

INSTITUTE OF CURRENT WORLD AFFAIRS

JYB-6

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Management and Modernization:
An Overview

July 11, 1980

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Dear Peter,

Since 1975, I have been a full-time observer and student of China. In 1978, the First Ministry of Machine-Building Industry invited me to help establish a management program at one of its colleges, the Shanghai Institute of Mechanical Engineering (see JYB-5). Then my role changed from observer to participant. For a period of fifteen months, I had the rare opportunity not only to observe and discuss the practice of management in China, but also to take full part in it both in universities and in factories. Here are a few thoughts on the relation and importance of management to China's Four Modernizations Program (FMP). This is only an overview, with more to follow.

During the First Session of the Fifth National People's Congress, in February 1978, Premier Hua Guofeng outlined the FMP. The program's stated objectives were "...to make China a modern, powerful socialist country..." by realizing "...the all-round modernization of agriculture, industry, national defence, and science and technology by the end of the century so that our economy can take its place in the front ranks of the world." Such a program was fairly ambitious by any standards. In early 1979 the Chinese authorities acknowledged that the program was too ambitious, and began an economic readjustment period. In the ten-year plan scheduled to end in 1985, a number of quotas were revised downward, and investment priorities were shifted. The basic objectives of the FMP remained the same, however.

To create a whole new atmosphere conducive to the rapid economic development of the country, the post-Mao leadership thought it necessary to introduce major reforms in the political, economic, educational, social, legal and cultural spheres. They called for a more democratic modus operandi in Chinese organizations at all levels, and took preliminary steps in that direction. To make science and culture flourish, they declared the adoption of the policy of

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"let a hundred flowers blossom, let a hundred schools of thought contend."¹

Great efforts were made to strengthen the legal system. Seven draft laws were passed at the Second Session of the Fifth National People's Congress in June 1979, and others followed later. The education system went through a major renovation in the years 1977 to 1979, to bring it in line with the needs of the FMP. Policies to improve the supply of food and or consumer goods were put into effect. By making efforts to raise the standard of living of the people, the leadership hoped to induce them to contribute more to their country's economic development. Management reforms have been the subject of lengthy debates, and various experiments have taken place at the levels of national and local governments, and industrial enterprises.

China is a Third-World country. Its underdeveloped infrastructure can not yet answer its needs. Its natural resources are far from being exploited to their potential. Its society is basically agrarian, with eighty people extracting from the earth just enough to feed one hundred. The ratio is at least twenty times higher than that of the United States, where four people feed one hundred, with a surplus left over. In 1979, the estimated average per capita annual cash income in the rural areas was around US\$53, and \$420 in cities and towns.

In a developing country such as China, available resources, be they human, material, or financial, are scarce and in great demand. Waste is the least affordable luxury. Yet in the opinion of many Chinese leaders, China's economy is running with an efficiency that leaves a lot to be desired. In June 1979, Premier Hua Guofeng reported that a quarter of state-owned enterprises operated at a loss in 1978. The figure for 1979 remained the same.² A Vice-Chairman of the State Planning Commission said over a year ago that industrial production in China could increase by 30% without the addition of a single worker or machine. He claimed that this could be done by managing the national economy and state owned enterprises efficiently and rationally. At the turn of 1978, when the State Planning Commission was presenting the draft of the FMP to the top Chinese leaders, it is said that Vice-Premier Deng Xiaoping commented that the program was "magnificent."

¹ First introduced in 1956, this policy holds that "different forms and styles in art should develop freely, and different schools in science should contend freely."

² Profit and loss as measures of efficiency must be used carefully when assessing operations of enterprises. In China, enterprises face a set of prices fixed by the State. A well-managed enterprise might show a loss if prices of its production input are fixed too high, or prices of its output are fixed too low. A poorly-managed enterprise might still show a profit if prices of its production input are fixed too low, or prices of its output are fixed too high. Many Chinese economists have criticized the state pricing system, saying that prices are set artificially and no longer reflect the true value of commodities in China's economy. They accuse the pricing system of "irrational price fixing."

