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Dynamics of intellectual capital in contemporary Chinese enterprises: traditional wisdom and cross-border M&As

Jay Chatzkel¹, Artie W. Ng²

1. Progressive Practices, 44123 N. 23rd Street, New River, Arizona, 85087, USA
2. School of Professional Education & Executive Development, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong.

Abstract

- ▶ Characteristics of three schools of thought derived from Confucian roots and considered sources of “Chinese wisdom” as used as guides to Chinese firms in their business practices.
- ▶ The dynamics of Chinese wisdom and their possible relevance on the development of intellectual capital, and particularly the implications to cross-border acquisition and integration outcomes.
- ▶ Findings: To achieve unprecedented gains, Chinese company M&A’s initiatives seeking to get the most out of their intellectual capital need to interact with overseas counterparts by embracing a dynamic heterogeneity and a freshly reframed corporate culture.

Roots and Dynamics of Knowledge

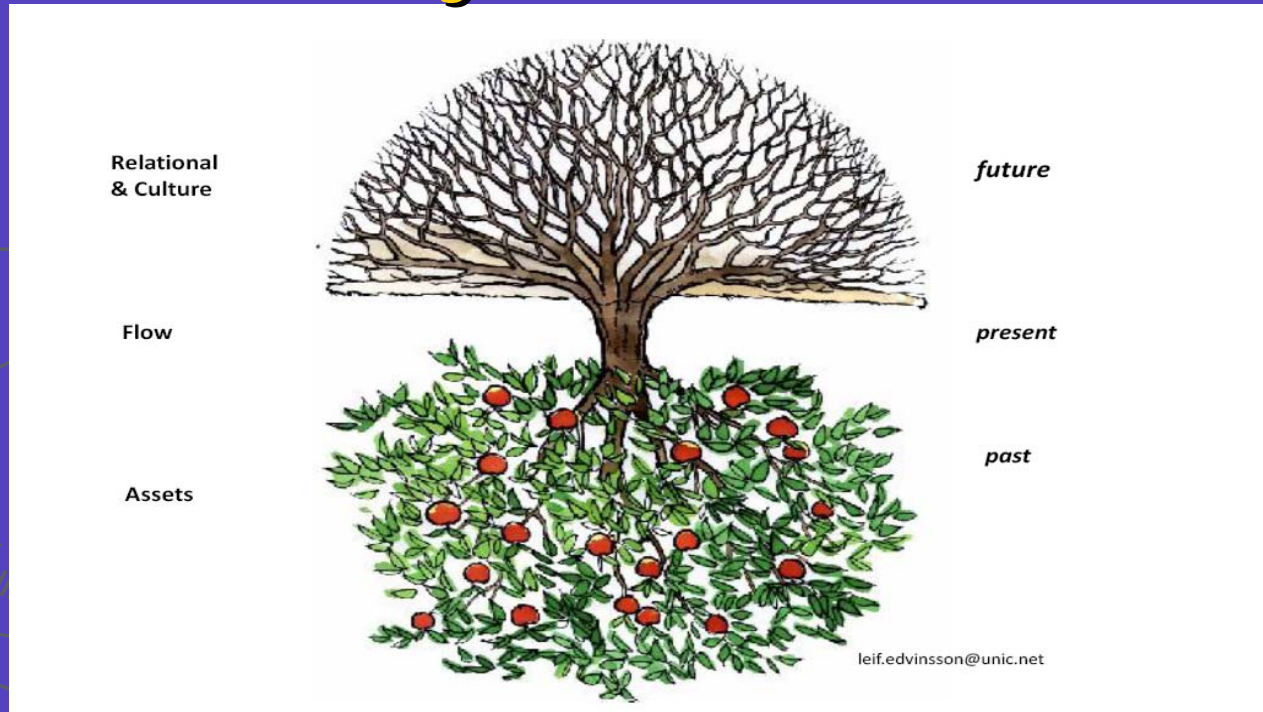


Fig.1 *“In this image, the fruits are highlighted as tangible assets, whose quality is largely determined by nutrition from the root. The soil is the enabling cultural context for continuous renewal and knowledge growth. This image highlights two important dimensions of knowledge, namely, a time line as well as a logic line. Along the time line, there is a focus of present, yet past and future are also given considerations.... tangible assets (represented by leaves, fruits, twigs and trunk of a tree in this image) are only able to sustain when the intangible aspects of organisations (represented by the root of a tree) function properly. To ensure a good harvest, we need to take care of the root of the plant; in the meantime, we should also pay special attention to the supply of nutrition. This metaphor captures the dynamic and relational features of knowledge”, (Yu and Edvinsson, 2008).*

Understanding Roots of Chinese Wisdom

- ▶ The roots of Chinese wisdom can be traced back to the founding philosophical thinking of Confucianism
- ▶ Derivative schools of thought, including Taoism, Legalism, Mohism and the famous School of the Military by Sunzi, etc.
- ▶ These origins of “intellectual capital” go back to the Hundred Schools of Thought (770 B.C. to 221 B.C.)

