SWP 6/91 MANAGEMENT CHANGES IN CHINA AND EASTERN EUROPE: DUBIOUS PARALLELS

DR CHRIS BREWSTER and HELEN PECK
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
Bedford MK43 OAL, UNITED KINGDOM

(Tel 0234 751122)

Copyright: Brewster and Peck

October 1990

DRAFT (prepared for ECRAM Conference, Maastricht, November 1990)

MANAGEMENT CHANGES IN CHINA AND EASTERN EUROPE: DUBIOUS PARALLELS

Chris Brewster and Helen Peck, Cranfield School of Management, UK

This paper focuses on the process of management: it outlines some of the changes that have taken place recently in enterprise-level management in the People's Republic of China; indicates that there are some possible parallels with developments in Eastern Europe; and highlights some key differences.

The paper goes beyond its limited empirical base to draw comparisons between developments in the PRC and Eastern Europe. By Eastern Europe we mean those central European and Balkan states which fell under Soviet influence at the end of World War II - namely East Germany, Poland, Hungary, Czechoslovakia, Bulgaria and Romania. Usually included in the region are Yugoslavia and the internationally almost friendless and isolated state of Albania, although they never came directly under Moscow's control.

We propound three different "arenas" of freedom: freedom of expression; political freedom and economic freedom. We argue that these three arenas are inevitably linked. We argue also that in each arena positive developments which arise from an increasing level of freedom only become apparent some time after the negative developments, which can become visible very quickly. We describe developments in the managerial constraints and processes in the People's Republic of China. We outline, very briefly, the context and then examine developments which have led to local managerial autonomy; concentrating on the results of that in the areas of - sourcing; pricing; advertising and PR; new services; profit accumulation; profit distribution and employee incentives. We also comment on managerial styles in the PRC. Finally we argue that the PRC and Eastern Europe have taken a different approach to these three arenas of freedom and that these approaches, combined with other significant differences, mean that attempts to draw parallels between China and Eastern Europe are dubious.

ARENAS OF FREEDOM

We identify three arenas of freedom: freedom of expression; political freedom and economic freedom. This is not a philosophical treatise so we do not want to make too much of this argument, nor to get involved in a definitional dispute. Three statements may make our position clear.

First, we use the terms in the sense of everyday English usage.

Second, we do not accept that there are absolutes: no modern state can have any of these arenas completely under its control, nor can any state that aims to remain an entity allow unrestricted freedom in any arena. Most Western 'capitalist' states will have restrictions on freedom of expression through libel laws, limitations on certain kinds of sexual materials on advertising and on certain expressions of incitement to drug use or racial hatred for example. They are however at a different end of the range from some other more restrictive states - and until the events of last year that would have included most Communist states. Similarly the amount of freedom in political or economic life is always one of degree rather than of presence or absence of freedom. Nevertheless the degrees are important, and generally clear.

Third, we do not argue that any particular degree of freedom, or any move in a particular direction is either inevitably "good" or "bad". There are both positive and negative sides to such moves.

THREE ARENAS OF FREEDOM

	Expression	**Politics**	**Economics**
Examples of short term effects:	Anti-semitism, Pornography,	Turmoil, Nationalism,	Unemployment, Crime, Prostitution, Inflation, Waste
Examples of long term effects:	Exposure of corruption, Different perspectives available	[Degrees of Democracy] Pluralism	Market economy, Growth, Higher living standards/ Greater opportunity
Recent developments in: China:			< ----------
Recent developments in Eastern Europe:	---------->		

Our argument runs that the negative developments come before the positive ones. Anacdotal evidence suggests, we believe, that this argument is being borne out in practice.

