently passed away, he dedicated much effort to the study of China, especially emphasizing the long-term historical perspective. Unfortunately, he was not able to complete this work, and he did not see the final version of my book manuscript. His legacy will grow forever.

This book was completed during difficult times for me and my family. Without the spiritual and emotional help of my beloved wife Sigrun and the immense joy (to be frank, including lots of nerve-racking distractions) of our children, it would not have been possible to fulfil the numerous challenges that I encountered.
Introduction

This book is the result of 30 years of scholarly effort in understanding the Chinese economy. Throughout this long period, observers trained as economists often expressed the expectation that China will eventually fail to achieve her goals of rapid modernization and economic prosperity unless she adopts the institutions of what is commonly called ‘Western modernity’. Whereas other social sciences have been discussing the relevance of this benchmark for many years, economics remains stubbornly attached to the belief that it is possible to define a set of institutions that are most advanced in terms of performance, and hence represent ‘modernity’. Take, for example, the fast and strong impact of the so-called ‘legal origin’ theory of economic institutions, which even presented the most explicit claim that common law institutions perform better than civil law institutions in shaping financial markets and corporate governance. In contrast, Chinese institutions always appeared as deviant, so ultimately they must fail. After arriving at the position of the second largest economy in the world, the most recent version of this attitude is the writing on the wall invoking the threat of the ‘middle-income trap’. However, none of these doomsday scenarios ever materialized, which had included the fragmentation of China following the USSR example in the early 1990s. I think that this will remain true, although no one can claim to be able to predict history, even in the medium term.

The pessimistic stance towards China is mostly based on the analysis of Chinese institutions, combining with theoretical analysis and empirical information about the past performance of advanced industrialized countries. This reference has been shifting in recent years. Whereas the 1980s and 1990s were shaped by concepts of the ‘Washington Consensus’ enshrining the so-called ‘neoliberal’ turn in thinking about economic policy, in the 2000s a more pragmatic approach held sway, in particular following the financial crisis of 2008. Now, what in the past appeared to be heterodox measures of the Chinese approach, such as industrial policy and capital account controls, is becoming part of a pragmatic mainstream. The Chinese experience certainly contributed to this shift. However, following Dani Rodrik’s famous dictum of ‘one economics, many recipes’,
this shift still remains within the confines of standard economic theory. This is salient in one of the most comprehensive ‘indigenous’ attempts at distilling general conclusions for economic theory from the Chinese experience, namely Justin Lin’s ‘new structural economics’, which is a merging of neoclassical theories of comparative advantage with a descriptive account of developmental theories of stages in the context of globalization.

Thus, the core question in analysing China’s economy is the role of institutions, and structural or macroeconomic characteristics come second. In this area we observe a very lively debate between different schools of thought in economics, with some explicitly defining an alternative vision to whatever might be regarded as mainstream in economics today. Yet, today, institutions are also the focus of core research interests of the mainstream, and this is often driven by the normative concern for identifying the sources of the ‘wealth of nations’, the ingredients of the ‘European miracle’, and the causes of ‘why nations fail’. One conspicuous observation about this literature is the neglect or very superficial treatment of China, both past and present. Most of these accounts retell the familiar Whiggish story about institutional progress towards what is basically the Anglo-Saxon model of capitalism, and they argue in stark dualisms, such as ‘autocracy’ versus ‘democracy’, or ‘limited access orders’ versus ‘open access orders’, and so forth. These dualisms appear to be substitutes for the earlier dualism of ‘market economy’ versus ‘planned economy’, which is, of course, also the stage on which the Chinese ‘transition’ is seen to be unfolding.

This is a highly significant observation because to a certain extent the debate about current Chinese developments matches the literature on China’s economic and social history. The latter is often also caught in the dualism between China and ‘the West’, since a major and still unresolved question is why China failed to give birth to an industrial revolution in spite of having been far more advanced than Europe in the Middle Ages. Many explanations blame institutions and therefore contribute to the mainstream opinion that Western-style institutions are a necessary factor in achieving sustainable growth of per-capita incomes. Thus, current predictions of the eventual failure of Chinese reforms would converge with those analytical approaches to Chinese economic history: China’s failure in the past predicts China’s failure in the future unless Western modernity is adopted. This belief is certainly undergirded by the observation that almost all intellectual and political leaders of China in the twentieth century also upheld this view, with the slight variation that Marxism had been introduced to China as the most advanced Western theory, thus apparently allowing even for overtaking the West in terms of modernization. Modernization was also the clarion call for Chinese reforms after 1978. Against this backdrop, the paradox of combining a socialist system with a capitalist economy is partly resolved by recognizing that upholding socialism as the ideological beacon may still be seen as a reference to the
more fundamental claim on becoming a vanguard of modernity. The relationship between the Chinese present and China’s past, however, remains an unresolved issue in this view.

Interpreting recent Chinese history as a story about failed modernization is by no means settled truth. In the past two decades, revisionist historical research has emerged that matches with critical views on the mainstream accounts of Western history. This not only touches upon empirical issues of historical accuracy but also relates to foundational issues in the theory of institutions. The revisionist literature on China basically asserts that Chinese institutions were defining a ‘Smithian’ economy, thus securing and maintaining the efficient functioning of markets. This view is based on the recognition of certain facts, such as the pivotal role of contracts in arranging economic transactions since the Song dynasty, and on acknowledging functional equivalences such as the correspondence between the European notion of the ‘corporation’ with traditional social entities such as lineage trusts. This literature implies that the institutions of markets may be necessary but by no means sufficient conditions for modern economic growth and capitalism. In the Chinese case, some contributions would even make the stronger point that the efficient functioning of markets impeded the emergence of capitalist technology and corresponding social formations. Against this backdrop there are two major alternative explanations of the Chinese failure to modernize. The first points towards ecological and geophysical conditions for the cost-effectiveness of new technologies harnessing new sources of energy; the second emphasizes the weakness of government in fulfilling the role as a provider of infrastructure, both material and institutional.

The second explanation apparently leads back to the institutional analysis, albeit with an important shift of perspective. Taking liberal or even libertarian concepts of the market economy as a benchmark, the Chinese empire after the Ming dynasty was an institutional regime that factually left much more freedom for a market-based self-organization of society than most European countries on the eve of industrialization. This is most saliently manifested in the very low tax burden per capita which was partly the result of intentional political decisions of the Qing emperors. In comparison, England had emerged as a highly centralized state capable of imposing very high tax burdens on society. The Whiggish interpretation of this is that increasing political participation in England and emerging legal constraints upon abuse of governmental power led towards stabilizing this institutional regime because of higher legitimacy and acceptance on the part of those social groups which were actually pushing industrialization forward. However, in these arguments the historical record about the performance of other catching-up economies is presented in a seriously distorted fashion. For example, Germany relied on a model of authoritarian market liberalization that contradicts such generalizations of Whiggish history. Therefore, taking both records together, we may
conclude that modern capitalism is not necessarily based on constrained government in a general sense, but, in the opposite extreme, on certain formations of strong institutions of government and markets that may be even historically unique in every country case.

Obviously, this argument is highly relevant for China today. The current leadership is pursuing a policy that simultaneously enhances the scope of markets and further strengthens the government, especially in the sense of the central government. China, like Prussia in the nineteenth century, represents the case of authoritarian liberalization, which may sound like an oxymoron to many liberal economists. This position would partly revive similar debates about developmental authoritarianism or even dictatorship in the context of the earlier ‘East Asian miracles’. However, a closer look at this would lead analysis astray, at least as an explanation of the Chinese performance thus far.

One of the central arguments in this book is that market transition in China is concomitant to the effort of concluding the unfinished process of state building in China following the collapse of the Empire. More succinctly and provocatively, I claim that markets (and capitalism) after 1978 evolved in the niches created by the ongoing transformation of an empire into a modern state. State building is mainly taking place in two arenas. The first is the dynamics of the relationship between the central government and the local states of China, a fact which is recognized in recent characterizations of the Chinese political economy as ‘regionally decentralized authoritarianism’. The second is the institutional and cultural dualism between the rural and urban areas and its impact upon administrative and bureaucratic integration of the Chinese state. This thesis of the primacy of state building for market transition in China may appear less surprising if one considers the fact that Maoism left a legacy of institutional disruption and chaos in the trajectory of state building which had been launched in Republican China, leading towards the verge of dissolving the Chinese nation under the tensions of civil war and Japanese aggression.

If we look at these historical changes in more detail, we cannot avoid the issue of the role of culture in understanding China. The question of how culture and institutions interplay in China’s development is the central topic of this book. Since Max Weber, many explanations of the Chinese failure to modernize refer to culture, and in this respect also emphasize the relationship between culture and the nature of the Chinese Imperial state. Thus, I believe that investigating the issue of state building leads us to explore culture in its relationship to economics. This question has been the beacon towards which my own research on China has been directed in the past three decades.

Culture receives much attention in current mainstream economics, after it had been neglected for many years. Many economists seem to agree today that culture is an essential mediating factor between
institutions and economic performance, and a major factor channelling institutional change in a certain direction. This view would correspond to the aforementioned approaches to Chinese history. But there is a fundamental methodological difficulty in these arguments.

When economists refer to culture, they largely treat it as an exogenous determinant of economic processes, typically in terms of positing a causal pattern between past variables and current observations, such as historical facts about migration and current values held by a population. This view is very different from modern approaches in anthropology that treat culture as a creative activity. In fact, the economic approach violates fundamental tenets of methodological individualism, whereas the anthropological view sees an active role for individuals, though not necessarily conceived along the lines of rational choice models. The picture of culture that emerges here is a far cry from the view that culture is a legacy of the past which people cannot discharge easily. On the contrary, all cultural activity is innovation, resulting into cultural syntheses, creolism, as well as the revival of tradition. What is a legacy of the past, in this view, is the whole range of symbols, ideas, values, norms or institutions that make up a semiotic repertoire which is handled by cultural activity in the present. Evidently, this may also create continuities between past and present, but these are endogenous to the process of cultural change driven by creative action. Reviving tradition always means creating a new tradition.

This is the perspective on culture that I adopt in this book. If we look at the uses of culture in studies of the Chinese economy, we often meet sweeping simplifications, the most influential one being the notion of ‘Confucian capitalism’ that was created in dealing with the phenomenal success of Overseas Chinese business in the rise of the Asia Pacific as an economic region. The image of Confucianism as the defining feature of Chinese culture is widespread in economics and management studies, even in terms of introducing a specific set of so-called Confucian values in universal sets of values, or in denoting the entire East Asian region as ‘Confucian’. I present a very different approach in this book. If one treats culture as an activity, the culture of the contemporary Chinese economy would emerge as a bricolage of many different elements, traditions, Maoist legacies, imported ideas and norms, and so forth, without any pre-fixed borderline between the ‘cultural’ and the ‘non-cultural’. Chinese culture today is a complex synthesis of which Confucianism may be a part, but probably not a defining one. Again, we recognize similarities between China’s past and present. If Confucianism is seen as an important element in traditional Chinese culture, then it is only in the sense of one element in an array of many others, often even staying in tension.

But, after all, this kind of definitional openness would render the term ‘culture’ almost without precise meaning and reference, so I will offer another radical methodological proposition; namely that culture is always a construct of the observer, and by no means an ‘objective’ fact of social
life. In other words, if culture is a creative activity of the subjects which are the object of inquiry, the observer is also creating culture when she presents her research results. Thus, a book about economic culture like this one is also a cultural activity, even in the sense of co-creating Chinese culture. This is a conceptual conundrum that has been well known to anthropologists for a long time, but that has almost never been recognized in economics. I claim that we need to deploy an economic approach which starts out from this fundamental insight. Thus, this book is not only a contribution to the study of China, but also a contribution to economic methodology.

There is one intellectual precursor in economics, which is the German language literature on ‘Wirtschaftsstile’ (economic styles) which emerged out of the methodological debates about Weber’s distinction between real types and ideal types, and his view that economic analysis would only obtain empirical meaning once it is embedded in cultural analysis (‘Kulturwissenschaft’). An economic style is akin to a style in the history of arts. There are certain features of artworks which make them similar, and which are recognized by contemporaries as defining characteristics of this group of artefacts. The art historian, however, may also be able to recognize larger patterns through time ex post, and therefore may be able to detect some boundaries and distinctions of which contemporaries were not fully aware. But this does not imply that the perspective of the art historian turns into an ‘objective’ view. After all, what matters for the dynamics of the history of styles is what contemporaries perceive, what they receive, and what they create out of that. Philosophically, the concept of style is an instance of what Wittgenstein has called ‘family resemblances’ among games, in this sense ‘forms of life’. Thus, detecting and describing family resemblances diachronically and synchronically is the major task of the researcher on economic styles. ‘Diachronically’ means pinpointing family resemblances between past and present; ‘synchronically’ means doing the same for a wide range of contemporary case studies with thick descriptions, across industries, sectors or regions. Indeed, this is what contemporary Chinese studies have accomplished in past decades, namely accumulating an extremely rich collection of detailed case studies on social, political and economic change.

It is important to emphasize that applying the ‘economic style’ concept results in an entirely different approach to the taxonomy of economic systems than the prevailing one. The established approach classifies economic systems according to fundamental properties of mechanisms of allocation (plan versus market) or ownership (private versus public) or finance (banking vs. capital market based) and so on. These properties are seen as being amenable to ‘objective’ analysis, including also propositions about the causal relationship between those features and economic performance. In contrast, the concept of economic style follows the principles of biological taxonomy. In other words, categories such as ‘species’
are certain emerging units in a historical trajectory of evolving forms, which are defined according to certain shared characteristics, and which are located in particular geographical areas. In a similar vein, an economic style is a unit that is defined as belonging to a certain economy at a certain place and in a certain period, which relates historically to certain precursors, and which also stays in relationship with other economies from which it differs. Further, this unit is itself defined in fractal terms. This means that if we talk of ‘the economy’, this is in fact a complex system of interacting smaller units such as regional economies, industries or even households. These units, amenable to case studies, also manifest family resemblances in their evolution through time, which in the aggregate define the economic style. If we take these two aspects together, we realize that the concept of style has the same properties as the concept of culture. An economic style is a complex set of properties which stay in a certain systematic relationship with each other and which connect with other properties through time and space. Thus, for example, we cannot simply say that there is an ‘economic system of China’ today which may relate to an economic system of China in earlier times, but we have to ask whether there are certain properties of economic interactions and structures in China today which tie up with other properties in the past, and which manifest peculiar interactions with properties of other economic systems. For example, we might ask how intellectual property rights in China today relate to similar concepts in the past and to similar constructs in the USA. We may further ask how they relate to similar concepts such as land-use rights in China and so forth. Once we have collected a sufficiently large number of observations of this kind, we are able to construct a coherent and distinctive concept of ‘style’.