Main Root

- ▶ While many contemporary studies have adopted Confucius and Guangxi^[1] in their studies about Chinese management, there are other important branches of philosophical thinking of perpetuating influence
- ▶ Confucius emphasized preserving traditions rather than originating ideas are considered as appropriate
- ▶ People are expected to revere the rulers with right attitudes so as to maintain harmony.
- ▶ Confucius was envisioned as the figure for revival of an ordered society and perceived as a proponent of conservatism and ethics.

^[1] "Guangxi" is not a school of thought but rather refers to the importance of relationship in a network among Chinese businessmen as studied in a number of management literatures.

Other Schools of Thought (1)

- ▶ **Legalism** is widely viewed as a pragmatic political philosophy – a “rational statecraft” with the necessary techniques to organize a sizable empire.
- ▶ Is political philosophy as relates to upholding the rule of law. The school's most well-known proponent - Han Fei proposed the following three principles in governance:
 - (a) **Law**: The law code should be clearly written and made public. All people under the ruler were equal before the law.
 - (b) **Method**: It is critical that no one can figure out the ruler's motivations, and thus no one can know which behavior could make them get advanced, except for following the law.
 - (c) **Legitimacy or Power**: It is the position of the ruler, not the ruler himself or herself, that holds the power. An effective ruler therefore needs to understand the trends, the context and the relevant facts are essential for a real ruler to maintain one's legitimacy (Fu, 1996).

Other Schools of Thought (2)

- ▶ ***Mohism*** promotes a philosophy of impartial care and equal care for all individuals. This makes man good with reference to himself.
- ▶ In Mohism, morality is not confined by tradition, but by a constant moral guide equivalent to utilitarianism. People need an extra-traditional guide to identify which traditions are acceptable.
- ▶ Leaders ought to be chosen for their willingness to be surrounded with righteous followers and then to create the hierarchy that can distinguish right from wrong matters (King, 2006).

Other Schools of Thought (3)

- ▶ *Taoism* is usually referred in English as “road, channel, path or the way”
- ▶ Tao can be seen as the flow of the universe, or the force circumventing the natural order, the influence that keeps the universe balanced and ordered (Graham, 2006). The key Tao concept of Wu Wei means “action-less or doing nothing”, which can be interpreted as water moving slowly through its yielding nature.
- ▶ Tao proposes that the universe works harmoniously according to its own ways with life forms having a natural ability to transform and adapt to their surroundings.

Implications to intellectual capital development

As expressed by Birdwhistell (1989),

" In the intellectual and sociological reality of Chinese society, the various traditions of knowledge were not strictly separate. They were more like currents and subcurrents within a larger river. As they flowed together and developed over time, they mixed their waters, and yet in some places they still retained separate identities".

Contemporary Chinese enterprises

- ▶ Relevance of traditional Chinese wisdom
- ▶ Evidenced in contemporary management studies
 - Homogeneous vs. heterogeneous approach in management culture
- ▶ Chinese wisdom is traditional but dynamic given its ability to absorb new elements under the constraint of its context

Contemporary Chinese enterprises

- ▶ The notion of 'Confucian dynamism' was used to look into the linkage with successful economic growth among Chinese firms.
- ▶ Relationships are clearly defined, with strong hierarchies observed by the members.
- ▶ People tend not to spend time arguing and challenging orders; they move forward persistently to achieve the goals set by the superiors

Key implications

- ▶ Two main implications:
 - Influence on continuous intellectual capital development
 - Challenges in the rapid “multi-nationalization” of Chinese enterprises

Challenges in cross-border integrations

- ▶ Differences in corporate and national cultures
- ▶ Underlying beliefs affect:
 - Effective integration of intangible and tangible assets
 - Timely renewal of corporate culture for transformation after a cross-border merger
 - Leadership and management control issues