In the People's Republic of China freedom of expression and political freedom are curtailed strictly. The events of 4 June 1989 made that message very clear. However, economic freedom has been developed, particularly at enterprise level, in the last six years. One effect has been the creation of unemployment. Before 1987 there was very considerable overmanning, and a clear policy of keeping some groups (older women for example) out of the paid wage market. The Government claim that there was no unemployment was substantially accurate. Over the last few years however increased enterprise management autonomy has led to delayed recruiting and, in the last year or so, to the shedding of labour - so that unemployment (can we say European-style?) now exists in China. Similarly expanded enterprise management autonomy fuelled double-figure inflation and cash payment, even debt-default problems, in industry and commerce.

On the other hand by approaching the development of freedom from the economic arena first, whilst maintaining strict government control of politics and means of expression, China has achieved a considerable improvement in living standards over the decade, even when the recent downturn is taken into account. It has also enabled the government to contain discontent.

In Eastern Europe developments have taken place in the arenas of freedom of expression (earliest, perhaps, in Poland and Hungary), leading to freedom in the political arena. Democratically elected governments have recently taken up office, efforts are being made to remove the *nomenclatura* - the former priviliged party elite - and considerable progress has been made in the field of human rights. Yet these countries have manifestly failed to address in any coherent way the simple basic

managerial problems at the level of the enterprise which can bring the economic benefits. Unemployment and inflation are clearly evident, and crime is escalating; the development of narrow, sometimes violently competing nationalisms, and even racialism, are widespread and highly visible.

We should point out that, (like good Marxists!), we believe that these different arenas of freedom are interconnected. Whilst there are considerable differences of degrees of freedom in these arenas there will be tensions. The tensions that the PRC and Eastern Europe now have to handle are different.

THE REFORMS IN CHINA

It is unnecessary to go into the details of China's history during this century, or even since the Communist Party gained power in 1949, to emphasise the turbulence and change in the recent past of this massive country. Readers will be aware of the background of Five Year Plans, the Great Leap Forward and the Cultural Revolution and, still fresh in our minds (particularly the minds of those of us who were there during the period), Tianammen Square in the Summer of 1989. Each of these developments had a major impact on the management of enterprises in the economy.

The last decade, and especially the last few years which are the focus of this article, have continued this process of rapid change in Chinese society in general.

The developments in the years since the death of Mao Zedong in September 1976 have been ones of considerable debate about the ways in which the economy should be organised. The management of enterprises, especially, has changed markedly in recent years.

A key turning point occurred in December 1978, at the 3rd Plenary Session of the 11th Central Committee of the Communist Party of China (CPC). A series of policies were endorsed covering:

- reform of the economic structure, in particular through reducing centralisation;
- readjustment of the national economy to overcome imbalance and dislocation;
- development of agriculture to overcome previous neglect;

- development of Party rules and regulations to limit the tendency to focus decision-making entirely on Party officials; but at the same time

- development of the accountability of local officials to the centre; and

- strengthening and legalising socialist democracy.

These policies were the base for a series of reforms advocated by the pragmatists in the Party led by Deng Xiaoping. The first evidence of these reforms was visible with the establishment of the Special Economic Zones (SEZs) in July 1979 and April 1984 and the decision to open up the Chinese economy to foreign trade and foreign investment. The programme was summarised in the "Four Modernisations" (industry, agriculture, national defence and science and technology) formally propounded in September 1982.

The period between 1979 and 1984 was largely one of isolated experimentation. There were experiments in reduced central control in the SEZs; experiments in liaison with foreign companies; experiments with the trade unions and workers' congresses.[1]

This process was formalised, unified and extended in 1984. At the 2nd session of the 6th National People's Congress in May and the 3rd Plenary Session of the 12th Central Committee of the CPC in October, the lessons of these experiments were analysed and debated. The Central Committee adopted a Decision on the Reform of the Economic Structure. This created a major national programme which has had a very marked effect on the Chinese economy.[2]

The 1979 changes, perhaps because they involved foreign companies, have been much more widely discussed in the Western literature than the 1984 reforms. There

is little doubt however that it is the latter which are having the most significant effect on the management of enterprises within China.