If this idea emerged in German-speaking economics, it is no wonder that it has been revived in the work of a German-speaking economist. Indeed, the economic system in Germany today is characterized as the ‘Social Market Economy’. This term was originally introduced as a peculiar ‘economic style’ by the German economist Alfred Müller-Armack. Clearly, Germany is classified as a ‘capitalist’ or ‘market economy’, but this does not echo the distinct features that become visible when considering the tensions between different member countries of the European Union over issues of economic policy, or between the USA and Germany as a member of the EU when negotiating trade agreements. The social market economy is an economic style in combining a number of very distinct features of economic organization into one coherent whole, as diverse as the social security system, the system of savings banks or the role of family business. This characterization can by no means be established as an objective fact, since it is the object of continuous debates and reflections in Germany about what are the constitutive elements of this model. However, at the same time the majority of participants in this debate agree that the social market economy is a defining feature of the German
economy after the Second World War, and, historians would add, probably since the time of Bismarck’s social reforms, in incipient form.

As this observation on Germany shows, the essential step in constructing an economic style is to identify a concept that may be used as a unifying idea in order to systematize the observations. In the German case, this is the notion of ‘social’. Clearly, this is almost meaningless if considered in isolation, but it becomes an extremely powerful idea in the ongoing process of constructing the economic style, both on the part of the participant actors and the scientific observer.

In this book, I propose that the notion of ‘ritual’ plays a similar role in the Chinese case. ‘Ritual’, ‘li’ (礼), has been the central term in defining social order in Chinese civilization since its emergence. Twentieth-century modernization was also defined as a radical attempt at overcoming this social order, hence also transforming and even abolishing ritual. Yet, I claim that China’s economic style is the ‘ritual economy’. Tellingly, this term has been coined by anthropologists working on China, but it is still rarely used, and is confined to much more narrow meanings. In one of the seminal contributions by Mayfair Yang, the important point is made that ritual is a defining feature of rural society, but that this rural society is also a driver of the ongoing changes in the modern Chinese economy. This would suggest that transformations of ritual also impact upon economic modernization. I generalize on these ideas in trying to show that ritual is also essential in the ‘modern’ part of the trajectory, because, to begin with, modernization itself is interpreted in the same way as a ritual. In the indigenous Chinese discourse, ritual does not show up explicitly as a term designating current views on the foundations of social order, yet the notion of ‘harmony’ is intrinsically linked to ritual as a means of establishing harmony (even to the extent that the Confucian ‘he wei gui’ expression is used). In the current political discourse, the Western notion of a modern social order is apparently applied in emphasizing the ‘law’ as the alternative principle. Yet reference to ritual is often made when Chinese scholars discuss indigenous perspectives on social relations and values, especially, again, when referring to rural society.

That being said, I use the term ‘ritual’ in a deliberately ambiguous way. I treat it both as a generic theoretical term and as a term specific to China studies. I argue that this ambiguity renders the term especially powerful in analysing the Chinese economic style. Regarding the generic use, I follow the seminal contribution by Michael Chwe who introduced ‘ritual’ as a term into the game theoretic analysis of social interaction. Here, ritual encompasses all social actions that create common knowledge. Common knowledge is a central notion in game theory that catches reflexive knowledge; in other words, what people know that other people know that they know, and so forth. In this sense, common knowledge is evidently also part and parcel of what we normally refer to as ‘culture’, especially in the sense of shared features that go without saying, and are the preconditions for
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successful interaction. We may also say that ritual includes features that people know how to enact, but not necessarily knowing that they enact them (‘knowing how’, but not ‘knowing that’). In other words, common knowledge engendered by ritual includes a fair amount of tacit knowledge. What the notion of ritual adds to the game theoretic uses of the term ‘common knowledge’ is that ritual is externalized behaviour involving artefacts, and not just a state of mind as is normally assumed in game theory. This renders common knowledge partly observable, although we clearly need to distinguish between ritual as such and the states of knowledge that ritual instigates. Since we cannot directly access those states of mind, however, observing ritual is a major point of access for understanding culture, and requires interpretive approaches. This is certainly all too familiar to the anthropologist but has rarely been included in economic analysis.

Considering this general notion of ritual, we now notice an important observation about ritual in Chinese society. Ritual is a central category in Chinese tradition. Many scholars have approached ritual as the essential difference between traditional Chinese culture and ‘Western’ culture in terms of the dichotomy between ritual and law. Interestingly, a related dichotomy also holds in Chinese tradition, namely the distinction between Confucian ritual and legalist law; and, most ominously, in current debates about law in contemporary China, Western ‘rule of law’ is often compared to Chinese ‘rule by law’, which certainly has a distinctly legalist flavour in the midst of what is often seen as a revival of Confucianism, both at grassroots level and in relation to political leadership. Thus, the question arises whether the role of law in contemporary China is shaped by its interaction with ritual, as in Imperial times.

This book presents the hypothesis that ‘ritual’ can serve as a unifying idea for constructing the economic style of China, both in the generic sense and the culturally specific use of the term. As I outlined previously, this is not a hypothesis based on empirically tested theory, but a cultural construction by myself as the author of this book. Methodologically, ‘ritual’ serves as an intermediate theoretical term that is not universal, but only applies for a certain slice of time and space. However, I think that there are certain generic theoretical arguments as to why this hypothesis could be powerful in empirical work. One alternative generic approach to the issues at hand is distinguishing between formal and informal institutions and arguing that these two can stay in a diverse relationship with each other. Interestingly, this almost matches with the treatment of ritual vs. law by the foremost Chinese anthropologist of the twentieth century, Fei Xiaotong. In a nutshell, Fei argued that rituals are the informal institutions of traditional rural society, and that the modernization of China requires the transition to formal institutions enshrined by written law, which is the institutional framework of large-scale urban societies. However, this opposition suffers from overlooking the fact that ritual in
traditional China was partly a formal institution, that shaping ritual intentionally was the central element in the Confucian way of governing China, and that ritual also held sway in the large cities of Imperial China. For example, traditional lineage organization in the rural areas was certainly a formal institution, and the Imperial state invested huge effort in shaping local practices even by means of the law. Therefore, if we connect these observations with the notion of state building, we cannot simply say that modernization is tantamount to the transition from informal to formal institutions, or from ritual to law. Vice versa, this opens up horizons in order to ponder the relevance of ritual today, based on the generic term of ritual expounded in the context of game theory.

If we move back and forth between this China-specific view on ritual and the generic view, we realize that the blind spot in Western thought has a deeper meaning. In my own philosophical work while writing on China, I became aware of the crucial moment in intellectual history when ritual was blanked out and law became the dominant idea in the context of economics and related political philosophy. Tellingly, this directly relates to modern Chinese history. This historical crossroads was the separation of the Marxist line of thinking from the liberal one in the mid-nineteenth century, and the resulting oblivion of Hegel in Western liberal economic and political thought. For sure, Hegel was the intellectual founder of central liberal notions on civil society and the rule of law. This thinking was grounded in the analytical distinction between law as a formal institution and the ‘ethical life’ (‘Sittlichkeit’) in which the law must be embedded. Hegel saw ethical life as an expression of lifeworlds of concrete societies in historical contexts, thus eschewing any kind of abstract legal universalism along Kantian lines. Evidently, the Hegelian view comes close to the Chinese dichotomy of ritual and law, with ritual basically seen as a system of ethics that defines Chinese civilization. So, I think that pondering the Chinese case also makes us aware of the neglect of ethics in modern economic thinking about institutions. By implication, I argue elsewhere that Hegelian philosophy can offer a systematic conceptual framework for approaching the relationship between ritual and law both generically and in the case of China, but I largely refrain from these philosophical considerations in this book. Suffice it to say that the separation of law and ritual and the ensuing neglect of the latter is a Western cultural stance that emerged rather late in modern intellectual history. After all, the founder of modern economics, Adam Smith, was a moral philosopher who also saw a close relation between law as an institution and morality in concrete human societies.

As I have already pointed out, the intriguing fact about my ‘ritual economy’ notion is certainly that in contemporary China few people would use the term ‘ritual’ in order to describe their society, although in certain contexts related terms may show up, such as in describing local social interactions according to certain norms of proper behaviour (ritual
as politeness and decency). My use of the term is mainly based on the analysis of a large number of empirical observations about institutions and practices, and I posit that the term ‘ritual’ makes sense of them, in the first place, and add the point that in the light of this interpretation, family resemblances with Imperial China are straightforward to establish. For instance, empirically, ritual refers to the role of status distinctions in governing social interactions, or to the emphasis on expressive behaviour manifest in certain routines as opposed to content. Status distinctions pervade the entire Chinese economy, such as between rural and urban society, between private and state-owned businesses, or between cadres and farmers. Status is expressed in a habitus of modernity, such as modern patterns of consumption activities. All these observations can be arranged into a coherent view once we start out from the notion of ritual. This is the task that I accomplish in this book. My use of the term ‘ritual’ also allows for connecting the China studies meaning with the generic meaning, because, for example, perceived status differences may be seen as being constitutive of common knowledge that constitutes frames for interactions, thus influencing certain economic processes, such as patterns of finance in rural private business.

If I apply ‘ritual’ as a unifying idea that refers to an indigenous notion of describing social order and interactions, a supporting argument is to recognize that there are other concepts specific to China studies that relate to this term and prove to be especially useful in establishing family resemblances between past and present. These are not necessarily indigenous terms, but have been developed in China studies to catch certain aspects in the descriptions of China which apparently do not lend themselves easily to direct equivalences with ‘Western’ institutions and practices. These concepts include, for example, ‘orthopraxy’, ‘culturalism’, the ‘local state’ or ‘guanxi’. My argument will organize these concepts in the larger semantic field of ritual in order to achieve coherence and consistency. If we then reflect upon the relationship between ritual and modernity again, we realize what results to be the core idea of the book: modernization proper is conceived and socially performed as a ritual in China. Modernization does not overcome ritual, but is embedded in creative cultural constructions that are strongly shaped by ritual, and which in turn transform ritual. These cultural constructions result in what I define as the distinctively Chinese economic style.

Let me now summarize the chapters included in this book. Chapter 1 develops the theoretical framework of analysing the relationship between culture and economy. I relate the notion of ‘culture’ with the creative activity of individuals in fixing and expressing their shared identities in interactions. The fundamental methodological challenge to cultural analysis is the ‘mirror of culture’, which means that all conceptualizations of culture take place in a web of mutual interactions among different observers with different roles and standpoints, especially participant and
external observers. Culture is not simply an ‘object’ in this web, but is continuously being created and re-created by those ongoing observations, communications and interactions. Thus, research on culture cannot rely on an ‘objective’ measure of culture, but is mainly a higher level reflection on what happens in the mirror of culture, which, however, is also fed back into these processes. I show how this puts standard economic approaches to culture into perspective, such as the use of value surveys in measuring and objectifying culture.

In terms of research methodology, my conclusion is that cultural analysis is proceeding as the triangulation of a variety of different disciplinary approaches, especially combining emic and etic methods into one coherent argument. Emic methods are provided, for example, by sinology as the study of China mediated via explicit consideration of Chinese language materials, written or oral; etic methods are represented by cognitive sciences or social psychology, among other disciplines. In order to coordinate these cross-disciplinary interactions a unifying idea is necessary, which bridges emics and etics. I propose that in the Chinese context this idea is ‘ritual’.

The chapter presents a number of more specific analytical tools for cultural analysis, which build on existing approaches in the economic analysis of institutions. If culture is the activity of creating shared identities, we need to dissect this activity into its different aspects and stages. This means making the mechanisms explicit that enable and manifest this activity, which I define as the mechanisms of ‘performativity’, of performing culture. I propose that Aoki’s economic model of institutions is very powerful in this regard, since it allows us to arrange observations on different levels of aggregation to each other, and explicitly includes the role of external artefacts in linking institutions and individual behaviour. Aoki’s model is an equilibrium notion in the sense that an institution is regarded as the manifestation of a flow of interactions that results in their recurrent reproduction, embodied in external and public representations. I present a more detailed interpretation of the model that divides this flow into four stages, which form a closed loop with recurrent feedbacks. I call this the ‘network approach to culture’: actions, individuals, artefacts relate to each other in a causal web. This approach is a disaggregate analysis of social mechanisms which refers to certain objects of interactions with interpretive activities, resulting in certain states, such as social structure and economic outcomes, which feed back on the interactions through framing them. As a result, the notion of ‘path dependencies’ looms large in applying this approach. Path dependencies are essential for understanding the historicity of the processes, which does not simply mean that history impacts upon the present, but that path dependencies create empirical patterns that allow establishing family resemblances between past and present.

The network approach to culture is parsimonious in adding further analytical concepts. The most important ones are status or status orders...
and social capital. Status is an essential category in the analysis of ritual as understood in generic terms. Status is also a defining feature of individual identity and a criterion for establishing shared identities, and thus is a core category in cultural analysis. Status relates to interactions in establishing certain capabilities for action. The entire set of capabilities for network interactions is social capital. Thus, in this view, ritual may also be approached as a way of contextualizing the generic notion of social capital, which has also emerged as an important analytical category in economics for understanding markets and economic development.

Finally, I condense my approach into the suggestion that in the context of the economy the interaction between ritual, institutions and economic processes defines the ‘economic style’. Describing the economic style of China today is the task of the subsequent five chapters, based on the continuous reflection of the generic notion of ritual and its meaning in China studies, which is embedded in the mirror of culture.

Chapter 2 establishes the reference point for identifying family resemblances between past and present in outlining a concise analytical view on the ritual economy of Late Imperial China. This means presenting stylized facts, based on a particular vantage point which is itself open to debate. I construct this point by building on Fei Xiaotong’s theory of Western vs. Chinese society, which centres on the notion of ritual and the fundamental distinction between two different modes of network formation and forming groups with shared identities. Taking into consideration the caveats that I have already mentioned, this helps create a coherent idea of the ritual economy in the past. This approach makes use of many insights of recent historical research that have presented the picture of a ‘Smithian’ market-based society in which contracts, property rights and corporate organization were ordered by ritual frameworks that produced functional equivalences to ‘Western’ institutions, such as lineage estates as corporate organizations. At the core of this Smithian economy was the symbiosis of family and market, resulting in a peculiar pattern of economic development which has been labelled ‘commercial capitalism’. In this pattern, economic disincentives worked against the transition to industrialization and more complex capitalist corporate organization. In other words, contrary to many earlier explanations also still prevailing until today, we cannot blame culture and institutions for the lack of transformational potential. On the contrary, the traditional Chinese economy was adaptively efficient. In modifying an important concept introduced by Philip Huang; I refer to this pattern as ‘market involution’. One essential question in understanding the modern Chinese economy is whether and how forces of market involution still work towards the reproduction of forms of commercial capitalism.