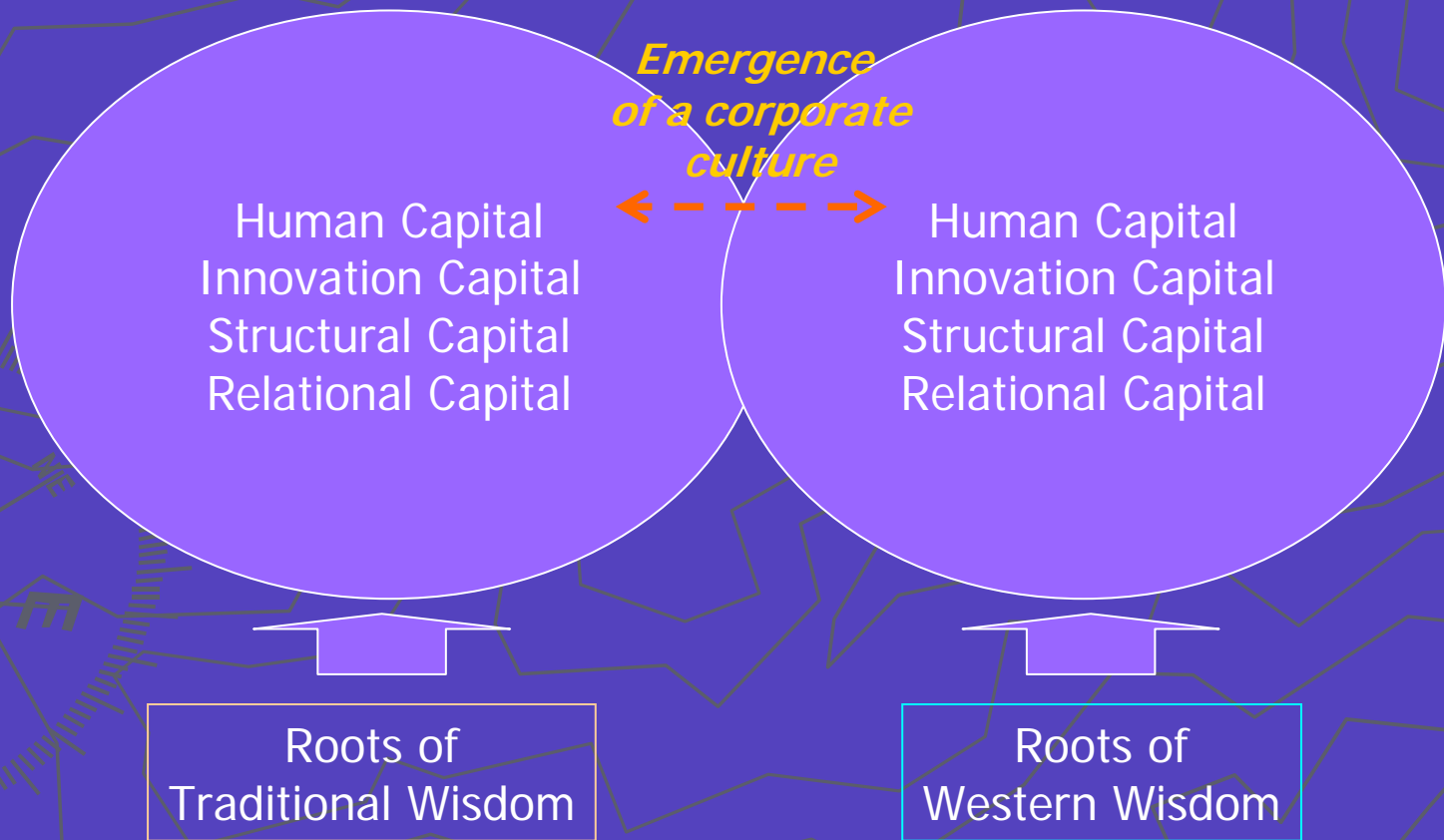
Framework development

- ▶ Key forces for intellectual capital development
 - Core values in human capital
 - Interaction with complementary thoughts for harmonization
 - Dynamics of intellectual capital development contingent upon internal structure and external circumstances
 - Need to reconcile the dualism with the Wisdom of the West

Chinese Vs. Western Culture

- ▶ Country, society, family placed above self
- ▶ Based on humanism and people
- ▶ Fuse human and "heaven as one" to resolve relationship between man and nature
- ▶ Uses ethics and tolerance to resolve people's relations
- ▶ Uses internal cultivation to resolve human and spiritualism
- ▶ Focus on balance and mean
- ▶ Expands internally rather than outwardly
- ▶ Over emphasis on past vs. present
- ▶ More individualism
- ▶ More adventurous and exploration based
- ▶ Based on science
- ▶ Uses law to resolve people's relationships
- ▶ Uses "god" and religion to resolve human spiritual relationship
- ▶ Expands and develops outwards
- ▶ Emphasis on present (pragmatism)

Challenges to Quantum Leap Post-merger Transformation



Future studies

- ▶ More micro case studies to reveal such dynamics of intellectual capital
- ▶ Romance of Three Kingdoms
 - State-owned enterprises
 - Family-owned enterprises
 - Emerging entrepreneurial enterprises

For More Information

Contact:

Jay Chatzkel, Principal, Progressive Practices

jaychatzkel@progressivepractices.com

www.progressivepractices.com

Artie Ng, Hong Kong Polytechnic University

Artie.ng@polyu.edu.hk