The 1984 policies are objectives, to be introduced as appropriate in particular situations. Their overall effect is to extend considerably the autonomy of the management within the enterprises. Managers in these areas can achieve levels of authority and accountability very similar to those enjoyed by managers in public enterprises in the West. Many already set their own production or service targets, negotiate with suppliers, adjust prices and retain and distribute profits. A number of enterprise managers have expanded their operation vertically, making Marks and Spencer or Benetton type arrangements with suppliers, or bringing their own products directly to the market. We examine below the operation of these new policies.

The 13th Communist Party Congress held in Beijing at the end of October 1987 consolidated the reforms. The election of Zhao Ziyang as leader to follow Deng, with a largely supportive group elected to the Standing Committee of the Politburo, marked a clear commitment to the new line. The keynote of Zhao's speech to the Congress was "accelerate and deepen the reform".

Two preliminary points should be made about the reforms. Firstly, they do not mean that China is becoming "capitalist". It is still an avowedly socialist society. Gao Shangquan, deputy director of the State Councils Economic Restructuring Committee expressed it neatly: "The State will regulate the market, and the market will guide the economic activity of the enterprises."[3] Secondly, the aspects of Dengism that is unique to recent Chinese history is its pragmatic and experimental character. Reforms will be tested and tried: spread if they work and abandoned where they do not.

Where they were most completely adopted the reforms gave managers a new motivation and greater independence. This led to significant expansion of products, services and profits. It has led in many cases to a major increase in vertical integration, with farming cooperatives setting up food processing and even retailing outfits, and with factories establishing their own supply lines and marketing outlets. It also however increased opportunities for sharp practice corruption.

At the enterprise level, most obviously at the management of enterprises level, the changes have been significant. Despite recent developments the impact has been to extend managerial autonomy: taking authority and responsibility from Ministry or Regional level down to enterprise management level. Within a socialist society the autonomy given to each enterprise is now far greater that at any previous point since 1949. These organisations are working very hard to come to terms with their new responsibilities and accountabilities and are, to a team of British managers and management educators, refreshingly open about their need to learn quickly.

LOCAL MANAGERIAL AUTONOMY

In the enterprises that we visited six major areas of increased autonomy were apparent. These were in supplies, in pricing, in advertising, in services, and in the accumulation and use of profits.

Before 1984 *supplies* had in most cases been allocated directly by Provincial or local authorities. Since then the enterprises had been able to go out and negotiate with suppliers.

The managers in these enterprises are very conscious of the extension of their autonomy. It has to be set in context however. The introduction of major plant is still decided centrally: of the 10 flour mills in Beijing whilst No 5 has equipment made and installed by the British company Henry Simon Engineering Ltd, No 6 has Italian equipment and No 10 has Swiss machinery. These decisions were taken in the Grain Bureau at a level well above the individual mill. Similarly, supplies to retail stores are carefully monitored and limits to autonomy are set by central allocation and pricing mechanisms. All imported goods come through State channels: the individual enterprises have no capability or authority to buy direct.

Most of the products themselves are far from differentiated. The ubiquitous bicycle, for example, is a sturdy, long lasting Raleigh look-alike, almost identical in every shop or store. So far, at least, the issue of built in obsolescence has not arisen in China.

The second area of increased autonomy is in *pricing*. Not all the enterprises have this autonomy. Certain foodstuffs, for example, remain price fixed by the State even if in the last few years prices have changed more frequently. Other items however have been freed from price controls and the enterprises have been given limited

scope to set their own prices. We could discover no very sophisticated methods for establishing prices. With a strictly limited competitive situation, and little systematic knowledge of their markets, this seems to be an area where the enterprises have much to learn.

We must be wary of applying Western criteria to the Chinese businesses. Companies in the West apply pricing to increase profits. Whilst the profit motive is now well established in China it is not a simple criterion nor is it the only one. Thus retail stores attempted to keep prices for certain items low so that they were within reach of all customers. Equally, the stores were prepared to sell price fixed items on which they made little or no profit simply as a service to the public.