The symbiosis of family and markets was mediated via the market systems that have been elevated to a paradigmatic model in China studies by Skinner. In these local systems, ritual and markets were mutually
constitutive, such that we can also conceive of markets as being part and parcel of traditional culture. This perspective emerges from the rich recent historical research on the role of contracts and different forms of associational structures, both kin-related and transcending kinship, in organizing markets; on the other hand, markets emerged as the arena in which social and economic forces shaped the patterns of interactions and their embodiment in social artefacts, such as the geographic distribution of settlements or the spatial organization of popular religion. This peculiar cultural pattern may be grasped conceptually by Foucault’s notion of ‘governmentality’. Thus, the market as an organizing principle of local society is embedded in the larger context of Imperial rule, which has been characterized by another term specific to China studies: ‘culturalism’. Culturalism is a particular form of local governance in the larger institutional context of the Empire which actively relies on and shapes ritual. In this form, the duality of local vs. central state was established as a fundamental pattern of the historicity of the Chinese body politic up until recent times. Modifying another central notion in modern China studies introduced by Prasenjit Duara, the modernization effort of the twentieth century focused mainly on transforming this culturalist model of governance into a modern state conceived along the lines of Western national states, albeit resulting in the phenomenon of ‘government involution’.

In the traditional ritual economy, ritual was the bedrock of both market organization and Imperial governance of local society. Hence, most modernizers in the twentieth century waged the battle against ritual, thus viewing economic transformation as being part and parcel of cultural transformation. At the same time, cultural transformation was only feasible as being part and parcel of building a modern state, conceived of as a powerful central state, both internally and externally. These interdependencies created patterns of historicity that are defining elements of the modern Chinese economic style.

The analysis of Imperial governance provides the backdrop of Chapter 3, which starts with exploring the meaning of the concept of modernization for the evolution of economic institutions in China after 1949. More specifically, I introduce the term ‘modernism’ as a core aspect of ritual in modern China. In the context of the economy, modernism has undergirded a particular growth model that centres on the institutional differentiation between different sectors of the economy, especially rural and urban. I show that this growth model has been a constant since 1949, bridging the apparent transition to reforms in 1978, and is only subject to transformative policies at present, albeit without any substantial changes thus far. In spite of many institutional innovations, the growth model persists and reflects the ritual economy in contemporary China, epitomized in the dualism of the informal and formal economy. Ritual is manifest in cultural conceptions of identity, in particular the qualities of modernity that different groups in society have achieved. In this context, economic
growth is not only material progress but a civilizational transformation which is measured against ritualistic concepts, embodied in consumption norms, architectural design and other artefacts. In this way, the emerging modern consumer society is part and parcel of modernist governmentality, thus also establishing a modernist transformation of the market as an element of ritualistic governance.

In this pattern, path dependencies create linkages between past and present, even in contexts such as the massive changes in demography resulting from modernist population policy, which create complex causal interactions among government interventions, social values and resulting behavioural patterns, as reflected in data such as the distorted sex ratio at birth. Aggregate macroeconomic features of the economy such as the extremely high savings rates are shaped by these path dependencies, reflecting, for instance, the norms governing the marriage market in both rural and urban contexts which causally connect status consumption and savings behaviour.

In rural society, path dependencies loom especially large. For understanding economic processes, the legacy of cellularization resulting from Maoist collectivization is highly significant. Especially in South China, radical collectivist policies actually reinforced traditional identities rooted in extended kinship, and group identities have been accentuated by political struggle. This has resulted in patterns of landownership even persisting in modernized urban settlements where kinship groups and village communities control land-use rights and struggle with modernist urban bureaucracies. Although this is a regionally circumscribed path dependency, we can observe interactions between traditional ritual and economic behaviour in many forms across China, epitomized, for instance, in the role of religious activities in creating social capital, as reflected in differential local performances in the production of public goods such as infrastructure or social services.

These developments in rural society have to be seen against the backdrop of one fundamental ritual feature of modernism, namely the institutionalized dualism between rural and urban society enforced by the *hukou* system. Today, in spite of a gradual relaxation of *hukou* controls and a massive influx of migrants into the cities over more than two decades, this formal institution has translated into a differential distribution of social capital across the Chinese population, defining a status order that is also embodied in other institutions such as the educational system, or material structures such as suburban settlements.

Another important interaction between formal institutions and ritual may be observed in the ownership regime. This is an example of modernist forms of ritual which are genuine novelties in the ritual economy. The status order of ownership reflects the administrative hierarchy of government, beginning with the dualism between rural and urban forms of ownership, and continuing with differential status of owners also in the
urban domain. It is a determinant of one of the most conspicuous features of economic growth in China, ‘localism’, as manifest in diverse and even divergent regional patterns of economic development. Therefore, in Chapter 4 I turn to the analysis of government and its role and manifestations of economic policy in the ritual economy.

The pivotal concept in this context is the distinction between the central and the local state, which is empirically most salient in analysing fiscal administration: I suggest that the formal structures of fiscal power are core economic manifestations of governmentality; hence mainly expressions of deeper causal mechanisms in institutional change. One of the glaring family resemblances between past and present is the major role of informal institutions in funding government services at the local level, in particular in rural society. The slow advance of formal fiscal administration beyond the county level is a major indicator of state building in terms of the growing scope of bureaucracy and law, understood along Weberian lines. State building continues to struggle with the forces of government involution, manifest in the intrusion of market-type relations into the public domain, such as education or healthcare, resulting in an astonishingly large variance of local patterns of governance, reaching from ‘hollowing out’ of the public domain to the resilience of collectivist organizations.

Status distinctions between the rural and the urban, enshrined in both habitus and formal institutions, are driving a major phenomenon in the recent pattern of growth, namely the transformation of rural land into urban areas, which directly feeds into the financing of the local state. Thus, in China’s ritual economy the local state stays at the centre of the pattern of localism in economic development, expressed in different types of local states, predatory, developmental, entrepreneurial, and other variants. Local states compete for economic resources and developmental opportunities; hence market competition and government competition are closely intertwined phenomena. Initially, the resulting dynamics triggered the rapid erosion of central fiscal power, thus exposing the forces of government involution; accordingly, the ensuing pattern of reforms, such as the privatization of rural industries and the restructuring of the state-owned sector, has been mainly driven by the reinstatement of central fiscal power, as implemented via tax reforms and related institutional changes. This reveals the pivotal role of the political status order in determining the dynamics of the ritual economy.

However, localism is balanced by the role of the Communist Party as a tightly integrated national institution. In order to understand its role, ritual is, again, essential. We can interpret the CCP as an institutionally embodied status order that encompasses all societal domains, and makes status commensurable across those domains. One particularly significant status distinction separates the local state at the county level from the upper level governments. The ritual function of the CCP is essentially
expressed in the distinction between the functions of leadership and administration or implementation. Following the precepts of modernism, the CCP claims the leadership function in all social domains, representing the modernist avant-garde, which is personified in the position of the Party secretary, on all levels of government or organizations in general. This is institutionally embodied in the practices and symbols of the pervasive nomenclature system, which makes status commensurable. This phenomenon also frames developments such as the emergence and growth of civil society.

As is well recognized in the economic literature on China, the competition for rank in the CCP is a driving force of economic growth via the mediation of the formal cadre evaluation system. Up until today, success in terms of fostering local development is a major criterion for promotions on every level of the nomenclature hierarchy. In this particular sense, growth has a ritual meaning, which is also manifest in how statistics and data are handled as public representations of economic performance. There are broader aspects of ritual which are often perceived as ideology but are reaching beyond, since many elements of modern knowledge about technologies of governing are part and parcel of CCP work today. This is reflected in the educational process that accompanies careers as Communist cadres and that is managed in the system of party schools.

If we look at the consequences of these phenomena for economic policy in the narrower sense, the central fact is experimentalism. There is a distinct Chinese policy process that allows for large local variations and systematically creates recurrent interactions among local experiments and central policy design and legislation. Therefore, planning has also assumed a particular shape in China, akin to an educational (jiaohua) process managed and supervised by central-level agencies, and mainly implemented via the cadre evaluation system. This process is imbued with modernist aspirations which drive industrial policies, and which define and enforce status orders of industrial sectors, types of companies and qualities of economic actions. As a result, the conventional institutional distinction between plan and market evaporates in the Chinese setting, since markets are embedded in the modernist ritual order, and patterns of status differences pervade the allocation of resources such as financial means to particular economic agents. I argue that modernist ritual is the institutional framework for territorial competition among different government entities, in particular the local states, leading towards the distinct form of ‘competitive industrial policy’ by the central government. One conceptual approach to this peculiar form of interaction between state and market is ‘state corporatism’, though modified by the pivotal role of the duality between local states and central government.

In Chapter 5, I take a closer look at markets in terms of a web of social interactions. Here, the notions of networks and social capital are of particular significance, seen against the backdrop of the concept of ‘market
governmentality’ that has emerged from the previous chapters. The chapter starts out from analysing the ‘Chineseness’ of networks in terms of *guanxi*, relating this to insights from psychology and cognitive sciences, triangulating them with indigenous conceptualizations and Fei Xiaotong’s theory. I highlight the field dependence of network boundaries, the instrumentalism of emotional commitments, and long-term reciprocity as stabilizer. This analysis relates to one foundational issue in understanding Chinese culture, namely the issue of ‘individualism’ vs. ‘collectivism’. In the course of the chapter I argue that Chinese networks build on a strong foundation of individualism embedded in active social relations, hence relational collectivism, and structured by status orders, hence vertical orientation, thus basically confirming Fei Xiaotong’s theory about Chinese vs. Western society. Accordingly, *guanxi* needs to be interpreted as an element in the larger canvas of ritual in Chinese society.

In the context of markets in relation to government and formal institutions, most economists point towards trust in institutions as a major determinant of market efficiency, which can be disturbed by high levels of corruption that result from deviant informal networks, thus creating the moral ambiguity of *guanxi*. China appears to be a special case, as high levels of corruption are not reflected in low levels of general trust, as indicated by the data in the most recent 2014 World Value Survey. I explain this phenomenon in terms of the particular properties of *guanxi* networks, in the context of changing institutional conditions in different phases of market transition. Both corruption and *guanxi* in general are therefore expressions of ritual in the economic context. Ritualized corruption is based on long-term reciprocity of exchange of favours, which strengthens mutual bonding and therefore does not erode trust in those local contexts. Multipolar *guanxi* networks create flexibility and even possibilities for efficient solutions. Further, levels of confidence in society are also deeply shaped by the patterns of governmentality, especially relative to the dualism of local vs. central state. Thus, while corruption may be largely seen as a local though widespread phenomenon, central power can maintain legitimacy if it assumes the role of moral leadership.

The chapter continues with looking in some more detail into the value basis of market behaviour, such as attitudes towards inequality and opportunity. I try to pull all the strands of the argument together in analysing the general phenomenon of the performativity of markets in the Chinese context. In other words, I look at markets as patterns or institutional equilibria in the Aoki sense that reflect the complex interaction between determinants such as entrepreneurship, government intervention and regulation, or social networks. This works together with the modernist notion of ‘market instrumentality’, hence approaching markets as a social technology to achieve growth and modernization. Market instrumentality is deeply shaped by prevailing forms of governmentality, thus resulting in distinct forms of market dynamics, such as modularization as conjunctions
of firms and markets, tying rural families into supplier structures designed by lead companies, or the Shanzhai pattern of informal exploitation of technological knowledge (implying rampant violations of intellectual property rights) in flexible and nimble networks of family firms. Similarly, the status order of ownership is a major determinant of financial structures in the economy, thus explaining financial repression of the private sector as a manifestation of the ritual economy.

Market performativity is partly a reflection of corporate organization. Therefore, Chapter 6 looks at the role of firms in the ritual economy. I present the general argument that in Chinese ritual, ‘corporations’ are weak in terms of autonomous sites of agency, and that therefore firms are ‘enterprises’ that manifest the underlying networks of entrepreneurial activity. The Chinese enterprise is a network organization of which corporations are external and even ephemeral expressions. This establishes an important family resemblance between past and present, since the absence of modern corporations was a conspicuous feature of the Chinese economy until 1949, which was actually maintained by enforcing socialist institutions until 1978. Today, the ritual economy of Chinese firms is a continuum of variants between the poles of private business and state-owned companies, with a significant share of hybrid forms. Hybrid forms have played an important role in past decades, such as the Township and Village enterprises that were directly embedded in the local state. Today, the two poles are also a reflection of the dualism of local and central state, with the central state claiming control of the state-owned sector as a modernist avant-garde, and the local state evolving into the domain of the market and private business, with a variety of regional patterns reflecting localism. Thus, the spectrum of companies in China and their ownership regimes is a manifestation of the ritual economy.

In more detail, the Chinese enterprise as a network organization is embedded in the broader pattern of commercial capitalism in which markets, networks and firms are arranged in a mutual relationship. Over past decades, this has coincided with the expansion of global supply chains, where the network principle is also pursued as a modern management approach, thus exploiting convergences between modern management and the ritual economy. Thus, Chinese family business remains an important determinant of Chinese competitiveness in attracting investors. Global supply chains and commercial capitalism of the ritual economy are two sides of the same coin. With reference to this pattern, deviant forms in terms of formal institutions are therefore also manifestations of the ritual economy, such as the Shanzhai production systems in South China.

Therefore, Chinese family business deserves further scrutiny. This is a central element of the influential conceptual model of ‘Confucian capitalism’ that has been created in the context of Overseas Chinese business. Independent from its validity, in Mainland China today this model is under severe pressure given the demographic constraints resulting from
the one-child policy. On the other hand, the family is also a general model for designing enterprise organization independent from kinship, as reflected in paternalistic management approaches. In this model of management, authoritarian leadership, care and informal organization work together. I argue that these aspects were also a defining feature of Communist enterprise organization along the lines of the ‘danwei’ model. Thus, we may regard both to be expressions of the ritual economy, with many functional equivalences to modern aspects of management, such as skill development and education. There are many examples of modern Chinese companies which therefore draw upon the paternalistic model in designing even innovative approaches to corporate organization and management.

The major difference between private business and the state-owned sector resides in the underlying network structures. State-owned companies are the essential element of state capitalism as a modernist insertion into commercial capitalism. I define ‘state capitalism’ as being shaped by a stakeholder structure which mainly involves representatives of government-related organizations, behind which the CCP provides the encompassing network structure with its inherent status order. This stakeholder structure is also the framework in which ongoing reforms are implemented that aim at a hybrid ownership regime. Broadening the stakeholder structure is a major aspect of political change in China, in the sense of including a budding civil society in ritualistic governance schemes, such as in labour–management relations and wage-bargaining processes or in consumer protection and environmental concerns.

