

An Investigation into the State of Chinese Management and its Impact on the Ability to Compete on the Basis of Innovation

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Abstract

Innovation has been recognized as a leading source for companies to secure competitive advantages over their counterpart companies (Haapaniemi, 2002; Porter, 1980). At the core, there are two basic means of competing. One is on the basis of cost and speed with sufficient quality, and the second is innovation. Of these two, China's current competitive stance is based on cost. Competing on the basis of cost requires a certain set of skills, capabilities, etc., and to date, Chinese companies have done an excellent job of developing and leveraging those capabilities to become formidable competitors. The problem they now face, however, is that other countries, such as Indonesia, Thailand, and Vietnam, are already beginning to erode their competitive position. Indeed, we would agree with those who argue that competing on the basis of cost is a non-sustainable position.

We propose that competing based on innovation has the potential to provide more durable competitive advantage for companies, and ultimately the country within which they reside. However, to compete on the basis of innovation requires a distinctly different set of organizational skills, capabilities, and competencies than

does competing on the basis of cost (Porter 1985). The question arises, then, what is the current state of Chinese management as it pertains to Chinese companies' ability to compete on the basis of innovation? And, how do contextual factors impact on Chinese companies' and their employees' ability to generate innovation? Below, we present a study of Chinese companies and their management. In our study we focused on two important contextual factors – national culture and government policies. We sought to answer three research questions: 1) What managerial and organizational capabilities currently exist in Chinese companies? 2) How do these capabilities affect Chinese companies' ability to generate innovation? 3) How does the Chinese national culture and government policies affect companies' ability to generate innovation? On the basis of answers to these questions, we sought to provide insight into how, or indeed, whether, Chinese companies have the capability to compete on the basis of innovation.

To collect data to address our research questions, we conducted interviews with the senior manager of 11 companies or divisions in different provinces in China. Based on accepted grounded theory methodology (Stake 1995; Erickson 1986; Eisenhardt 1989; Brown & Eisenhardt 1997; Glaser 1992), each interview was conducted using a semi-structured interview instrument. This approach allows us to be flexible in our questioning of respondents, to explain questions that are unclear, and most importantly, to allow us to probe into new areas and issues that arise during the interviews (Brown & Eisenhardt 1997; McDonough and Leifer, 1986).

The purpose of these interviews was to discover new insights into 1) how Chinese companies think about innovation, 2) what, if anything, they are doing to foster it, 3) their use of knowledge to generate innovations, 4) how they derive competitive advantage, and 5) how they learn what they need to know in order to derive competitive advantage. Our purpose is to also gain new insights from companies about how they define competitive advantage and innovation performance.

Each interview was recorded with the permission of the informant and subsequently transcribed. In addition, extensive notes were taken during the interviewing process to record impressions, expressions, and other cues to provide insight into the recorded statements. In addition to the interviews, we also reviewed secondary data sources, company documents, and public documents for each company including information from each organization's web site. Interview transcripts were content analyzed to identify general patterns in the data using an iterative process consisting of multiple readings of the interviews by the researchers (Eisenhardt 1989; Brown & Eisenhardt 1997). The goal of this process was to achieve convergence around a set of themes that emerged from the data. Not all aspects of the interviews and the data which result from the interviews are given equal

emphasis in this process (Stake 1995; Erickson 1986; Glaser 1992).

We present the findings from our research, as well as their managerial implications. Overall, our results suggest that Chinese firms still very much follow the roots of Confucianism and the tradition of authority. Decision-making is held closely at the very top of the organization and dissent rarely heard. Our results also suggest that the government's policy that is intended to emphasize and foster innovation among firms, may in fact, be having the opposite effect. The study contributes to our knowledge in two respects: 1) by explicitly analyzing contextual influences on innovation processes of companies, the study makes a unique contribution to innovation research. 2) Our findings contribute managerial insights for Chinese companies, by identifying the factors influencing innovation, and pointing out missing capabilities on innovation and suggesting ways to enhance their innovation capabilities.

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