A new approach to *advertising* is also developing. Promotions in general remain relatively simple: street advertising in Beijing is straightforward and tends towards the "heroic" Soviet style. Inside individual stores, however, where the enterprise managers have more scope, the advertisements are more "Western" with realistic and attractive models and, in some cases, moving electronic displays.

Overall, though, China is still very much a seller's market: in some areas the demand for consumer goods, which rose well ahead of supply - especially in electronic equipment - has fallen back with the slowdown in available cash created by the austerity programme. However, in many sectors production remains well behind demand and the requirement for persuasive advertising, like the demand for competitive pricing, or easy finance, is therefore still some way away. It is only the more forward looking businesses that are investing in the kinds of promotion that are more familiar to us.

In the new environment the enterprises are developing new *services* for their customers. Thus flour mills are producing new grades and blends, cake factories are

producing different biscuits and cakes (many of them in the now popular "Western" style) and stores and shops are adding new lines, sometimes doubling or trebling the number available six years ago.

Other services are also being introduced. The market we visited now has a cookery expert in residence able, over a cup of tea, to explain how to cook more recently introduced items or to suggest new recipes. A cake factory has expanded its operation into a cafeteria restaurant, enabling them to clear unsold stock, test new products, increase profits and provide another service for the people of Beijing.

These services are not being developed directly to make money, either because the Chinese are as yet unable to price and market them effectively, or because they have a more "social" and less "market" oriented view of service. However, the overall effect, again, is to develop an enterprise system and approach which is much closer to the customer focussed approach of Western businesses.

The fifth area of increased local autonomy lies in the ability of the enterprises to *accumulate profits*. Until 1984 most of the businesses we visited had remitted surpluses of income over expenditure (had there been any) back to the appropriate Ministry. From 1984 onwards businesses were subject to taxation - but the enterprises were free to accumulate any resulting surpluses of income over investment as profit.

The effects were significant at all levels. One small shop that we visited had six employees. Until 1984 it had been run by the State: in the last year of direct State control it had made a surplus of 10 yuan. The creation of profit had not then, of course, been an objective. By matching income to costs the shop was operating efficiently. In 1984 control of the shop had been handed over to the employees. The relatively young manager and her five staff now had to pay a rent, interest on

loans (at 7%) and their own salaries. They paid no tax. By 1987 the shop was making a profit of 20,000 yuan per annum. This has been achieved by a process of monthly meetings between staff and customers in the locality which enabled the shop to tailor its stock much more closely to local needs. It now, for example, sells meat and many small items, like batteries and needles, which it had not offered before. Items, on which there was a more substantial profit, including alcohol, have been actively promoted. The layout of the shop had been improved and brightened.

More recently, as the austerity programme has bitten, the other side of enterprise autonomy and responsibility has become apparent. In 1989 both enterprises and trade unions were accepting that businesses that could not make profits might have to reduce costs - and employees would become redundant. But widespread redundancies will be resisted, since in the short term the costs of such a termination of employment are close to the costs of continuing it, and the possibility of even minimal output is lost. Non-recruitment is a more viable option and has already led to considerable youth unemployment.

The sixth major area of increased autonomy concerns the *distribution of profits*. The development, distribution and use of these surpluses was an engine for Chinese development in the mid-1980s - but also the source of major inflationary pressures. The recent introduction of a "double guarantee" system by which the enterprise will guarantee tax payments, profits and agreed output, in return for state guaranteed energy, raw materials, transport and communications, is evidence of problems arising, rather than a substantial change in philosophy. Its main purposes are to ensure the success of State enterprises in a more 'entrepreneurial' environment - and also to ensure that the State gets its money.

Distribution of profits varies with organisations. In China the smaller organisations pay little or no tax on profits, whereas the larger ones pay a substantial proportion of

their profits in tax. In broad terms there are three potential destinations for profit: taxes, reinvestment in the enterprise or distribution to employees.