The chapter concludes with an analysis of corporate culture in general. Corporate culture is understood as a framework for the explicit design of firm identities, and is an influential topic in China today. I concentrate on the role of traditional ideas in shaping entrepreneurial approaches to corporate culture, which may be distinguished from direct references to socialist ideology or the import of managerial models and practices from abroad. One important observation is that there is a tension between humanistic and legalist management methods, and that the choice between the two is driven by status distinctions. In particular, legalist management methods, largely characterized as ‘militaristic’, are often applied in units that employ huge numbers of migrant workers. One neglected issue in understanding corporate culture in China is the role of Daoism, which is an important background to popular religion and practices. Interestingly, Daoist notions inspire the adoption of management approaches that combine organization and market also internally, thus undergirding the resilience of modular network organization as an organizational principle of commercial capitalism. In this respect, China’s ritual economy is turning towards creating management innovations that may contribute to the evolution of global standards, since these forms of organization appear to converge with new models emerging in the context of the digital economy.
In summary, these five chapters present a concise view of the ‘style’ of the Chinese economy. I claim that this picture is much richer than competing labels such as ‘state capitalism’. The main drawback of these labels is that they cover a larger number of countries with very different institutional structures and performance (such as Brazil and Russia). The conceptual richness of the notion of economic style is necessary to achieve complete causal explanations for what we observe in China today. Thus, in spite of the fact that I highlight the singularity of the Chinese economic style, I also claim that only this allows for empirically valid causal explanations that in turn build on general hypotheses. In making this particular methodological claim, my approach stands in the intellectual tradition of Max Weber and his notion of ‘Kulturwissenschaft’. In order to achieve empirically valid insights into complex historical realities of economic systems, we have to recognize the complexity and contextuality of the single case, while drawing on theoretical resources that are offered by economics. Economics cannot directly explain these realities, but needs to be embedded methodologically in an analysis of culture that is informed by the humanities and the other social sciences.
References

6 Chinese enterprise, organization and ritual

such as campaigns, which have been identified early as an ingredient of Chinese management practices. In Mainland China today, campaign-style management is often related to Maoist leadership techniques, yet we may also say that campaigns are an organizational means to contextualize individual and collective decisions in ‘unfreezing’ organizational structures, thus apparently being related to two different kinds of managerial leadership: one to implement organizational change, the other to create a corporate identity and impose this upon its employees. 69

The issue of identity is of special interest here, as it relates to the distinction between the two forms of collectivism: relational and categorial. Corporate culture in China is emerging as a process that seems to create stronger behavioural foundations for categorial collectivism. This is most obvious in the more advanced technology companies, which represent the spearhead of corporate modernism in China. A typical feature of these companies is the very strong emphasis on corporate identity and a very rigorous internal screening of performance and behaviour in
order to sort employees with different degrees of individual commitment to the company. In this sense, we may indeed speak of the mobilization of ritual means in order to integrate corporations that, on the other hand, pursue systematic strategies of decentralization and opening up organizational borders. This is also evident in the widespread explicit use of lists of criteria about proper attitudes and behaviour of employees, which are often communicated through corporate rituals. This results in the thesis that the tension between individualization and discipline is another expression of the phenomenon of ‘ritual labour’ that I introduced previously. Observing tight work disciplines is an expression of the sincerity of one’s identification with the corporation, and is therefore also an expressive means.

In concluding this section, we realize that corporate culture obtains a similar role as in international comparative contexts of management: corporate culture is a means of organizational integration. In this sense, it is a ritual both in China and in other countries, so that we meet another generic ritualistic phenomenon. There are aspects that are specific to
China which partly reflect the impact of ideas upon designing corporate culture, such as when traditional philosophies indeed inspire organizational design. However, there is also the question of how far corporate culture as a ritual also reflects more fundamental patterns of business organization in China, with the most central one being the relationship between networks and organization. I have discussed whether corporate culture may be a means to strengthen categorial collectivism in corporate organization, thus also defining more rigid and clearly identifiable borders between networks and organization, eventually turning the enterprise into a corporation. But this is by no means unequivocal when we consider actual practices. For example, corporate culture in SOEs clearly supports the stakeholder governance structures, as the SOE may adopt values that also open up channels of influence for the CCP network under the umbrella of CSR measures. On the other hand, in Chinese family business, corporate culture may indeed define an independent existence of the corporation relative to the family as the owner. Yet, in spite of these ambiguities, the fundamental point remains that corporate culture is emerging as
an element of ritual in contemporary Chinese society.

One phenomenon that literally embodies this trend is the increasing permeability of borders between business networks and political networks,

with many business leaders assuming positions in political organizations.

This is a standard pattern in the career trajectories of higher ranked Party members, with SOE executives moving into provincial government, for example, but may also be observed at the grassroots level, where local businessmen may be assigned to the role of Party secretaries, with extreme cases where in fact the business organization ‘overtakes’ local structures.

However, extremity does not imply rarity here. In fact, in the course of rural industrialization many entrepreneurs gradually turn into community leaders, especially if they follow the paternalistic model, which translates into assuming many functions in providing social services to employees, which may represent a majority of the local population anyway. In these cases, corporate culture and community culture merge. These role meta morphoses actually reflect the unity of ritual across social domains. 71

Theoretical reprise
One core observation of this chapter is that market
governmentality

includes the role of business organizations. We can see
this in the light of
two different perspectives. One is the role of
organizations in shaping
markets, in the sense of modularization as a typical
pattern. The other is
the contribution of business organizations to the distinct
Chinese form of
governmentality in society. In my theoretical reprise I
begin with the
second point. This contribution is most directly visible in
the role of cor
porations in governing the migrant population, especially
in regions such
as the Pearl River Delta. The specific amalgam of
paternalistic leadership
and Legalistic practices has emerged also as a frame for
subjecting the
migrant population to a form of para- governmental
governance mecha
nisms, embodied, for example, in the separate compounds of
factory dor
mitories, and realized via draconic forms of supervellance
even reaching
into the private lives of migrant workers. 72 However,
there are many other
aspects of which we can say that corporate organization has
become a dis
tinct setting for societal governance in the context of
modernism.

I have already discussed the ritual aspects of
professionalism in Chapter
3. The carriers of this culture of professionalism are mainly the business corporations which implement and enforce these standards. This is a domain with strong cross-cultural interactions, since most of those standards originated in Western countries. This not only applies directly to HR systems, but also works via modern concepts of corporate identity and branding that also have implications for the behavioural standards to be applied within the organizations. Yet, as we have seen, these cross-cultural interactions by no means imply that the Chinese corporations simply adopt Western models. We can observe two channels by which hybridization, mergers and transformations proceed. One is the role of path dependencies, which is most explicit in the domain of private businesses emerging in the rural areas, largely taking the shape of owner-managed firms with a strong familistic orientation, also partly morphing into genuine family businesses. The other is the role of organizational design, which aims at creating corporate cultures which in turn are being influenced by ideas that tie up with Chinese intellectual and spiritual traditions. In this case we also considered more deep-
structural influences

of fundamental cognitive structures, such a field
dependence and
modularization.

With regard to societal governmentality, we may surmise
that business
organization becomes an important carrier of ritual. For
example, in the
family business, paternalistic leadership not only follows
ritual precepts
such as reciprocity and benevolence in the leader-follower
relation, but
also enforces ritual in activating traditional ideas in
family-centered man
agement. There are many examples of family businesses where
leaders
actually conceive of the company as a ‘mini-state’ where
governing
employees is seen as a civilizational process, partly even
undergirded by
adopting traditional rituals. These interactions are
particularly important
in many local states, such as when successful corporations
also play a
leading role in developing their local communities, also
known from the
patterns of ‘factory towns’ in European industrialization.
Theoretically,
this implies complex interactions among the company, the
social environ
ment and the local state. If we employ the notion of social
capital here, we
can say that the company evolves into social capital of the
community, in
the sense of representing developmental potential and a
force of social
order, but also community embeddedness turns into social
capital of the
entrepreneur, mediated via social networks among him, his
close sup
porters and the political networks of the local state. I
have already dis
cussed the CCP policy of co-optation in Chapter 5; in the
current context,
this means that the societal status order also counts for
emerging identi
ties of entrepreneurs and their companies. Typically, this
is being medi
ated in organizational forms such as leading roles in
state-sponsored local
business associations or membership in local political
bodies. Ideal typic
ally, the entrepreneur becomes a moral exemplar in the
community, thus
combining business success with local leadership.
By implication, private business beyond a certain size
becomes part and
parcel of the social order of the local state, thus
evolving into a comple
ment of SOEs on the central level. So, the theoretical
notion of social
capital also allows for a conceptual grounding of the
stakeholder model of
corporate governance that applies mainly to SOEs but may
also encompass
certain segments of private business. Certainly, these
interactions can assume many different shapes, being embedded in the guanxi network structures, thus reaching from moral exemplar to corrupt impact. Thus, considering the diversity of local states in China in particular, the interaction between business and politics is of crucial significance in defining different types of social order, both functioning and legitimate or mal functioning and illegitimate. Yet, we can conceive both as expressions of ritual in its different shapes.

So, in sum, I argue that the general hypothesis that markets are an integral part of governmentality in the ritual economy may be further detailed in approaching the Chinese enterprise as a pivotal element in reproducing this pattern. This extends to earlier conceptualizations of Chinese business in the literature on the Overseas Chinese. In this literature, the company is seen as an encompassing way of life for Chinese entrepreneurial families. In comparison to these diaspora settings which are defined by political exclusion, in Mainland China the political order gears this comprehensive form of life also towards a form of social order. There are many ramifications of this theme,
which include

the role of business in the larger project of modernism and national

revival, which consequently means that successful business also has a political dimension. This applies to SOEs anyway, but also to many large-scale private businesses. What is CSR in modern parlance is the obligation of business to contribute to fulfilling the ‘China dream’ of achieving modernity and national greatness. So, modern ritual continues to represent the primacy of the political in creating social order, thus obviating ideas of separating different domains of society, in particular the economy.

Turning to the other aspect of market governmentality, the basic observation is about the primacy of networks as embedding both markets and organizations. In the context of modern internet technology, the idea of the breakdown of traditional concepts of corporate organization, especially corporate boundaries, has long been discussed. In China, these developments are also taking place in technology-intensive firms. Yet, I suggest also aspects that reflect the importance of determinants specific to the Chinese context. If we combine the results of the last two chapters, we
can say that two forces work together in creating new forms of corporate organization. One force is the modularization of markets, which works via the creation of more stable network structures, reaching from loose supplier relations to more integrated schemes, such as in some models of ‘dragon head companies’. The other is the many projects of corporate re-engineering that aim at endogenizing markets in the company, thus redesigning organizational structures along the lines of market relations.

Evidently, both forces work together in creating a network-based corporate structure. In this network structure, identity plays an important role in order to maintain a minimum level of integration. Here, I surmise that the general logic of guanxi applies in different shapes. This is partly a hypothesis that waits for further empirical confirmation. Yet, as we have seen, the guanxi logic creates special conditions for network formation in private business, such as when employees set up their own companies and maintain supplier relations with their original company, also having received a start-up loan or other forms of support. Here, long-term reciprocity in guanxi rela
tions undergirds market transactions. The shared identity is emerging in these ongoing interactions, and it is not necessarily visible also in corporate identities such as brands. On the other hand, in tighter integrated corporate structures that move towards network organization, identity is an essential ingredient of designing corporate culture as a medium of integration. I argue that all these different shapes may be summarized as being expressions and uses of ritual in network organization.

In this context, it may be significant that in creating corporate cultures, the issue of ‘Chineseness’ looms large. So, this topic is deeply shaped by the ‘mirror of culture’, which creates enormous difficulties for empirical research. The field of Chinese management sciences is exploding, but there is widespread disagreement as to how far established management theories can adopt an etic stance, thus just transferring established ‘Western’ knowledge to the Chinese case, or whether there is the necessity to develop emic - that is, indigenous - approaches. This problem is further complicated because the business leaders themselves are often very active in developing their own syntheses of Western management teachings and
Chinese traditions. These difficulties reiterate similar conundrums with earlier notions of ‘Chineseness’ in Overseas Chinese business organization. One possible reaction to this reinstates arguments raised in these earlier debates that simply look at ‘Chineseness’ as a means to obfuscate generic relations of power and market logic. However, this would certainly underestimate the role of cultural creativity in many cases where entrepreneurs indeed create new organizational models and ‘make sense’ of their business endeavours. Further, as a matter of fact, Western research also struggles with the meaning and empirical significance of even the most basic notions such as guanxi. Therefore, following my methodological precepts as developed in Chapter 1, I think that there is no way to escape from the 'mirror of culture'.

However, as we have seen in Chapter 2, there is an anchor for understanding the particular forces of network dynamics, as social networks are always interrelated with material networks, such as technological networks or infrastructural networks. This interaction was essential in explaining the decline and absence of large-scale complex organization in the traditional
ritual economy. Since, for many reasons, we can argue that the instability of the corporation remained a feature of the Chinese economy until most recent times, we also need to consider the role of technology today.

As we have seen, the thesis of the primacy of the enterprise as a network organization is apparently still vindicated today. First, the most prominent form of stable corporate organization is the SOE. However, the SOE is also an epiphenomenon of the underlying multi-layered networks of individuals, government organizations and the CCP. This is immediately evident from the ease by which corporate restructuring can take place. In the past, this was mainly done in the context of reforms, thus apparently suggesting that the instability of the SOE as a corporate structure is mainly an expression of short- and medium-term policy initiatives. However, in my view this is a more permanent feature that results from the primacy of the network structures. In terms of ritual and economic style, the central phenomenon is the role of the CCP as the carrier of the strategic function, even dominating the investment function that undergirds the regional property rights structure.
Second, China is currently facing an economy-wide crisis of transition in family business. The question is how far private business in the owner-managed firm is just an entrepreneurial project driven by individual aspirations in social networks, or whether the resulting companies also obtain a corporate identity, thus actually emerging as an element in the social ontology in which traditional conceptions of the family are conceived. These issues are of immense practical relevance, as they influence, for example, the decisions of entrepreneurs about investing in research and development, new products and so on.