He was afraid, however, that two things might hinder the Four Modernizations: agriculture and the backward state of management.

At present, the emphasis is clearly on economic development. The Chinese leadership recognizes the urgent need to introduce a number of reforms in three areas: the management of the national economy, the state-enterprise relationship, and the internal management of the enterprise. Management is now defined more as the art and science of using resources efficiently to attain certain objectives than as an antirevolutionary means to exploit a social class. This is an important shift of perception.

The function of planning the economy has now become more centralized for better control over the implementation of policies and resource allocation. This is coupled with granting more leeway to local authorities and enterprises in their internal management, provided they fulfill their quotas. To complement the centrally-planned economy, the Chinese authorities have introduced elements of a market economy both in the agricultural and industrial sectors. Experiments to that effect are now under way across the nation. Aspects of the egalitarian wage policies imputed to the Gang of Four have been under attack since mid-1977. The new wage policy establishes performance as the criterion for evaluation and remuneration, in hopes that this would serve as a powerful incentive for people to work harder. As a measure of better management, and as a source of state income and accumulation of funds, profit in enterprises, as understood in the context of a socialist economy, has become a requirement. For over a decade previously, profit had a bad name.

The State-enterprises relationship is also having its share of changes. Executive power in the enterprise, once diffused through the Revolutionary Committees,³ is now more concentrated in the hands of the enterprise director. He or she has become the enterprise's main link with, and reports directly to, government organs. But by far the most interesting enterprise management reform may come as a result of a nation-wide experiment involving a sample of over 3,500 state-owned enterprises. The State runs the national economy so centrally and tightly that many Chinese economists liken the whole country to one huge enterprise, "China Inc.," and the state-owned enterprises to its workshops. Moreover, they complain that these "workshops" have little say in what and how to produce, and not enough vested interest in the outcome of their operation. To encourage enterprises to be more efficient and more responsive to the needs of the economy, the current leadership would like to see them behaving more as interested partners of "China Inc." In the experiment currently

³ Revolutionary Committees (RC), introduced late in 1967, replaced the power structure in public organizations, which was attacked and dismantled during the Cultural Revolution. In industrial enterprises, RCs were composed of cadres, army representatives and workers. The RC system was phased out in 1978.

going on, the enterprise is granted partial power of self-management, such as the power to draw up its own production plans, to have more say in the selection of its middle and higher management, to receive bank loans, to negotiate directly with foreign corporations, and to give its workers and staff more say in spending welfare funds. Also, the enterprise reaps part of the fruit of its labor. In addition to the bonus it gets when it fulfills its profit quota, it may retain one-fifth of any additional profit it makes. It may sell on the open market its above-quota production. It may retain a portion of the foreign exchange it earns. It has a free hand in investing these accumulated funds to improve or expand production. This experiment seems by many accounts to be successful. Whether these management reforms will be introduced in all enterprises in China depends on the resolution of a number of problems, some of which are related to the reforms themselves. This point will be addressed below.

Concurrent with the introduction of reforms in the management of its national economy and in the State-enterprises relationship, China is undertaking the arduous task of streamlining the internal operation of its enterprises. These are required to adopt "scientific management:" planned management, and the rationalization of the work process. Also, they are encouraged to introduce post-World War II "modern management:" the use of advanced techniques and technology, such as computers. To help the enterprises with this, a number of measures have been taken, primarily in management training and education. Beginning in 1979, for three years, every large and medium size enterprise and government organ will have one or two of its top leaders attend an executive management education program. These programs last a few days to a few weeks, and include lectures and discussions on political economy, business economics and finance, management theory and practice, advanced management techniques such as Operations Research and Applied Computer Science, and the latest technological developments in the industrial sector of interest to the participants. To help in these and other training programs, a number of professional national management associations have been established, such as the China Enterprise Management Association, The Modern Management Research Society, and the Economics of Technology Research Society. In addition to management training, these organizations are active in professional and academic exchanges both within and outside China, in promoting and disseminating advanced management techniques, and in consulting. To train new generations of future managers, Economics and Management schools have reopened, for example People's University in Beijing, and Management departments have resumed their teaching and research after a hiatus of two decades. Also, new management education programs are mushrooming in universities and colleges around the country.