1. Tax For the larger organisations we visited tax was typically 55% of profits. However, a secondary tax operates as an equalisation method, so that organisations which are in some way fortunate do not make excessive profits over those which are less well favoured. Thus a retail organisation in a particularly well developed city centre site will pay up to 35% additional tax over one located in a small rural town; a well equipped and well sited factory will pay more tax than one with long supply lines or one distant from its market.

2. Reinvestment What remains after tax is split between reinvestment and employee bonuses. The decisions on the split are taken by the management of the enterprise, but it is a decision in which three other groups are also involved. These are, first, the people who manage the overall business, for the vast majority of Chinese business this remains the Ministry, The Province or the State. China remains a highly centralised, Communist society, all but the smallest businesses are publicly owned. Second, there is the Communist Party. Third, there is the trade union.

   The role of the Communist Party officials did not appear to be very significant. It is difficult to know, without comparative evidence, how much of a change this is. Clearly some senior managers were Party officials, but many were not even Party members. The previously powerful Party secretary was only in evidence in a few of the organisations we visited. Our impressionistic view is that their power has declined,[4] but that within the smaller enterprise it was never perhaps as central as it used to be in the larger organisation.

The second group, the trade union officials, are frequently consulted and manifestly work closely with the enterprise managers. They are involved in decisions on the allocation of profits. Concepts of "negotiation" are inappropriate in the Chinese context. The interests of management and union are seen as identical. There are no external shareholders so the only question is one of immediate distribution to employees or reinvestment for the future benefit of customers and employees alike.

The considered view of our research teams was that the management at local level has a substantial amount of autonomy in this area: one that a Western enterprise manager would recognise easily and which operates within limits that such a manager would also recognise.

3. Bonuses Bonuses are theoretically linked to organisational success in creating retained profits or, to draw a more exact Western parallel, to individual performance. In practice the former is modified by marginal policies on for example, expansion, which would reduce the amount available for profits and by state level financial controls. The latter is modified by a managerial desire (shared with many Western managers) to keep payments equitable and only to reward additionally or punish severely a small minority.

There can be little doubting the immediate success of these approaches. Apart from the effect on managerial enthusiasm and morale, there must have been some contribution from these changes to the national economy. Accepting that economic figures from the PRC need more careful analysis then we are able to give them, it is clear that industrial output grew fast in the middle of the 1980s. The development of considerable inflation and a resultant (and successful) austerity package reduced the growth to zero by the end of the decade, though it is probably now improving

again. Overall standards of living at the end of the decade were noticeably higher than at the beginning. The overall improvement has however been achieved at a cost, the downside has manifested itself in a level of social dislocation.

Social Dislocation in China

The roots of the social problems now facing China lay in the decision in 1979, to sacrifice egalitarianism for the accelerated development of the special economic zones. Their success has greatly increased the disparity between living standards in the coastal urban areas and the rural interior. So, as economic reform loosened controls many poor rural workers abandoned the land and migrated - usually illegally - to the cities of the south. While the economy was booming they were a welcome source of cheap labour and many found work, but as the economy slid into recession and employment opportunities for the migrant workers dwindled. As illegal migrants they are outside the system, they do not benefit from the generous social provision which aides their urban counterparts. Nor are they part of the support system of street committees and work units.

Despite the doubtful prospects, the rural exodus continues. Official estimates vary but this floating population of penniless migrant workers is now thought to number around 80 million people.[5] There is little prospect of them returning to their villages to find work, the small rural enterprises were hardest hit by the recent austerity programme, and the country has officially over 150 million 'surplus farmers'.

Migrant workers are often blamed for the recent increase in crime, and they form the majority - thought to be several thousand - of those sentenced to death each year.[6] Large scale public executions have been staged in major cities, in an attempt to halt the rising levels of crime and evidence of moral decline.

Latterly urban populations have also felt the pinch as inflation soared and official urban unemployment became a reality, but it is the floating migrant population which is viewed by the government as the greatest problem.

