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He is also Distinguished Professor of Global Responsible Leadership at the China Europe International Business School (CEIBS) in Shanghai. He was the founder of the Euro-Asia Centre at INSEAD, which preceded development of the school's activities in Japan and the Asia Pacific region, and he is Director of AVIRA, an INSEAD programme for chairmen and CEOs offered in the EU, USA and Asia.

Previously, Professor de Bettignies taught ethics at Stanford Business School, and he launched and led the development of ethics at INSEAD before moving to China where, together with CEIBS, he is currently setting up the Euro-China Centre for Leadership and Responsibility.

Henri-Claude de Bettignies is founder and Director of the Centre for the Study of Development and of Responsibility (CEDRE), Chairman of the LVMH Asia Scholarships and a member of the board of Jones Lang LaSalle.

Guru Interview: Henri-Claude de Bettignies

In this interview Henri-Claude de Bettignies talks about the development of China as a world power and the opportunities and challenges this offers to western businesses.

Interview by Sarah Powell
Henri-Claude de Bettignies:

The rapid changes taking place in China offer unprecedented opportunities to investors, whether they are European, American or Japanese – the latter are relative newcomers. China offers huge market potential which has created a surge in foreign companies setting up here to be close to their customers, reduce manufacturing, R&D and distribution costs, and develop global synergies.

In reality there is a gap between all that these businesses hope to achieve and what they actually will achieve. It is quite difficult to do business in China. Competition is very stiff and the playing field is anything but level. You have asked about the challenges foreign businesses face. My view is that the companies that fail in China today have far less excuse than they would have had 10, 15 or 20 years ago. Investors and companies doing business here have had ample time to research the pitfalls experienced by their predecessors. Twenty years ago there was no research to fall back on. Today there are endless books, reports, conferences and consultants advising on doing business in China.

However, there are challenges. First, recruitment of talent is difficult. Despite China’s massive population and the country’s many university graduates, companies find it difficult to recruit, even when they offer a good salary. When they do locate someone of talent, and invest in his or her development, that employee will often move on. Turnover is extremely high and it remains very difficult to find enough professional managers.

The second main challenge is the absence of clear rules, which means that foreign companies find operating in China fraught with difficulties. These companies will need to develop skills for managing in an uncertain environment where it can be difficult to know exactly what the rules and boundaries of the game are – and one in which not everyone plays by the same rules. Whether in terms of environment, labour rights, safety, intellectual property or copyright, in China rules are flexible, in many cases negotiable, and frequently not applied at all – and that’s in cases where they exist at all. In addition rules can be interpreted and implemented differently at different levels of the administration or in different cities. All this is problematical for companies that are used to hard and fast regulations. They are accustomed to adhering to certain standards globally but in China find themselves in an environment where the competitive pressure and the lack of level playing field induce the temptation to cut corners and to ‘negotiate’ administrative solutions.

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A third challenge that companies face in operating in China is dealing with cultural
differences. We are all ‘programmed’ according to our national culture, and for someone with European or other western programming operating in China can be difficult and a lack of mutual understanding often leads to frustration and mistakes.

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The fourth challenge is the need to identify managers to send to China who have good interpersonal skills. Frequently, managers are chosen on the basis of their technical skills. However, this may not be sufficient. To work in China requires a considerable capacity not only to listen but also to express oneself in a way which is easily comprehensible to other partners. Furthermore the capacity to develop relationships in order to build a solid network and accumulate an indispensable social capital is paramount – and it takes time! In my view, interpersonal skills and a strong moral fibre are the two major attributes of a potentially successful expatriate manager.

Given the need for a thorough awareness of differing cultural values, attitudes and norms of behaviour, what do you consider to be the cross-cultural priorities for westerners doing business in China, and for Chinese business people operating in the West?

Henri-Claude de Bettignies:

It is both possible and desirable to develop on both sides the capacity to become more insightful into the other model of thinking and working. However, among western companies doing business in China there is a tendency to believe that transference of management know-how and best practice from West to East is the solution. There is a failure to recognize that management practices are embedded into a culture.

We tend to underestimate the cultural dimension of managerial processes, techniques and tools. As a result the transfer from the USA, Europe or even Japan to China is fraught with difficulties. There have been successes, but many more failures. Just because something is best practice in one country does not make it necessarily transferable to another. This can be impossible when such practice is the product of the western culture, values and relationships embedded within an organization, and is significantly different from those emerging in China. Best practice and the management techniques and tools to achieve this are thought to be neutral – but they are certainly not. They are values-loaded.

These challenges mean it is incumbent on business schools and management academics operating in China, whether Chinese or non-Chinese, to gain a good cultural insight into both source and target countries. It is only through insight on both sides and an adaptation of management tools and techniques that there can be an effective transfer.

In order to maximize chances of success, how best can western companies approach Chinese traditional values such as guanxi, hierarchies and the need to save face, and are there lessons in these traditions that might prove valuable in western management practice?