Parallel to this gargantuan internal effort to upgrade the level of management, China has embarked on a large-scale transfer of modern management technology, mainly from the West and Japan. This transfer takes a variety of forms: exchanging delegations; importing books, materials, and computer equipment and software; inviting academics on both short- and long-term bases to lecture; sending management students and scholars abroad; commissioning foreign organizations, governmental

and private, to help set up whole management education programs; and sending abroad managers for on-the-job training in foreign companies. All signs are pointing to an increase in the rate of transfer of management technology in the future. Its magnitude may surpass that of the transfer from the Soviet Union in the 1950s.

What will this effort to raise the level of management, and to introduce modern management techniques amount to? What will it require to make it successful, and valuable to the realization of the FMP? There are, of course, a myriad factors at play that can help or hinder this effort. It is far beyond the scope of this newsletter to examine them. I shall limit myself to mentioning some of the major ones, which I lump into two categories: the systematic and the technological factors.

The systematic factors, by far the more important, include:

-political stability: such a factor is fundamental in any economic system, but even more so in China, where the centrally-planned economy makes the government the prime decision-maker and actor on the economic scene.

-degree of centralization: can a balance be struck, which allows the center to retain the necessary amount of control (e.g. in planning or finance), and, at the same time, permits local authorities and enterprises to exercise initiative (e.g. in implementing the plan)?

-responsibility system: can the mentality of the "iron rice bowl" --absolute job security--be overcome, and can a system be established under which people are evaluated on their job performance?

-human resources development: how fast can a contingent of new managers be properly trained and present managers be induced to improve their management style and techniques? How will the two generations relate to one another? The elder one has proven itself to be "red," having participated in the revolution. The younger one is the more "expert."⁴

-ability to address and solve problems as they arise: the introduction of a new management system and management technology is bound to be fraught with problems. Examples: resistance to trying new things due to uncertainty and risk; and shift of power from the present administrators to the future technocrats, and from state organs to enterprises enjoying more autonomy. Will these types of problems be recognized and dealt with accordingly?

⁴ China has been striving to train new generations of cadres, professionals and intellectuals to be "both red and expert." "Red" refers to socialist political consciousness, and "expert" to vocational proficiency.

A sampling of the technological factors:

-state of the computer industry. China has made big strides in the field of computer science. It does not have, however, the computer industry required for its economic development. How fast China can develop it, relying on internal expertise and resources, and on imported technology, will determine the speed at which modern management can be adopted.

-information base: can China build up the statistical system from its present state of neglect to one that provides accurate and reliable information essential to proper management?

-Chinese characters: the Chinese language, based on ideographs, does not lend itself easily to computerization. Using any romanization system will lead to cultural and other practical problems.

"A revolution is not a dinner party," said Mao. Nor is the modernization of the economy of one fifth of humanity. The Chinese people are facing a tremendously arduous task, yet they have to their credit the experience of governing the oldest and largest civilization currently on earth. They have shown remarkable engineering and management skills in building and maintaining major works such as the Grand Canal, which has linked the south of China with the north since the turn of the seventh century, and the famous Great Wall. The vast majority of the Chinese people have high expectations of the FMP. They are aware of the tough "Long March" they have embarked on, and are willing to work hard for it. They believe that although the road is full of twists and turns, the future is bright. One hopes so.

Sincerely yours,

A rectangular box containing a handwritten signature in cursive script that reads "Battat".

Joseph Y. Battat