Eastern Europe - Similar problems: different approach

For this paper it is inappropriate to review the recent history of the various countries of Eastern Europe even in the abbreviated detail that we have devoted to the PRC's recent history. It suffices to remind ourselves that President Gorbachev of the Soviet Union illustrated the his commitment to *Glasnost* with the release of key Soviet dissident Andrei Sakharov in 1986. This in turn sent a signal to dissident movements throughout Eastern Europe, who became increasingly outspoken in their criticism of the Communist regimes. Eastern Europe simmered until July 1989, when Gorbachev's public rejection of the Brezhnev Doctrine was followed by an unambiguous declaration that the former satellite states were now free to go their own way.

The events which followed are familiar to us all. No one could have predicted the speed with which Communism was to collapse, but more importantly, no one had prepared for it. The newly elected Governments are suddenly faced with the task of delivering all that they had demanded during their dissident years. Political reform has (for the most part) been achieved, economic reform remains problematic.

The economies of Eastern Europe are now effectively under new management, the economies are being restructured, but at ground level management practices have remained unchanged. China had experimented with decentralisation, giving enterprise management an opportunity to exercise a degree of autonomy and accountability, and develop some of the skills required to manage in a market economy. Managers in Eastern Europe have had no such opportunity. They are not

equipped to manage under free market conditions. As a result they continue to operate substantially as before, a task which is becoming increasingly difficult as central plans are dismembered. The result is a sharp drop in production. State orders are vanishing and the private sector has no money to replace them. Hapless managers see no alternative other than to reduce production, send the workers off on (paid) holiday, and pass on costs and overhead expenses by increasing prices on remaining orders.[7] The effect ripples on through industry, fuelling inflation as it goes.

On the streets of Eastern Europe, as in China, it was widely believed that market reforms would create instant prosperity. The early euphoria has dulled as the social cost of economic reform now becomes apparent. The people were unprepared for the rampant inflation which inevitably follows the introduction of market prices in to these shortage economies. Unemployment and crime are other unpleasant realities which are now bubbling their way to the surface, and corruption remains endemic. Communism had for many years provided a restrictive but cocooned existence, reform offers in its place 'freedom' and uncertainty.

Poland has been the first to grasp the nettle of all out market reform, and the first to experience the full force of the social consequences. The others are experimenting with less drastic approaches and consequently experiencing similar shock by instalments.

Eastern Europe - Social instability

In East Germany and Poland the inevitable shake out of unprofitable industry is now well underway. Throughout Eastern Europe grim reality is prompting workers to rediscover the old work ethic, often to no avail. Disillusionment is spreading. Worsening shortages have further stimulated the black market and crime has proliferated since the downfall of communism. As the first half yearly figures are produced, reported crime is up 40% in Czechoslovakia[8], 50% in Hungary[9] and 70%

in Poland[10], the situations in Bulgaria and East Germany are said to be similar. East Germany, in particular is reporting a rise in racial attacks and anti-semitic crime[11]. Since monetary unification East Germany has also experienced a spate of bank robberies: West Germans are thought to have been responsible for most of these. One robber has already been shot dead by police, but the trend is likely to continue. No one would have taken such risks for the near worthless Ostmarks, but Deutschemarks are quite another matter.[12]

Freedom of expression is now a sacred cow in the newly democratised countries. The downside of this was captured by world television, as a lorry loaded with Western pornography was among the first vehicles to cross into East Berlin from the West. The sleazier side of publishing is mushrooming unchecked and pornographers talk openly of their plans to turn the Lake Balaton region of Hungary into "the Bangkok of central Europe".[13] Police forces throughout Eastern Europe are demoralised, underpaid and undermanned. Their reputations and authority undermined by earlier associations with the discredited Communist regimes.

PRC AND EASTERN EUROPE

Similarities

Comparisons are frequently made between the developments in China and what used to be referred to as the Eastern bloc, the USSR and Eastern Europe. The Eastern European states had some degree of control over their own individual central plans, but their trade and economic fortunes were interwoven with that of the Soviet Union, to the extent that it was rational to refer to them as a unified bloc.