Henri-Claude de Bettignies:

This raises another set of questions that I am currently researching. These include: how best can a western company accommodate Chinese traditional values and the characteristic functionings of Chinese society? Should it rely upon some of the key concepts and values of this society? Could these values facilitate the introduction of more effective or more cost-effective management methods?

I am also looking at how, in business schools teaching corporate responsibility, leadership and development, we can use discussion of traditional values to facilitate the understanding of the kind of attitudes and behaviour we wish to promote. Will relating discussion to traditional values of respect for age and hierarchy, the critical importance of preserving face, the critical importance of relationships of guanxi, and group rather than individual orientation, facilitate understanding in an audience of senior executives in China learning how to enhance the effectiveness of their corporations? On our side, how can we, from an observation of Chinese social norms, combine some of these traditional values with concepts which could be relevant for managing a corporation whether in the USA, Europe or China?

I am exploring these questions in discussions with chief executives, some of whom have been exposed to and have a good insight into western business management methods. We can discuss the potential for making explicit traditional values, and how those values can be useful instruments for transferring management practices in terms of developing imagination,
managing relationships, quality, loyalty and commitment to the organization and so on.

However, we have a long way to go because there is still a very dominant command and control style of management in China, which is neither conducive to management innovation nor to a creative approach to problem-solving. However, starting at the top, we can work to change the leadership style, questioning the dominant command and control paradigm. The advantage of working with chief executives and business leaders is that they have a great capacity to influence and leverage because of their leadership positions. If in this way we can transform the way of looking at management of complex organizations, we may prompt a process of percolation all the way down through direct reports. This we hope will stimulate a progressive awareness of the benefits of a more participative leadership model. I also work with a young generation of MBAs who will be the future leaders of China, and are receptive to non-Chinese models.

**You have mentioned the need for careful selection of managers to send to China. What are the major talents required?**

**Henri-Claude de Bettignies:**

This brings me back to the question of what kind of people are likely to be able to cope with an environment characterized by different management practices yet a thirst to learn, willingness to try out new things and great optimism about the future. What kind of people will best cope with a dynamic, fast growing, and rather uncertain environment? In my view the key features of a successful European or international executive operating in China are not so much the obvious requirements of technical competence as those of management excellence. Expatriate managers will need to be able to cope with uncertainty. This is an environment where people have not been programmed in the same way: what you expect does not occur; what occurs is not what you expect.

We need to send our best managers to China, and not only those we consider high performers but also those with high potential. In addition we must identify those who are notably culturally aware both of their own culture and that of the host country – in this case people who show a sensitivity to and interest in Chinese culture. If this is absent there will be communication difficulties and misunderstandings which are not conducive to good operating.

**How widespread are problems of corruption e.g. bribes, in China and how best can western businesspeople handle these and other ethical dilemmas?**

**Henri-Claude de Bettignies:**

An expatriate manager will be faced with many dilemmas and will come across endless cases of corner-cutting. This means there are tough choices to be made. Some people will point out that there is bribery everywhere and foreign businesses have no choice but to go along with it. They will say that perceptions are different, i.e. an exchange of gifts is not so much bribery as normal reciprocity among people who have developed good relationships through the *guanxi* system.

These are issues of moral relativity. Many adopt a slightly different relativist stance, claiming that they themselves neither pay nor take bribes – because they rely on agents to look after such aspects of business. They ‘outsource’/ ‘sub-contract’ bribery.

Both these categories of people see themselves as utilitarian, considering they are well paid to ensure the bottom line develops shareholder value, and thus the end justifies the means and they have no choice in the matter.

There is, however, a third category of people who consider such practices to be wrong, who accept that the playing field is uneven and that those who get contracts are not necessarily those who make the best offer. This category of people stick to their own strict codes of conduct, supported by their top management who consider ethical behaviour as part and parcel of their corporate and brand image. They will not compromise and are prepared to see a contract go elsewhere. This, though, is a relatively small group.

**How is the Chinese government addressing issues such as the environment and global warming, human rights, health and safety, respect for migrant workers, the gap between rich and poor, IP and copyright, and corruption?**

**Henri-Claude de Bettignies:**

The government has been very explicit in its declarations, recognizing its role as a global power and the need to address these issues. It has issued directives relating to the environment and workers’ protection, which have led to the arrest and imprisonment of a few leaders and businesspeople. The government has also created three educational institutions of higher learning. These are centres for excellence in leadership and responsibility, where students are city managers, ministers and top corporate executives.