Now, it is important to realize that the Chinese development is strongly interacting with technological transformations that are currently taking place worldwide. We have seen that the emergence of global value chains also contributed to the resilience of commercial capitalism in China. Most recently, the pervasive role of the internet also in technologically transforming traditional sectors such as manufacturing actually undergirds the network organization of Chinese business. In other words, taking theoretical perspectives of the Actor-Network paradigm, there is a pre-adaptation
between Chinese networks and emerging technological patterns in the global economy. One reference term is the notion of ‘platforms’ (such as in the notion of ‘platform capitalism’), which neatly corresponds with my concept of modularization in the Chinese context. This potential pre-adaptation implies that we have to reconsider the standard model of economic or market involution. The central point in this thesis was that the Chinese ritual economy could not develop organizational structures out of endogenous market dynamics that would allow for the emergence of modern technology, thus ultimately failing to increase productivity in the long run. However, with the radically changing technological structures today, this argument may no longer hold. For example, platforms allow the organization of a large number of free-standing small-scale business units into one large corporate network with a strong brand and certain measures of integration. In Western countries, many observers look critically at these developments as they dissolve traditional forms of labour relations, actually reinstating the entrepreneurial role of the individual or the family. Clearly, the informal economy of China is
easily adaptable to

these conditions of platform capitalism. By implication, modern techno
logy can resolve the dilemma of market involution while at the same time
possibly reinforcing the role of traditional social structures in business

Hence, I claim that the ritual economy may emerge as a competitive

economic style in the context of most advanced forms of technology-
mediated business. This possibility is already visible in the tremendous
success of Chinese high-tech companies in global competition. This would
imply that the historical failure of China to industrialize endogenously was
actually the manifestation of a contingent mismatch between the ritual

economy and technology at that time, with technological structures such

as the steam engine or, more generally, centralized devices of power gen
eration, also fostering what has been called the ‘Fordist’ regime of produc

tion. Today, internet-based technological transformations seem to create a
match with the ritual economy, thus reinstating its relevance for construct

ing Chinese modernity.

Notes
1 For a critique of the standard approaches, see Wang Jiangyu (2014). Wang also points to the fact that the Chinese government even recommends these interpretations to international organizations, such as when endorsing the OECD Principles of Corporate Governance and also producing self-assessments on these terms. This creates the impression that China is in a process of ‘transition’ to these mainstream models. Accepting this interpretation means that one does not explore the question of why the Chinese government adopts this stance at all, given the undeniable fact that in CCP concepts of corporate governance the leading role of the party remains a pivotal principle. So, the question is still open as to what the real function of modern corporate forms actually is. As an example of this analytical bias, see the otherwise well-informed analysis by Clarke (2010).

2 For a survey on this aspect of social network analysis, see Carroll and Sapinski (2011). For example, for different ‘varieties of capitalism’ a shared feature is the role of board members in connecting up to a managerial elite that defines a power structure in the economy which transcends formal corporate structures. Overlapping directorates can be analysed by SNA tools in order to identify groups or even individuals with an especially strong position. The connection with analysing the role of the CCP in China may be to consider the role of networking platforms in Western economies, such as business associations, clubs or service organizations, as meeting grounds for networking. From that viewpoint, the CCP would be seen as an extraordinarily strong platform for organizing networks of corporate elites. Status considerations play a very important role in organizing corporate structures in Western countries, such as the involvement of investment banks in M&A procedures, which directly match partners of a particular status, or in the organization of closer cooperation networks (see Podolny 2005).

3 For a concise survey of the literature and an application to China, see Conlé (2015). This research also implies a much stronger emphasis on micro-level analysis and case studies, in the sense that over-generalizations are avoided that may often also be found in the ‘varieties of capitalism’ research (see Zhang and Peck 2014). Architectural analysis focuses on the interaction between firm organization and market organization, such as the question of whether certain production processes are organized in large and closed corporate systems, or whether they are decentralized and without fixed
organizational borders. Seen in the context of the larger institutional setting, these structures also have implications for the interaction between government and market actors.

4 Redding and Witt (2008) argue that the Chinese economy may be characterized by the fundamental dualism between private and public sector. I think that this obfuscates the interaction and often intermingling of the two. On the problems of Chinese private sector statistics, see Rühle (2012: 290ff.). Especially for earlier decades estimates vary widely, for example, because many private businesses were camouflaged under the ‘red hat’ of collective enterprises. Yet, this camouflage also means that local governments might co-opt the private businesses, and so may also be seen as forms of network hybridization, as I argue below. Today, many statistical categories do not cover the entire private sector, because they may exclude companies below five million RMB turnover. Further, the group of ‘ge ti hu’ (i.e. companies with fewer than eight employees) is also often omitted. On the other hand, Huang (2008: 166ff.) points to the role of cross-shareholdings in larger corporate structures which may also distort our view of corporate types in terms of factual control. For the data mentioned about the proportions, see China Statistical Yearbook (2013: 121, 473), where we can also add the data on employment for all sectors which confirm the picture for industry, where I considered capital stock. In terms of capital stock, private business only accounts for a share of approximately 20 per cent.

5 On these arguments, see my previous discussion in Chapter 2. Another factor is the specific interaction between technological development and corporatization in organizational terms which may have created path dependencies in the Western context. The centralization of energy generation by the steam engine favoured highly integrated organizational forms, compared to the labour-intensive technologies prevailing in China. Further, the invention of standardized mass production in US weapons manufacturing also strengthened this kind of organization, independent from the existing legal forms. Interestingly, these differences were also interpreted in another way by modern Marxist scholars who emphasized the resulting potential for the deskilling of workers. Deskilling shifts the power balance between capitalists and workers and so further strengthens the organizational form, in this view as an aspect of organizing social power.

6 In Chinese studies these phenomena are called the ‘Kirby
puzzle’ (on the contemporary relevance of this historical analysis, see Goetzmann and Köll 2004). In his seminal paper, Kirby (1995) studied the observation that in spite of much legal progress in corporate law, the Chinese business sector failed to respond to these institutional innovations. Interestingly, Chinese political leaders seemed to share the opinion of modern institutional economists, arguing that the lack of legal instruments impeded the modernization of Chinese enterprise, so that the first Company Law was promulgated in Imperial times, on 21 January 1904, the ‘gongsi lü’ (公司律). After that, there was continuous legal progress, with detailed regulations following in 1914, adapting the German Commercial Law, and then a new Company Law of Republican China in 1929. The ‘New Company Law’ of 1946 introduced special categories for state-owned and foreign-invested companies, thus already reflecting the fact that the law was almost exclusively used in these contexts. In the PRC this law was annulled, yet the term ‘corporation’, gongsi, was only used for these two separate categories. According to Kirby, there were 1.3 million private companies in China in 1949, of which more than 99 per cent did not use the legal forms of the Company Law but operated as a family business of partnerships, ‘hehuo’ (合伙). This has to be seen against the background of the technological structure; in spite of ongoing industrialization, about 75 per cent of industry remained organized as ‘traditional handicrafts’ (Feuerwerker 1983: 50ff.). In particular, rural sideline production remained competitive until the 1930s in many branches (Feuerwerker 1980: 15ff.; Richardson 1999: 59ff.). The reasons for this delay of legal modernization are manifold, with many authors emphasizing mainstream arguments, especially on the dismal state of the fiscal system and corruption (see Bowen II and Rose 1998).

7 These structures have been studied in detail by Numazaki (1996). An illustrative case study is Uni-President Enterprises Corporation, which is today the biggest conglomerate in food industry in Asia. It was founded half a century ago as a member of the so-called Tainan clique, a group of entrepreneurs formed along classical guanxi lines. At the centre of this clique was a family business, Tainan Spinning. The founder of Uni-President was a second-degree cousin of the owner of Tainan Spinning and was also working in that company. In setting up his own company, he received financial support from his relative. The group further expanded, with thickening and growing network relations that were increasingly cast into the legal shape of the conglomerate.
8 Based on the Taiwanese and the Overseas Chinese case, Hamilton (1996a) has therefore ventured the hypothesis that the fundamental unit of business organization in China is not the family firm but the network of family firms. Greenhalgh (1988) had shown that in shareholding companies shareholders with the same surname played a dominant role, which points more specifically to the extended family as network structure. Companies with a strong participation of extended kin also proved to be significantly larger and also economically more successful than other companies. Lee and Hsiao (2014) summarize the situation in Taiwan today and argue that the critical share of stockholdings for assuming a controlling position is only 15 per cent. According to the current legal prescriptions for transparency, only second-degree relatives need to be reported as shareholders, which, however, does not reflect the strength of extended kinship beyond this level. Therefore, Lee and Hsiao argue that about 80 per cent of publicly listed companies in Taiwan are controlled by families. Considering the situation in China today, this may point towards similar difficulties. According to a recent survey by Forbes China (www.forbeschina.com/review/201409/0037397.shtml, accessed 5 November 2015) of the two stock markets in Shanghai and Shenzhen, of 1485 private companies, 747 are family companies (out of a total of 2528 companies). The criterion is that the family must have controlling stakes (more than 25 per cent of shares) and that at least two family members are employed in top management. However, this definition does not make explicit where the boundaries of the ‘family’ are drawn. So, based on the Taiwan comparison, one may suspect that a much larger number of companies are actually family businesses. Götzmann and Köll (2004) argue that it has been a persistent cultural phenomenon in Chinese business up until today that elite families retain control of companies independent from formal shareholder arrangements, thus obviating the need for majority ownership.

9 ‘Fragmentation’ is the term employed in the theory of international trade (see e.g. the surveys and analysis by Hanson 2012; Timmer et al. 2014). In sociology, the term used is ‘global value chains’ (see Gereffi 1996; Gibbon et al. 2008). The WTO (2014: 78ff.) combines the two terms. Sociologists are mostly interested in the forms of governance and the distributional implications, whereas economists mainly look at the resulting division of labour, however, also taking note of certain distributional effects that on first sight contradict established trade theories, such as the fact that in countries with a high
share of unskilled labour relative to capital, the higher skilled workers and capital mostly benefit from fragmentation. Another term used more frequently recently, especially by the WTO (2013), is ‘value-added trade’, thus referring to the fact that in global value chains there is a large share of high-valued services originating in advanced industrialized countries that are traded implicitly, and so remain hidden in the official trade statistics. In the view of economics, fragmentation reinstates traditional theories of comparative advantage, as companies split up the production process into segments which are then allocated to countries with specific comparative advantages regarding this particular segment.  

10 On these patterns, see Appelbaum (2009), among others. The peculiar dynamics of the Chinese case is most obvious in the role of intermediators for arranging the supply chains of global retailers, a point already touched upon in Chapter 5. One example is the trading company Li & Fung, headquartered in Hong Kong, with an annual turnover of nine billion. Li & Fung organize supply chains for other companies, but also maintain their own chain of retailers. They specialize in sensitive functions such as quality control and logistics. So, in the Chinese context, the balance between domestic traders and global retailers is different from in other countries, probably reflecting the strength of domestic network organization. Interestingly, this repeats the historical pattern analysed by Hao (1996), when Western economic imperialism actually triggered the rise of a class of Chinese intermediaries. With their involvement in functions such as quality control, Li & Fung represent a transitional form towards fully integrated companies such as Foxconn which directly organize production in China. Yet, even these companies retain the function of traders in the sense that they serve as suppliers for a large number of clients. Their organizational structure is largely determined by controlling essential inputs (mainly produced in Taiwan and Japan) and the capability to safeguard quality.

11 This argument may be based on a possible extension of the formal model of ‘networked equilibria’ presented by Feenstra et al. (1999) and applied to the comparison between Taiwan, Korea and Japan. The authors show that there are different equilibria in combining vertical integration and market relations, thus actually analysing what I call ‘modularization’, tying up with the broader literature on this phenomenon in industrial organization studies (see Sanchez and Mahoney 2013). The core argument is that in general equilibrium models with vertical
integration and product variety, there are multiple equilibria of industrial organization with regard to the degree of how large, vertically integrated business groups emerge. In a nutshell, this is based on an inherent positive feedback dynamic. If there are already larger business groups in the downstream sector, they would tend to vertically integrate in order to create more efficient production chains with larger batches, and hence lower product variety. If not, there is a tendency to organize more dispersed production networks with higher product variety. This ideal-typical situation may be found in Korea and Taiwan, respectively. The upshot is that political, cultural and historical conditions operate as selectors for particular equilibria. So, there are strong path dependencies which, however, result in equally efficient tracks. Yet, the resulting production pattern would differ. For example, the strongly integrated networks would concentrate on end-products with high brand visibility, whereas the loosely integrated networks would focus on market niches with wide variety.

12 The relentless pressure on costs is an enduring feature, especially in private business in China, which also results from the demands of Western customers such as the global retailers. Along the fragmented value chain, surplus is typically squeezed to virtually nothing for the end-suppliers. Interestingly, this may be a factor driving these companies into the sector of counterfeiting, since in this domain profit margins can be higher. Companies may simultaneously operate in both business domains, with the illegal business actually cross-subsidizing the regular business (see Midler 2008). It should be mentioned that my analysis of the Chinese firm matches with Casson’s (1997) generic approach to the firm which emphasizes the ‘market-making’ function: firms are not mainly seen as companies that organize production processes but ones that enable market transactions. Recently, Watanabe (2014) has systematized the Chinese phenomena in a ‘vigorous entry and low price’ model of industrial organization, arguing that this is fostered by technological developments which allow entrepreneurs to rely on suppliers of fixed technological modules and platforms, so that the fixed costs of market entry are very low. This leads to a ‘vertical disintegration’ model in which production processes are mainly market mediated. Watanabe compares market structures in China with India, showing that in the same industries with similar technological conditions and market size, the number of firms is much larger than in China, resulting in the tight competitive conditions that all observers of the Chinese market emphasize.
13 I introduced the example of the motorcycle industry in Chapter 5, n. 68. As I discuss below, an important aspect of this knowledge sharing is that it is regionally clustered; on the motorcycle case see Sonobe et al. (2006). In the mid-2000s, 30 per cent of motorcycle production in China was concentrated in the city of Chongqing. On the different types of modularity, see Fujimoto (2007). Modularity is a central aspect of the so-called ‘architecture’ of industrial organization and is also driven by technological developments which determine the nature of interfaces in production organization, as I have argued previously. An excellent example for this is the emergence of automotive firms from the motorcycle and supplier industry in China, such as Geely from motorcycles or BYD from batteries. As Conlé (2015) discusses in great detail, these firms carry over open-modular structures into the production of more complex cars in relying on the rich supplier industry in China which was created by the inflow of foreign investment in combination with local content regulations, which, however, collaborated over international standardization and certification (see Pesselhoy 2006). The open-modular firms even outsource essential components such as engines, and they try to integrate components which originally belonged to different platforms and models of different original producers, often struggling with frictions. However, there are also emerging markets such as for electric cars of micro-cars where such open-modular structures can be built from scratch.

14 See Chapter 2, n. 78.

15 It is interesting to observe that in this context international and Chinese patterns of organization intermingle. In this case, the model of the business incubator is often implemented with international investors (see The Economist, 18 January 2014. A prominent example is the Hax Accelerator in Shenzhen which has a partner organization in San Francisco (http://hax.co/). The basic idea is that the successful business model in fostering software startups of the past may also be applied to hardware. This builds on the availability of large numbers of flexible small-scale firms in Shenzhen which can produce prototypes and small batches of new products in an extremely short time.