From the Western businessman's point of view there were striking and obvious similarities between China and the Eastern bloc. Two large, communist controlled, centrally planned and apparently moribund economies. Both are striving to implement reform in order to become modern industrialised economies. During the last decade, first in China and then in Moscow repressive regimes started to loosen their grip and previously closed markets began to open. Both need Western investment, technology and know-how, often acquired through joint venture agreements with a foreign partner. They offer potentially massive new markets for Western goods and abundant low cost labour. On the downside, both are characterised by almost impenetrable bureaucracies, chronic shortages of raw materials and inconvertible currencies and all the ensuing problems.

Differences

As the events of 1989 graphically displayed, the similarities between China and the USSR and Eastern Europe are apparent but superficial. The differences are much deeper, rooted in their respective histories and cultural pasts.

Europe's economies have always been expansionist, perpetually seeking ways to increase production and prosperity, through trade, imperialism and, since the 19th century, through industrialisation. Increasingly intellectual effort and scientific advancements were harnessed to find new ways to further raise production, spurred on by what is often referred to as the protestant work ethic.

Part of Eastern Europe industrialised along with many Western European nations during the 19th century, and for Eastern Europe it was particularly successful in those central European states which were later to become East Germany and Czechoslovakia.[14] In 1938 Czechoslovakia's Skoda works was a world class engineering company, on a par with Siemens, Krupp and General Electric.[15] The remaining non-industrial East European states were industrialised under communism; in all cases the emphasis was on heavy industry, at considerable environmental cost.

Politically, the Eastern European nations, as we know them today, were drawn up largely on linguistic lines in 1918, at the end of the first World War, which marked the dissolution of the Austro-Hungarian and Ottoman empires. But the young nation states enjoyed only brief periods of democratic self-determination before falling pray to assorted dictatorship during the inter-war years.

The people of these small states, though lacking established democratic traditions, have long aspired to self-determination, and have over the centuries experienced periods of independence. Unlike China, they did not share Russia's unbroken tradition of absolutism, and bitterly resented their post-war domination by Moscow and the imposition of Stalinist regimes.

China is of course different in many ways; principally by virtue of its size. A vast and still predominantly agricultural state, it has an ancient imperial history and cultural identity which has remained intact for over two thousand years. For centuries it was one of the most prosperous and powerful of countries. China saw no need to trade with the foreign barbarians, or to waste effort on industrialisation.

Why should it when everything it needed was available in abundance within its own borders? The intellectual effort of these intelligent and ingenious people was instead directed towards the enhancement and reinforcement of Chinese culture. The country was eventually brought to its knees, by opium and new European industrial technology in the form of the British Navy. China was stunned and humiliated, and to this day remains suspicious of foreign incursion. Despite the political upheavals of the 20th century, China's cultural and social traditions remain substantially intact.

Over two thousand years of Confucianism, with its emphasis on submission and preservation of the social order, has enabled China's tradition of centralised rule to survive almost unchallenged. Even the demands of the students in Tianammen Square in 1989 did not include major changes in political structure or society. Rather they were asking for reforms to reduce the levels of corruption among the privileged party elite, and offer the educated classes more choice and opportunity in employment.

It is, we believe, these cultural and historical factors which have shaped the chosen paths to reform and these factors which will determine their respective, and ultimately differing goals.

China strives to become a modern industrialised economy, powerful and self sufficient. It seeks to raise the living standards of its people to that of its newly industrialised neighbours along the Pacific Rim. It wishes to trade and develop in order to become prosperous and strong enough to control a prosperous destiny.

Eastern Europe on the other hand, looks westwards, seeking eventual integration into the European Community. East Germany has of course already achieved this through unification with the Federal Republic. The central European states of Poland, East Germany, Hungary and Czechoslovakia have a particulary strong affinity with their Western neighbours, with whom they share a common religious, cultural, political and industrial heritage.[16]

Only the future will tell whether the Eastern Europeans will be able to sustain free expression and free party political systems in the face of economic uncertainty, and whether the extension of autonomy and local control in China's economic arena can be sustained, alongside a controlled and restrictive political system.