So, how effective will these measures prove to be? It is early days yet to judge. It will take some time for these measures progressively to...
transform China through a change of mindset and an improvement in the quality of business and government. For a country that is so large, with a population of 1.3 billion people and so many differences between them in terms of education, introducing change is an immense task, complicated by the need for cohesion at the level of province, city and country. It may not be impossible, but it is certainly extremely challenging. Between what the government says, what the regulator and the government do, and actual implementation there is often a significant difference if not a gap. Leaders of provinces and local authorities guard their autonomy and power jealously. Each manages the environment for their own benefit. For this reason it is very difficult for the government to enforce simultaneous implementation of regulations throughout the country at the same pace. However, despite this slow process of change the economy is doing extremely well with growth running at 9-10 per cent.

How are native Chinese companies faring with increased competition from abroad?

Henri-Claude de Bettignies:

Strong, global Chinese companies are emerging, some of which are building a brand presence abroad. These companies also face formidable problems. Their managers may have no real knowledge of how to operate complex multinational organizations or global operations and they have no experience of working outside China. However, I believe they will overcome these challenges and difficulties in the same way as Japanese companies did three decades ago. I am very confident about the capacity of the Chinese progressively and successfully to develop their businesses on a global basis, and their growth may well be even more rapid than that of the Japanese.

However, tensions and difficulties are likely to emerge over the next 20–25 years as Chinese companies develop a global presence and the volume of Chinese products and services increases. The growing visibility of Chinese products across the world is likely to increase in some countries the temptation to bring in protectionist measures. Europeans, for example, may well blame on the Chinese some of the difficulties the continent is experiencing in adapting to the challenges of globalization and change in the world. As the Chinese economy gains momentum, I anticipate more tense relationships and I believe we need to address this.

To what extent does China’s tradition of central planning hinder business, perhaps restricting flexibility, and discouraging risk-taking, innovation and entrepreneurship?

Henri-Claude de Bettignies:

While the government aims to encourage creativity, innovation and entrepreneurship, sometimes this is not possible because local authorities prevent entrepreneurs from taking measures which would lead to advantage for a company but are seen as negative by the local authority, e.g. in that they might lead to job losses.

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Opposition to change means that if, for example, a foreign company were to take over a Chinese company with low productivity, and then wished to close or downsize it to enhance competitiveness, the local authorities would make it difficult if not impossible to do this, fearing the impact on the local workforce and economy. This can be a problem. However, companies can address themselves to a higher echelon of government, which is likely to seek a solution to ensure companies are able to enhance their competitiveness. A rich network of relationships will help to ‘negotiate’ solutions.

How rapidly is China changing in terms of conditions for business?

Henri-Claude de Bettignies:

Some of the issues we have discussed will be nagging issues for the government for the next 20–30 years. These include the current structure of the population, the gap between rich and poor, environmental protection, the lack of water and natural resources, the protection of human rights. These are deeply entrenched problems, yet the government knows that it must find solutions in the short term and is setting necessary priorities. However, these solutions must have a long-term dimension given the size and scope of the problems. None of these issues will be solved by passing new laws or setting up a new agency to monitor corporate behaviour. Solutions will be linked to the capacity of the government to take strong measures so that whatever they decide is implemented. There is an enlightened group of leaders in Beijing and they have a clear view of what should be done, but they must ensure that
their vision is shared at all other levels of society and throughout the country as a whole.

Some of the other problems identified will ease over a shorter time frame, e.g. IP issues will progressively become more internalized, safety issues progressively less acute. However, those of bribery and corruption are more intractable. They are deeply entrenched, systemic and encouraged by an absence of checks and balances, and a lack of institutional mechanisms and professional framework.

How do you see Chinese society developing in the future and do you expect to see globalization lead to more similarities between East and West?

Henri-Claude de Bettignies:

Some observers believe that the Chinese mindset will progressively espouse a more western model as economic development forges ahead. They contend that globalization will spread a westernization of Chinese attitudes and behaviour, i.e. that we simply need to wait as the Chinese become more and more like us.

Others say that the Chinese will never espouse the western model given the strength of their history, traditions and strong cultural identity. They forecast that while the Chinese may, at a cosmetic level, embrace western consumption patterns, the mindset, values and core attitudes within society, organizations, the family and interpersonally will remain very Chinese.

There is a third scenario proposed by observers who point out that the government is pushing hard to develop a harmonious society which will blend tradition and modernity to create an original Chinese society where the culture will be neither western nor the Chinese culture that we know today. They believe that these will coalesce to form a new, modern mindset in which face, family and relationships remain important while there will be concern for outputs, productivity, innovation and flexibility – i.e. a powerful model in which tradition plays a strong role while some of the components of modern society will be espoused.

This third scenario is an optimistic view of the progressive emergence of a new type of society, and I am sympathetic to this. However, this assumes that there are only three possible scenarios: there is also potential for conflict and crisis; no development is linear. Leaving these aside, my feeling is that we will not see a westernization of society in China, despite some signs of this in the streets of Shanghai where young people with their iPods listen to western music and wear the same clothes as young people in London, New York or Paris. My view is that the Chinese will develop the capacity to manage an interface between their traditions and modernity, creating a new society, original in many ways that will keep offering surprises, even to the best observers.