16 On this model, see Booz&Co (2009). The authors develop a process model of Shanzhai that emphasizes the market opportunities of low-income consumers in the initial
stage which can be most effectively exploited by small-scale and flexible private entrepreneurs. Initially, they rely exclusively on technology that is available on the market, including even design features, in order to save overheads. This results in a large number of IPR and trademark violations. The conditions in the Chinese mobile phone industry have been detailed in Imai and Shiu (2007), which point, for example, to the role of ‘independent design houses’ that were originally from Korea but were then followed by a large number of local firms. So, entrepreneurs in the handset market can even outsource these central functions in product development, which on the other hand fosters specialization and the diffusion of knowledge. Only a few of the entrepreneurial ventures grow to larger sizes and then start to invest in their own R&D and brand development, thus ‘going mainstream’. In the automotive industry, companies such as BYD also own a large stock of own patents and converge with international practices in IPR management.

17 See Chapter 5, n. 70 and n. 75.

18 On the role of local governments in supporting cluster formation, see Watanabe (2014) or Conlé (2015). Tellingly, some of the original ‘model clusters’ in Northern Italy, especially the garment industry, are today overtaken by Chinese businesses which rely on the same competitive advantages as in their native areas; for example, many migrants from Fujian and Wenzhou are now active in those Italian clusters. Here, we see that two network patterns intermingle: the network organization of migration and the local network organization of production (for the case of Fujianese in Europe, see Pieke et al. 2004). In the 1980s and 1990s, the cluster model was hailed as a newly emerging model of industrial organization, following seminal contributions such as by Charles F. Sabel (for a collection of pertinent papers, see Curzio and Fortis 2002). Theoretically, these views were based on evolutionary theories and the theory of complex adaptive systems, which therefore could also provide insight into the analysis of Chinese conditions. Another important source of conceptualization was the literature on national innovation systems adapted to regional development (see e.g. the volume edited by Braczyk et al. 1998). This literature emphasizes the role of local institutions and patterns of interactions in shaping collective learning processes and developing regional competitive advantages, and going back to classical contributions such as Storper (1995).
For a comprehensive discussion of the criteria for identifying a family business, see Felden and Hack (2014: 10ff.). In the majority of quantitative research, authors tend to employ the simpler ‘components of involvement’ approach which focuses on indicators such as the distribution of ownership rights. In comparison, the ‘essence’ approach emphasizes ‘thick’ criteria which define certain more specific characteristics of governance in family business and also highlight the specific competences and resources that are mobilized. The most advanced indicator, the F-P EC scale (power, experience and culture), uses a much larger number of indicators in those three dimensions in order to establish degrees of the strength of family characteristics. For example, this indicator encompasses the detailed analysis of the number of generations involved in different organizational structures of the company, or looks at the impact of family culture upon corporate culture. Such an approach is eventually necessary because the range of organizational variants of family business is very large, and also includes structures where the family focuses almost exclusively on financial returns, for example, by establishing a family foundation as the owner of the company, and rarely, if at all, interferes with business decisions.

According to the bibliometric study by Wei Zhihua et al. (2013), research on family business is only developing slowly in China, whereas it is exploding in the rest of the world. Moreover, the number of Chinese papers published on this issue has diminished over recent years. The field is still dominated by mostly normative studies, and by a small number of research centres in places where family business is very important, such as Zhejiang University and Sun Yatsen University in Guangzhou. Another unusual characteristic of Chinese research thus far is that it is mainly conducted in management science and economics, thus lacking interdisciplinary dimensions. This is significant in our context, because therefore anthropological or sociological aspects are neglected. On the contrary, in classical studies of Chinese business beyond Mainland China such as Redding (1990), the Chinese family stays at the centre of attention. However, there are many reasons why we may need to be careful in extrapolating knowledge about these family businesses on the situation in Mainland China, because, for example, there has not been political intervention into family structures as under Maoism and with the one-child policy.

Forbes China publishes an annual survey of family
businesses listed in Hong Kong and Shanghai (www.forbeschina.com/review/201409/0037397_all.shtml). The criterion is that the family should have a controlling stake and that at least two family members should be involved in top management positions. So, this criterion does not match the scholarly definition cited in n. 19 above. According to the Forbes criterion, approximately 50 per cent of listed private businesses are family owned. However, if one takes the criterion of successful generational transition into account, only about 10 per cent of the companies would count as family businesses.

So, what matters for the distinction is whether we count the intention to continue with the business as relevant for the classification as a family business. In the study by Chen and Dou (2014), based on a sample of 284 family firms mostly from Guangdong, Sha’anxi and Jiangxi provinces, thus including many medium-sized companies which are more representative for the majority of family businesses in China, only 4 per cent of companies have completed the generational transmission, and 76 per cent have not yet taken any measure in this regard. There are clear behavioural differences between companies that identify themselves as ‘family businesses’ and those that do not, for example, in terms of commitment of the family to the business.

22 According to the Forbes data, the performance of second-generation family firms is particularly dismal on the Hong Kong stock market. Yet, also in Mainland China, family firms perform worse than non-family-owned private businesses, with the exception that second-generation companies perform better than first-generation companies. The problem with these sorts of data is that there may be a strong impact of the general economic environment, since family firms are also most prevalent in certain industries, such as machinery. So, exogenous shocks may actually explain differential performance that are not necessarily related to their nature as family firms. In Mainland China, the share of non-family CEOs is also much higher than in Hong Kong, which may already reflect the specific constraints upon family management resulting from the one-child policy. This results in particularly pronounced tensions between traditional Chinese ideas about inheritance and the pragmatic necessities, for example, regarding the handing over of the family business to the daughter (see below).

23 For a classic description of the inherent instability of the traditional Chinese family, see Baker (1979: 15ff.). This condition was projected into a model of Chinese
family businesses which was very influential in the literature (Wong 1985). Wong distinguishes between four stages of family development – ‘emergent’, ‘centralised’, ‘segmented’ and ‘disintegrative’ – and between three functions – ‘estate’, ‘management’ and ‘profit’. The distribution of profit is the first to be decentralized once children become involved in business management. If the children establish their own families, management will be decentralized next, resulting in the ‘segmented’ stage, which, however, still retains the unity of the estate. This also implies, however, that the different segments may operate businesses in many possibly disconnected areas, as in the highly diversified Overseas Chinese conglomerates. Disintegration means that the estate is also divided. Wong has already argued that under certain conditions cycles between segmentation and centralization could occur, when across the generations new leaders in the family emerge (see n. 24 below), thus explaining the resilience of Chinese family businesses across generations in a number of important cases. According to Wong, the essential factor in determining the transition to disintegration is the inclusion of first cousins in business organizations.

24 For an interesting and prominent case, see the Singaporean Eu Yan Sang Corporation (www.euyansang.com/), studied by Tung (2007), and Yeung (2002), who also directly applies that classical Wong model to Chinese family businesses. This corporation was created by a patriarch with 13 sons, resulting in irresolvable tensions during the third-generation transition. Many parts of the corporation were sold. However, in the fourth generation certain family members were able to stabilize the firm in concentrating on its core business, namely traditional Chinese medicine, adding strategic complements such as expansion into the hospital sector. The company is led by a professional management team which includes three family members in leading positions.

25 In the aforementioned survey by Chen and Dou (2014: 47), in discussing the different possibilities of handover, the highest share of respondents asserted that the sex of the successor does not matter (81.43 per cent). Zhou Xibing (2014: 106ff.) presents a number of highly visible generational transitions involving daughters, such as the Wahaha Corporation which is still led by the founder, Zong Qinghou (宗庆后), who is preparing generational transition to his daughter who received a management education in the USA and then assumed the position of CEO of certain companies in the corporation. Zhou identifies three obstacles to the advancement of women to top positions in Chinese family
business. First, women are often still seen as outsiders to the agnatic group, since they will marry into another group; this also relates to daughters-in-law who, however, may make up for the deficiencies of the single male heir. Second, there are many forms of gender discrimination in internal organizational routines, such as speaking at board meetings. Third, societal role expectations still emphasize the role of women as wives and daughters.

26 On the differentiation of functions, see Redding (1996b) who follows a model by Limlingan distinguishing between the entrepreneurial function, the managerial function and the custodial function. Only for the custodial function do the conventional assumptions on the role of trust in determining business relations hold, whereas the managerial function can be easily delegated to professionals, and the entrepreneurial function is allocated to selected members of the family according to their capabilities. As we have seen from the Forbes survey, in Mainland China about 50 per cent of CEOs in listed family firms are non-kin. Hang et al. (2013) conducted research on the factors that determine ‘psychological ownership’ on the part of professional managers in Chinese family businesses. They measure psychological ownership in the display of certain behavioural stances, such as stewardship, organizational citizenship behaviour and intention to stay. Interestingly, they find that kinship is less significant in determining psychological ownership than emotional commitments that arise in work contexts, which they call ‘guanxi closeness at work’. These commitments can be fostered by the owner by demonstrating paternalistic care for the employed manager, thus creating a quasi-family context, for example, in taking into consideration the personal circumstances of the employee. In Chapter 2, I outlined the extent to which traditional Chinese lineages were ready to employ professional managers on their estates.

27 For a book-length journalistic study of the problems with family business succession, see Zhou Xibing (2014). Tellingly, Zhou relates many of the troubles to problems of Imperial succession in traditional China, thus at the same time pointing towards the overcoming of traditional fetters (such as in the gender issue), but also activating this cultural repository. A highly visible example in the Chinese business media is the case of FOTILE Fangtai (方太) Corporation, today a high-end producer of kitchen equipment with international reach (http://en.fotile.com/; Fang 2013; actually, the case is also a leitmotiv in
Zhou’s aforementioned book, often citing its founder Mao Lixiang (茅理翔) who is himself a prolific writer on business issues. The son only agreed to continue in the family business under the condition that he might set up his own business in related areas, and would not be expected to employ relatives in high management positions. So, the entrepreneurial function has been separated, yet the family still controls the financial assets together, with the founder still being chairperson of the board of the group. However, at the same time the son employs many traditional motives in building corporate culture, such as reading circles of Confucian classics.

28 I discussed these issues in Chapter 1. On the factual flexibility of business organization in Taiwan, see Schak (2002). Schak studied Taiwanese investments in the Pearl River Delta and discovered that many phenomena contradict the ‘Confucian’ model. For example, family businesses were in a minority, with most companies operating as partnerships, hence joint investments of non-kin, yet the owner and his core family, especially wives, may play a leading role. Intentions to achieve generational transition were there, but in a weak and minority position. There were also many professional managers; hence no preference for kin in organizing the business. However, Schak does not generally dismiss cultural explanations, as he points to the neglected friend-friend nexus even in the Confucian wu lun notion, which is certainly highly appreciated in popular culture, and to the widespread use of kin notions as metaphors for close relations between non-kin.

29 The classical model has been developed by Redding (1990) based on the study of Overseas and Hong Kong Chinese businesses. Embedded in a rich analysis of cultural, historical and fieldwork contexts, this study also employed a quantitative investigation based on a model framework of the ‘Alston’ approach in studying organizational structures (Redding 1990: 153ff.). The comparison between British and Chinese companies in Hong Kong was very clear: Chinese companies manifest a higher degree of centralization of decision-making, but a lower degree of role specialization and standardization. Interestingly, the degree of formalization was similar, yet there was a lower degree of configuration; the latter refers to the relationship between line and staff personnel. So, the typical picture of paternalistic leadership is reflected in organizational structure. The leader maintains much of the control over the company, including flexible arrangements of structure according to his perceived needs. In order to
keep control, he relies on formalization (i.e. extensive written records), but he does not delegate this work to specialized staff management. Redding also observed that ‘leadership’ is more a question of ‘followership’, thus pointing towards generic aspects of ritual.

30 Many aspects of the Chinese leadership style have first been delineated in a remarkably detailed and comprehensive study of a large Taiwanese company by Silin (1976), which still retains much relevance today. This relates to specific aspects such as campaign-style leadership (yundong) and factionalism, and to the general model of paternalism. Redding’s (1990) aforementioned work owes much to this early study, the relevance of which was later again confirmed by other Taiwanese scholars (see Chen and Farh 2010: 602). This research also established early that paternalism is not dependent on the family as a management frame but extends to all forms of corporate organization.

31 On this ‘authoritative’ model, see Farh et al. (2008) and Chen and Farh (2010). Farh et al. relate their model to other classifications of authoritarian leadership in the literature and show that in Taiwan, employees clearly preferred the ‘selfless benefactor’ (low in authoritarianism, but strong in morality and benevolence) and the authentic one (strong in all dimensions); they consistently degraded all combinations that would include low morality. Morality is a notion that emerges in most research on leadership which highlights indigenous concepts (see Zhang et al. 2014). The idea that there is a cultural inclination towards authoritarian leadership in China is clearly refuted by the GLOBE study on ‘power distance’ (Carl et al. 2004), which differs fundamentally from the much-cited Hofstede results in showing that for China there is a pronounced gap between ‘as is’ and ‘should be’ valuations. This reveals that the relationship between authoritarian leadership and modernist values is complex. For example, Hui et al. (2004) show that the emotional commitment to leaders is even more pronounced for employees with ‘modern’ individual values, becoming manifest in organizational citizenship behaviour. This means that they expect paternalistic reciprocity. Employees with more traditional values seem to expect less reciprocity. The authors suggest that the reason may be that traditional values foster a sense of moral commitment that does not require reciprocity. Chow et al. (2008) show for Hong Kong and Taiwan companies in China that ‘compliance-based’ HR systems actually have a negative impact on company performance.

33 As a case study for this, see Zhang (2012). The Qingdao TGOOD Corporation is a typical xiaihai project of former government employees in the electrical equipment industry. The entrepreneurial team of close friends is led by the founder who has created a family-style inner group, thus referring to a senior co-founder as ‘elder brother’. This leadership style also includes the traditional role of women in maintaining smooth social relations in the company. So, the founder’s wife is responsible for arranging reciprocal relations within the inner team, such as taking care of family events, etc. These activities actually create the ‘family’-like environment. It is interesting to note that these arrangements often also serve to meet different requirements of leadership (Schak 2002). More expressive benevolence by the leader can also imply that formal lines of authority would be undermined because people are encouraged to address the leader directly in order to resolve certain issues. So, delegating the ‘benevolent’ tasks to the wife can resolve this contradiction.

34 This is the argument presented by Chan and Unger (2009). The authors distinguish between an ‘American’ and a ‘Japanese’ model of the corporation, with the latter emphasizing values such as community orientation, organizational commitment, etc. They argue that many restructuring efforts in SOEs follow the American model, aiming at higher efficiency and productivity. Yet, in cases of factual privatization, the resulting tensions between management and employees may result in constraints upon restructuring. In order to maintain legitimacy of these measures, new private companies may need to retain important features of the danwei model, thus actually creating a paternalistic organizational setting.