THE RESEARCH

The paper is based upon two study visits by multidisciplinary teams of academics and business executives to Beijing, Xian and the countryside of Hebei Province in 1987 and a similar team to Beijing and Shanghai in 1989. In both cases visit were made to a range of organisations. On the first visit examined a vertically integrated group of businesses, from farming cooperatives through grain mills, an abattoir and a shoe factory, food processing and manufacturing to retailing. Interviews were conducted with senior and middle managers often, but by no means always, CPC members and, where appropriate, trade union representatives. The concentration was on the smaller scale business - one retail outlet employed only six people, the largest 3,600; the smallest food processing plant employed 50, the largest 850; the grain mills employed 335 and 118 respectively and the farming cooperative covered 45,000 farmers. Interviews were conducted on site, through an interpreter. Out team consisted of specialists with backgrounds in accounting, marketing and human resources. Tours of the premises of locality took place in each organisation. At the end of our visit we met with the Vice Minister of Commerce to discuss our findings and Government policy in these areas.

Most of the organisations visited were located in and around Beijing or Xian and the larger organisations at least were clearly used to regular visits from Westerners. The same was not true of the smaller locations and was far from the case at the farming cooperative we visited in Hebei Province, some five hours (often somewhat rough) driving from Beijing and where the locals (and in particular the children) found us to be of at least as much research interest as we found them.

The second visit, in 1989, was conducted with a larger, and again multidisciplinary team. On this occasion visits were made to larger organisations, including the railways and the airlines, computer and chemical businesses and an indigenous and a joint venture car plant. Visits were also made to public relations agencies, the All China Trade Union Confederation and management training establishments. In addition information was gathered from the State Government of Shanghai. Once again we met with the Vice Minister of Commerce.

The organisations were located in Beijing and Shanghai. Because of the political situation in Beijing (we were there in May) plant-level visits were restricted, but in Shanghai managers were interviewed at both headquarters and operating plant level.

Information on Eastern European countries was collected by the normal means of secondary research supplemented by information gathered during exchange visits of academics and practicing managers.

Both authors have visited China on more that one occasion and travelled in Eastern Europe.

REFERENCES

1. Lansbury, R D and Mckern, R B, "Management at the Enterprise-level in China", *Industrial Relations Journal*, Vol 19, pp 56-65; Ng Sek Hong "One Brand of Workplace Democracy: a note on the Workers' Congress in the Chinese Enterprise", *Journal of Industrial Relations*, March 1984, pp 56-75.

2. Henley, J S and Mee Kan Nyaw, "Introducing Market Forces into Managerial Decision-Making in Chinese Industrial Enterprises", *Journal of Management Studies*, Vol 23, 6, 1986, pp 635-654.

3. Reported in the *Independent*, 27 October 1987, p.12.

4. Henley and Mee, *op cit*, p.645.

5. *Economist Intelligence Unit*, China, Country Report No.2, 1990

6. Reported in the *Independent*, 5 July 1990, p.8

7. *Economist Intelligence Unit*, Poland, Country Report No.2, 1990

8. Reported on Reuter Newswired Eastern Europe, 6 September 1990

9. Reported in the *Independent*, 20 August 1990, p.9

10. Reported on Reuter Newswires Eastern Europe, 20 August 1990

11. Reported on Reuter Newswires Eastern Europe, 16 September 1990

12. Reported in the *Daily Telegraph*, 7 September 1990, p.10

13. Reported in *Sunday Times*, 19 August 1990

14. Anderson, M S, The Ascendancy of Europe 1815-1914, Longman, 1986

15. Fuhrman, P, "Memories of Development", Forbes, April 16 1990, pp.93-4, 99

16. Jones, P, The 1848 Revolutions (Seminar Studies in History), Longman, 1982