35 For a classical study of the social relations in the danwei, see Whyte and Parish (1984). The thesis of familialization is elaborated in the fascinating study by Zhang Yi (2002). Zhang studies one single case, but also contextualizes this while emphasizing regional differences. For example, in a multi-province comparison of 87 companies, about 40 per cent of employees had relatives in the company. In his case study, in an SOE in the interior provinces set up as a ‘third front’ enterprise, almost all the employees had direct relatives in the company. The strongly endogamous structure emerged because the SOE was a modernist insertion into a traditional rural society; thus SOE employees kept
separate from the local population. Apart from endogamous marriage, the expansion of kinship networks mainly occurred via the growing inclusion of relatives and children in the company, often via satellite companies with collective ownership. Affinal kinship and also the extension of kin relations to non-kin further thickened the kinship network as an informal structure actually underlying the formal structure. Family relations also determined the internal status order, with children often inheriting status from their parents.

36 The development of formal HR systems is often seen as a litmus test for the degree of modernization of traditional family businesses, as the traditional model is highly personalistic and strongly involves the owner in HR-related decisions such as promotions. There is a strong impact of size and branch which further complicates the analysis, because this may actually interfere with the impact of traditional values; for example, Zhu and Warner (2004) show that companies with a focus on the domestic market in traditional industries were less prone to establishing formal HR systems. More recently, as Liang et al. (2012) emphasize, the new Labour Law of 2008 gave a push towards formalization, which, as the authors argue, however, does not necessarily mean eschewing traditional approaches. This relates to the problem mentioned in the text, and which is highlighted in Kim and Gao’s (2012) study of 205 family firms in China. They clearly identify effects of scale in adopting modern HR systems, but argue that there is relative uniformity across the regions, which seems to preclude any effect of different levels of economic and societal modernization. So, they observe that formal personnel training systems are even more prevalent in the interior provinces, which may be explained by tighter competition for talents, but also as an expression of reciprocity along traditional lines. So, they see the emergence of a ‘hybrid’ system that combines modern and traditional aspects.

37 An example of this explicit approach to designing the company as a ‘substitute family’ for its employees is the restaurant chain Haidilao (海底捞) (see Zhongguo guanli moshi jieshu jiang lishihui 2012: 144ff.). The company offers the traditional ‘Hot Pot’, with more than 120 restaurants in China, also expanding internationally. The founder of the company mainly employs rural migrants and has established an internal mentorship system by which the migrants are trained and develop the personal skills to support a management style that allows for much autonomy in decision-making, especially towards customers. This is
inspired by Daoist philosophies, a point I pick up on in the final section of this chapter. The company aspires to be a ‘family’ for the migrants, thus including housing arrangements and so forth. Bonus payments are partly directly transferred to the parents of the employees in order to foster the virtue of filial piety in the organization. Another company that explicitly strives to become a ‘large family’ (da jia) for its employees is the Jointown Pharmaceutical Group, one of the largest private companies in pharmaceuticals and healthcare (see Zhongguo guanli moshi jiechu jiang lishihui 2011: 138ff.). This company also invests heavily in danwei- type arrangements for employees, such as company- owned living compounds and special services such as free provision of canteen services. Beyond these generic characteristics of ‘family-style’ management, however, the company implements a special personnel management system. Employees are explicitly encouraged to introduce relatives to be hired by the company in order to enhance familistic bonding; yet, a special software system takes care of an ‘avoidance rule’, ‘huibi’ (回避), meaning that relatives are not allowed to work in the same organizational unit or become involved in decisions about promotions, etc. Another example of managerial ‘familism’ is the Dangle Corporation dealing in solar energy equipment, which regularly invites family members to company visits and offers educational programmes for employees’ children (Zhongguo guanli moshi jiechu jiang lishihui 2014: 153ff.).

38 In the 1940s, the positions of the CCP and the Guomindang on economic policy did not differ substantially. Whereas the CCP aimed at establishing a mixed economy that would leave much space for markets and private businesses in the rural areas in particular, and searched for cooperation with industrialists who contributed to the national cause of liberation, Chiang Kai- shek adhered to the principles of Sun Yatsenism and opted for a leading role of government- controlled companies in the modernization process. As discussed in Chapter 3, these attitudes reflected a shared approach to modernization, which saw fundamental constraints working upon the family- based economy of traditional China. On the influence of American advisers on economic policy in Taiwan, see Wade (1990: 211ff.).

39 On this model and the pertinent literature, see Chapter 3, n. 69.

40 For a concise overview of these contractual systems, see Tenev and Zhang (2002: 13ff.) or Sheng and Zhao (2013:
The contractual schemes remained a guiding approach in SOE reform until the mid-1990s, after which the approach of corporatization was launched, together with the reforms of the tax system. Before, the contracts actually combined taxation and profit transfers to the owners of an SOE. There were actually two kinds of contracts, namely the enterprise-level contracts and the personal contracts with the director, which created messy and complex conditions. However, the contractual scheme also allowed for implementing gradual extensions of the rights of directors, such as regarding investment out of retained profits or hiring and firing. In particular, a system of competitive bids for the director position was gradually extended, and which therefore accentuated the entrepreneurial function of the director.

41 Faure (2006: 85f.) describes the case of Dongfeng Corporation which in the 1980s expanded its size considerably via the inclusion of a larger number of suppliers. It is interesting to note that this supplier structure existed before the onset of reforms, and that even at the beginning Dongfeng already had certain rights of control with some of the suppliers, such as nominating the directors. On inefficiencies in automotive supplier networks see Chapter 4, n. 56. For a comprehensive analysis of network structures in this earlier stage of group formation, see Keister (2000: 113ff.). Keister notes certain specific effects, such as closer exchange relations (e.g. interlocking directorates) when firms were located in the same region (which at that time could also be partly explained by lags in infrastructural development). She also notes clear status effects, which could be bolstered if a lead company also had a financial arm. Keister’s results are confirmed and extended in Lee’s (2007) analysis of ‘clan’-like structures in automotive groups. These groups differ structurally, since some, such as the SAIC group, concentrate on narrower regions such as in this case Shanghai, and others continue to bear the imprint of the original ministerial structures to which they belonged, such as military industries that diversify into automotives. There are strong path dependencies in supplier relations, and also status effects of ownership type.

42 For an exemplary study of these policies, see Giles et al. (2006). If one traces labour market data in detail, the Chinese performance of transition does not differ substantially from the Eastern European one. In most large cities unemployment rates went up to two-digit levels, and labour market participation declined by almost 10 per
cent, with mostly women and elderly workers withdrawing from the pool. Unemployment and changing employment was often accompanied by a substantial loss of benefits, especially health insurance. In addition, arrears in wages and pensions occurred frequently. So, these developments make it clear that there was and is substantial interest of local governments in stabilizing SOEs. As Hurst and O'Brien (2002) have shown, a particularly important group is pensioners who were increasingly showing willingness to act publicly, since they felt they were legitimate stakeholders in SOEs, for which they sacrificed their working lives.

Most treatments of the current governance structure of SOEs only look at the formal legal framework, as is also done by the Chinese regulatory bodies (see OECD 2011). This means that there is no substantial information about the real power structures that are behind formal roles as defined by the law. The cited OECD report is even less informative than other Chinese sources, such as the 2009 report by Zhongguo shehui kexueyuan et al. (2009). In this report, we find data about the ownership status of the largest three shareholders in the 100 top listed companies. The largest shareholder is 83 per cent state owned, and the second and third are still 32 and 23 per cent respectively; the share of private entities is larger for these positions. If one looks at the types of entities, however, only 10 per cent are government units for the largest shareholder, and close to 80 per cent for other corporations. For the next two positions, the share of investment companies is rising substantially.

Unfortunately, we cannot relate these numbers to each other, but it is evident that interlocking shareholdings play a major role in actualizing formal governance structures (as emphasized by Huang 2008). This also means that government units that stay behind another SOE which has shares in the original one can also exert indirect influence. Clarke (2010: 147) points to the resulting confusion, as many individual accounts on the stock market are actually held by investment funds which may legally be ‘private’, but which have a background in government entities. In other words, the more sophisticated the Chinese capital market becomes, the more diverse are the ways in which stakeholders can actualize their claims in financial relationships.

The structure of the SASAC system is concisely overviewed in Sheng and Zhao (2013: 37ff., 272ff.). Roughly speaking, the number of central-level SOEs is a little more than 100. Theoretically, there should be no further direct intervention of other government agencies
into SOE management. Yet, as the Chinese term ‘departmentalism’, ‘bênweì zhūyì’ (本位主义), suggests, the stakeholder claims are still being pursued (see Wang 2014: 641). As I outlined previously, for example, in interlocking shareholdings a SASAC may be the largest shareholder, but there are other corporations and investment companies which also hold substantial shares. Via their influence, ‘departmental interests’ can be represented. Compare my discussion of the regulatory state in Chapter 5.

45 This analysis follows the detailed study by Wang (2014). For an overview of these recent reform plans, see KPMG (2014).

46 Cf. n. 34 and n. 35 above.

47 This conclusion follows on from the recent study by Bryson et al. (2014). The authors analyse different aspects of the correlation between CEO remuneration and corporate performance features in order to determine differences in the corresponding patterns in Western countries. The result is that there are astonishing similarities, given the large differences in the factual corporate governance structure. There is a positive correlation between the size of the company and remuneration, a correlation between company performance and remuneration, and there are also steep gradients between the top-level positions in management that indicate tight competition for promotions. So, it seems that the combination between nomenclature competitions and incentive structure create similar conditions for corporate performance as in financial capitalism.

48 This emerges from the much-cited study by Sheng and Zhao (2013). According to the official statistics, the return on equity was about 8 to 9 per cent in the 2000s compared to about 13 per cent of private enterprises. The authors painstakingly analyse the impact of special conditions upon SOE performance. For example, based on the total area of land allocated to SOEs, they calculate the implicit land rent SOEs would have to pay if they were private enterprises, and subtract this from SOE profits. SOEs enjoy similar privileges for energy use. There is also a stark difference between the interest rates for loans that SOEs have to pay (about 2.6 per cent) and private business (about 4.5 per cent). Taking all these calculations together, the real returns on equity were calculated as being largely negative in the 2000s, with the exception of 2006 and 2007, when, however, the rates went
only slightly above zero.

49 This is the central argument in Clarke (2010), who argues that in China probably the most important governance issue is the relationship between minority and majority shareholders, compared to the common focus on the principal-agent issue, or principal-principal conflict. Whereas principal-agent issues are rarely resolved by legal means, principal-principal issues would mostly involve disputes about violations of legal protections of minority shareholders’ rights. For this, a legal infrastructure is necessary, especially lawyers and accountants. However, their professional networks remain weak and, above all, lack sufficient autonomy.

50 I am referring here to the model developed by Che and Qian (1998a, 1998b) to which I have already alluded (Chapter 4, n.22).

51 Li and Rozelle (2003) analyse a sample of MBO procedures and their effect on the subsequent performance of privatized TVEs. There is a difference between companies where there is a discount and those where there is none: the former perform worse. One possible explanation for this is that in the former case there is still an implicit claim of residual profit on the part of local authorities, for example, in the shape of contributions to local infrastructure. Thus, the discounts reflect a strong stakeholder position of local government, which therefore also interferes with business decisions, thus causing lower levels of performance. I argue that in these cases the original model for TVE governance developed by Smyth (1997) still applies. The privatized TVE remains embedded in local networks of reciprocity that partly contribute to its entrepreneurial dynamics, but also imply that the TVE has to respond to local interests, which can be both legitimate (as in contribution to public goods) and illegitimate (corruption). However, at the same time these networks also create confidence in the environment for entrepreneurial activity, which, in earlier times, for example, would have been necessary to maintain the internal decision rights in spite of registering as a ‘red hat’ company.

52 Redding’s (1990, 1996b) classical model of the Chinese enterprise is partly explicitly modelled as a hybrid, especially with regard to Hong Kong business. The Hong Kong case is of considerable interest, as on the one hand there is a long-run impact of British colonial rule upon local business practices, especially with regard to the legal system, and on the other hand there has been a
constant flux of refugees from the Mainland to Hong Kong, with different backgrounds in business culture. For example, in the early stage of the Communist takeover many Shanghai large-scale businesses were transferred to Hong Kong, thus also transferring most advanced forms of industrial practices in the Mainland. Later, many refugees came from Guangdong province, so taking with them the traditions of small-scale and kinship-based business.

53 This transpires in attempts to project corporate culture onto an etic conceptual scheme of classifying corporate cultures, such as Tsui et al. (2006). They distinguish between a ‘hierarchical’, an ‘integrative’ (with two subgroups) and a ‘market-oriented’ type. Interestingly, the two legal types of SOEs and private companies show a relatively high share of ‘hierarchical’ and ‘market-oriented’ type, respectively, but both strongly overlap with the ‘integrative type’, which seems most essential for successful performance. Further, the SOEs show the largest variety of types, so that we can see the degree of adaptation of SOEs to the new competitive environments, and also that legal forms do not fully determine corporate culture.

55 A fascinating case is Walmart as described and analysed by Davies (2007). Walmart is an important example, as the retailer sets up a large number of local branches which therefore manifest a much higher degree of localization than foreign investments that concentrate on a small number of large-scale organizational units which can be more directly controlled by Western management. In comparison, companies such as Walmart rely almost exclusively on local personnel, and hence are easily subject also to forces of contextualizing and localizing corporate culture. Walmart is known for imposing a strong corporate culture globally, based on management concepts of the founder himself, Sam Walton. These are enshrined in the ‘Ten Commandments’ which were translated into Chinese in a mode heavily geared towards Confucian values and terms. As Davies reports, Walmart employees on the one hand perceive their work environment as ‘American’ (such as regarding the encouragement of translocal mobility), but on the other hand there is a lot of convergence between Sam Walton’s understanding of business and Chinese conceptions of morality. So, for example, the American ‘associate’ (which denotes a Walmart employee in order to suggest an egalitarian culture of commitment) is translated as ‘tongren’ (同仁), which suggests a strong moral identity in using the term ren and not ‘tongshi’ (同事). Walmart also invokes the image of the ‘family’, which is strongly
received by employees, yet the ‘family’ is also perceived as being an ‘American- style’ one. Another aspect is leadership ideology, with even astonishing visual similarities between pictures of Sam Walton and Mao Zedong.

56 As an example, see the case of CNOOC (Bower et al. 2012). CNOOC is a petrochemical SOE with a strong global focus. Twenty- eight per cent of staff are party members and are thus directly subject to party discipline and the CCP personnel system. The wage system still pays homage to more egalitarian concerns. There is a strong emphasis on community values; for example, pensioners are still taking part in corporate profits. There is high investment in training and skill development. As such, CNOOC is not unique, as Farh et al. (2004) show in their analysis of organizational citizenship in China from a comparative point of view. Chinese companies emphasize values such as mutual help also beyond the professional context, and organize many group- related activities. For the role of corporate culture in CCP approaches to social control, see Haues (2008). The CCP regards corporate culture as an important element in the modernist transformation of the economy, even explicitly emphasizing aspects of ritual. SOEs and large private businesses are expected to develop and implement concepts of corporate culture.

57 On the general characteristics of Chinese management and leadership as they emerged in the international literature, see Chen and Lee (2008). The other characteristics they include are ‘dialecticism and holism’, ‘control mechanisms’ and ‘leadership agency’. For a related threefold classification of theories in the field of leadership, see Zhang et al. (2014), who discern context- free theories, modified theories including Chinese characteristics, and theories that build on indigenous concepts. For an overview of indigenization approaches in Mainland China, see Chen et al. (2014: 20ff., 77ff.). The authors distinguish between four schools of thought. The first is interpreting traditional Chinese concepts in terms of modern theories, such as the Yijing in terms of fuzzy logic and complexity theory, which then allows for applications in management. The second is to start out from Western empirical management theories and to align traditional principles such as jiaohua or xiushen with their results. The third is to try out a new and creative combination of Western and Chinese core notions in order to create entirely new frameworks of management. One example is the so- called ‘C-Theory’ which explicitly builds on traditional cosmological thinking (the ‘C’ refers
to China on the one hand, but also to central terms such as ‘contingency’, ‘control’ or ‘creativity’). The fourth is to directly extract practical management wisdom from ancient Chinese philosophy, an approach that has also been fashionable in Taiwan for many years. One example is the co-called ‘M- Theory’, which refers to ‘man’, ‘middle’ and ‘management’, and explicitly picks up central ideas of Confucianism, such as putting human concerns at the centre of attention, striving at achieving balance and mediation, and so on.

On the role of foreign consultancies in the Huawei organizational change process, see Chen et al. (2014: 104ff.). IBM accompanied Huawei for one decade, beginning in 1999, after the founder Ren Zhengfei had visited IBM in 1997 for the first time and decided to introduce the IBM IPD process management to Huawei, but failed at the first attempt. Similarly, Huawei invited the global HR consultancy HAY to design the Key Performance Indicator system. These facts point to similar developments in the 1950s when Japanese managers avidly received the first works by Peter Drucker, who might have left a deep impact on what emerged as a ‘Japanese management model’. Drucker is also widely received in China today, for example, regarding customer organization. One example of recent Western discoveries of a Chinese management model is Bouée (2011) under the auspices of Peter Berger Consultants. The author makes a strong point that Chinese management is coming back to its roots in activating Chinese spirituality. These are elements such as the flexibility and adaptivity of planning with the readiness to reduce planning in favour of keeping the organization open for facing contingencies; or a combination of reciprocity and authority, which also requires the search for consensus in the organization.

For a detailed study of the Foxconn case see Ngai and Chan (2012). The Foxconn CEO, Terry Gou, is explicitly quoted as imposing ‘a dictatorship for the general good’, ‘ducai wei gong’ (独裁为公). Foxconn maintains many production sites in China, with some achieving gigantic scales, operating as ‘factory towns’ with 400,000 employees. Many are employed as ‘student interns’ with the complicity of local governments which are keen to attract and keep Foxconn factories. Working hours are often overtime without clear regulation, and workers have to observe many rituals in the narrow sense, such as, even after 12-hour shifts, standing upright, reciting slogans and listening to exhortative speeches. In other words, many aspects of Foxconn management also resemble the mobilization
approaches of the CCP during earlier periods, as in the Great Leap Forward.

60 Huang (2008) speaks of a 'dialectical' relationship between Confucianism and Legalism throughout China’s history, and reviews Taiwan’s economic history in this light. However, this raises the question of how far both may relate to deeper cultural roots. This is evident when considering the relationship between Legalism and Daoism, which converge on a similar result via different tracks. This is self-regulation of social units without the interference of higher level hierarchies. In Legalist thinking, the system of punishments and incentives would be internalized through continuous education so that eventually individuals would ‘naturally’ submit themselves to the institutional order. For practical matters, the distinctive role of Legalist management in containing disruptive effects of subcultural variety in Chinese organizations has been emphasized by many observers, such as Huang (2002) for the comparison between Taiwanese and Hong Kong companies in the Pearl River Delta; on ‘militarization’ of Taiwan-invested companies see Herrmann-Pillath (1994: 203ff.). I have already pointed to the study by Zhang et al. (2010) who describe the compartmentalized management in Mainland Chinese companies employing migrant workers. Since migrant workers are often employed via labour-leasing companies, they are also systematically shut off from many measures of ‘benevolent’ management, such as training measures for skill development.

61 On the ‘water’ metaphor in Daoism as applied to management and leadership, see Lee et al. (2008). On the regional interpretation, see Fang und Lin (2011a: 93ff., 2011b: 229ff.). They distinguish between three different business cultures in China: the Shanxi ‘jin shang’ (晋商) tradition, the Anhui ‘hui shang’ (徽商) tradition and the Zhejiang ‘zhe shang’ (浙商) tradition. These traditions differ in emphasizing different values, though being based on a shared frame of reference in Chinese culture. For example, the Shanxi tradition is mainly rural and agriculturally oriented, and hence emphasizes values such as frugality, the Anhui tradition is associated with Confucian philosophy in a more direct sense, so referring to values such as ren, and the Zhejiang tradition is Daoist. So, the authors even confront the ‘Confucian merchant’, ‘rushang’ (儒商) with the ‘Daoist merchant’, ‘dao shang’ (道商). Historically, they associate these differences also with different social orientations; for example, the Anhui tradition would also orient the merchant towards a
scholarly career, whereas the Zhejiang tradition would praise ordinary life.

62 As an example of an explicit reference to the ‘Yin–Yang’ duality in management, see the educational company Huanqiu Tianxia (www.hqlsw.com/), which is one of the leading Chinese companies in English- language teaching and language proficiency tests (see Zhongguo guanli moshi jiechu jiang lishihui 2011: 120ff.). In a rich metaphorical language, the company identifies with the image of the ‘German shepherd dog’ which is seen as the synthesis of the ‘wolf’ and the ‘sheep’. The ‘Eight Trigrams’, ‘bagua’ (八卦) of the Yijing are used to conceive of the management principles of the company in a set of Yin–Yang dualities, such as ‘pragmatism’, ‘wushi’ (务实) as ‘yang’ versus ‘accuracy’, ‘xixin’ (细心) as ‘yin’. Practical consequences are, for example that the company mostly employs female managers but male teachers, thus also reflecting a Yin-Yang duality in the HR system. In the international context, the ‘Yin–Yang’ concept is based on the idea that in the Chinese cognitive style, opposites can co-exist without resulting in irresolvable conflicts. This is seen as being different from logical figures such as ‘paradox’ or ‘dialectics’ (for a critical Chinese view on this see Li Xin 2014). Peter Li (2014) relates this to the current discussion in management science about the ‘ambidexterity’ of organizations, which means that organizations can maintain a dynamic balance between strategic opposites, such as exploration versus exploitation.

63 For a concise summary of these results from psychology and cognitive science, see Ji et al. (2010). For example, Chinese subjects tend more than Western subjects to search for contextual explanations in understanding the reasons for a murder case or the failure of a sports team. Peter Li (2014) distinguishes between five types of cognitive frames regarding the treatment of polar opposites: ‘neither/nor’, ‘either/or’, ‘both/and’, ‘both/or’ and ‘either/and’, recognizing only the last one as representing the Yin-Yang logic. Many Chinese business leaders emphasize similar ideas about avoiding polar opposites in terms of mutually contradictory positions, such as the founder of Huawei, Ren Zhengfei, who speaks of ‘grey’ approaches to management, avoiding simple conclusions that ‘non-black is white’ (Chen et al. 2014: 107).

64 For an interesting case study illustrating the principles of shi- oriented management, see Jing and Van de Ven (2014). The authors analyse successful change management at a large public enterprise, Chengdu Bus
Company, which is a holding company of various sub-companies. Between the sub-companies there were divergent views about central issues of group management. For example, there was disagreement about the remuneration systems to be applied in the different groups. In order to resolve the conflicts, the chairman of the group simple reshuffled the leaders of the sub-companies so that they would be put into the context of the company that they perceived as representing the opposing view. This rapidly led to the resolution of the conflict and the adoption of a unified scheme. The point is that the holding company did not interfere in the process directly by imposing one solution, but changed the context for the different decision-makers in such a way that the conditions for decentralized agreement improved.

65 In their overview of psychological research on Chinese ways of addressing problems and coping with challenges, Cheng et al. (2010) refer to the aforementioned research on Chinese cognition and point out that the recognition of situational factors in attributing causes of performance also implies a ‘passive’ way of coping, which means a stronger readiness to adapt to circumstances, but also to properly identify opportunities in environmental changes. This also reflects the tendency to see low levels of personal control of the environment. They also directly establish connections with Chinese philosophies, in particular Daoism, in the context of dialectical thinking which fosters the recognition of factors of change in the environment and a concentration on dynamics.

66 These earlier stages of Haier organizational development are well documented also in the English-language literature; see, for example, the contributions by Lin (2005, 2009), who also provides translations of central documents and file samples of the Haier system. At that time, the so-called ‘OEC’ system stood at the centre of efforts, meaning ‘Overall; Everyone, Everything, and Everyday; Control and Clear’. The precursor of the self-managed units was the ‘strategic business units’ (SBUs). This system mainly refers to the extremely detailed system of financial and operation control that introduced daily performance reviews based on weekly plans, and the fine-grained assignment of individual responsibilities for any kind of particular object and process. Every day, workers fill in forms documenting their performance and can calculate their daily wages, with the result being checked by their supervisor. The evaluation criteria are comprehensive and detailed, not only including quantitative production goals, but also, for example, criteria for
assessing maintenance of equipment or work safety. The transition from this system to the new one was implemented as business process re-engineering, especially with regard to internal supply chains. My subsequent description of the more recent developments is based on the book-length study of Haier by Cao (2014).

67 This is the gist of the argument presented by Cao (2014). Cao starts out from the idea that Haier management is a pinnacle of developing humanistic management in the sense that the individual is seen as a ‘whole world of her own’ with many developmental potentialities. The open organizational structure is interpreted as a space for allowing individual entrepreneurial initiative, such as when opting for leadership of a self-organizing unit. This emphasis on the individual is characteristic also of other leading companies; see for the case of Huawei in Chen et al. (2014: 97). I noted earlier that ‘individualization’ is also an important aspect in ideas about the market as an educational arena for leveraging the suzhi of migrant workers.

68 The image of the wolf has been evoked by the Huawei founder Ren Zhengfei to describe the corporate culture of his company, http://wenku.baidu.com/view/7cc3ab2ead01de80d5d84002 (accessed 15 September 2015). The wolf has become popular in China following the fantastic success of a novel by Jiang Rong published in 2004, Wolf Totem (on this and the relevant context see Wedell-Weeks and Wedellsvorg 2010), which also led to a number of studies in the business literature on the ‘Wolf’s way’, ‘langdao’ (狼道). The story is about a young Chinese in Mongolia who wants to tame a wolf, without success. Apart from the metaphors regarding individualism and group orientation, it is also an implicit reflection about the role of education and modernization relative to the primitive, even invoking themes of national identity (Han vs. Mongolian). On the educational practices in migrant children schools, see Hansen (2013), and Chapter 5, n. 59. These phenomena are widespread in Chinese society; for another example see the didactic approach of the famous English-language teacher Li Yang reported by Osnos (2014), who made a learning method popular which requires ‘shouting’ English sentences, thus inciting bodily expressiveness, together with a strong emphasis on self-confidence.

69 A famous example is the world-leading internet corporation Alibaba, which certainly does not count as a traditional enterprise, being founded by a single
entrepreneur and a couple of close friends, Ma Yun (Jack Ma), who is today a global business celebrity. Ma explicitly refers to Mao Zedong’s Yan’an rectification campaigns, Yan’an zhengfeng yundong (延安整风运动) in order to launch similar processes in the company. Alibaba also implements a system of self-appraisal based on a list of criteria which heavily emphasize the identification with Alibaba corporate culture (such as readiness for continuous change or sincerity) (see Chen et al. 2014: 130ff.). In Huawei Corporation, as mentioned previously, this system is most elaborate, with public sessions of self-criticism even of high-ranking managers (see Hawes 2008). Similar practices abound among Chinese companies. For example, Sangle corporation in solar energy focuses on the rural areas, explicitly following Mao Zedong’s famous strategy of ‘encircling the cities from the villages’, and supplies equipment for Maoist memorial sites (Zhongguo guanli moshi jiechu jiang lishihui 2014: 172).

As an example, see Alibaba Corporation (Chen et al. 2014: 135ff.). Although technological expertise, education and skills are essential criteria in the hiring process, in 2009 Alibaba introduced an additional stage in the recruitment process, the ‘tasting the smell officer’, ‘wen wei guan’ (闻味官). These are employees who have worked for at least five years with the corporation, and who are outstanding in terms of loyalty to the Alibaba values. The sole responsibility of these officers is to check for the compatibility of the applicant’s personality and values with Alibaba.

On the increasing adoption of Party secretary positions by entrepreneurs in the rural areas, see Yan (2012). Yan shows that there is a strong role of traditional structures here, in particular lineages. Entrepreneurs who were also leading lineage networks in creating local business networks often gain sufficient authority as community leaders as well, and they also have substantial interests in safeguarding their social position. Hu (2007) recounts the model of ‘integrating village with company’ in a case study where a local entrepreneur built on local artisanal traditions (nail production out of scrap metal) and created a modern cable company which grew so strongly that even the village budget became partly funded by the company. The entrepreneur later assumed political positions on the provincial and even national level. Here, we can also see how a decidedly ‘Confucian’ corporate culture easily combines with political identities. A fascinating though certainly extreme and also rare case study is the career of the entrepreneur Sun Dawu of Hebai Dawu Group, a
company in the food industry (for detailed information, see Du 2011; Delman and Yin 2010). On the one hand, Sun created a corporate town which is also clearly recognized as such by the local people. Although originally a farmer, he perceives himself as a politician and philosopher. This works in both directions. On the one hand, he has created a unique approach to family business succession in designing a ‘constitution’ for the company which builds on political concepts such as ‘constitutional monarchy’ and the ‘separation of powers’. This limits direct interventions of family members through the strong institutionalization of different corporate bodies. On the other hand, as a local leader he pursues ‘republican’ ideals and wants to strengthen civil society and local self-government. Sun has also established a Confucius temple, which thus lends a religious dimension to his efforts. He achieved national celebrity status after being gaol ed on dubious grounds for a while, and later became very active in the media.

72 It is highly significant that there is also an explicit discourse about the potential drawback to this form of para-governmental governance, such as in Dongguan (see Ngok and Zhuang 2013). The barracking of migrant workers is detrimental to their integration into local society, thus even further accentuating cultural and social cleavages and tensions. So, local governments are also compelled to consider new forms of governing the migration process, such as developing housing schemes that are more open and allow for more regular interaction among different groups. These schemes would also challenge the corporate culture of comprehensive discipline. Thus, the relationship between the two springs to mind.


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