



## Leadership: A Chinese puzzle

**China's economy is booming, but one of the major challenges facing the country will be leadership – or the lack of it – in political or business spheres.**

INSEAD Affiliate Professor of Asian Business and Comparative Management, Michael Witt, says that although the Communist Party still tightly rules China, the leadership in Beijing does not 'have a lot of power,' with the result that it's difficult to get things implemented.

"We sometimes think that the leaders in Beijing matter. I want to challenge conventional wisdom ... and basically say they are not that important," says Witt, the co-author of a new book with Gordon Redding called "The Future of Chinese Capitalism."

"Certainly it has a political leadership but this is far less important for how China moves forward than is commonly assumed," Witt told INSEAD Knowledge in an interview.

### 'Uncharted territory'

Speaking at the 'China Rising' session of the INSEAD Leadership Summit in Asia, both Witt and Bloomberg News columnist Willie Pesek argued that China's leadership is in 'unchartered territory' and is feeling its way forward.

"To say that China is making it up as it goes along sounds a bit flippant, but it is," Pesek says.

"I think of the Chinese leaders as conductors," Pesek told INSEAD Knowledge. "They have an orchestra that they're conducting. The orchestra is quite green, there are different levels of experience, they're playing a new piece of music they're not familiar with and they're trying to feel their way through it."

"In many ways, China is providing a blueprint for the future and allowing local officials to fill in the blanks," Pesek says, "and I do think it's not unreasonable to say Chinese officials are making it up as they go along. I don't mean that as a criticism, I just don't think they can look at the US, the UK (or Germany and say 'we're going to do this,' 'we're going to do that.' Their challenges are much more daunting than ever faced in industrialising Europe and the US."

"Chinese growth will slow down, but I don't think China will experience a financial crisis." Read more..

"What you see in China is a consciously-set up model that uses experimentation in various parts of the country in order to select how to move forward," Witt told Knowledge. "So it's not a top-down design principle where the leaders in Zhongnanhai in Beijing basically say 'this is how the economy

should look like.' But rather they give people out there in the country slack to try new things. Many of these things are illegal, but they try new things, work with them and see which ones work. These are then the 'next stones,' to paraphrase Deng Xiaoping (the architect of China's economic reforms), which China will pick to cross the river of economic development."

### **A 'bigger headache' for companies**

Witt says that while the leadership issue may not be "that big of a problem" at the national level, at the level of the firm it's a "much bigger headache."

"I think leadership is a big problem, leadership style, the autocratic top-down leadership style that is typical of China is a problem inside the company." The country, he says, has a very big management challenge ahead of it. There is a shortage of management talent, whether financial management or more technical roles, he says. In companies, Witt says everything revolves around the laoban ('old boss'). Witt argues that while this model has worked well and "is extremely good right now at producing companies that produce very efficiently. We see this in terms of manufacturing cost right now. It's very difficult to beat China. But looking forward, this is not where the money is. The money is in things like branding ... Who captures the value created in China? Not Chinese firms – foreign firms."

It will be difficult for the laoban, who will not want to give up control, to encourage workers to be creative. "They do not delegate and as a consequence, it will remain a highly centred system that has strengths in where it is right now but will have a very difficult time developing strengths in other more complex areas."

Another panellist at the 'China Rising' session, Amit Midha, President of Dell China, says the problem is that there are not enough leaders.

"The biggest gap I see is (on the) people side, the leadership side, the available talent that is not just well trained but also well experienced and the ethical standards are of global standard."

"The leaders that we see that succeed ... have absolute clarity about what they want to achieve, absolute clarity and conviction about what they want to achieve and they are so determined to a degree that you do not often find in Europe," says Patrick Dunne, Group Communications Director with 3i which has backed a number of mainland-based ventures.

"They are all fitted with this entrepreneur's ear, which stops them listening to people at birth. But the smart guys, the ones that we want to back, are

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people who listen to someone. So they will not listen to a lot of people who tell them, "You cannot grow wine in that particular place", all those kind of things. They have a different view of the world but they are also people who take other people's ideas, take other people's advice," Dunne says.

Although China is still in a development phase, mainland firms are already looking overseas not only to acquire companies, but also expertise and brands. "What we hear from Lenovo (the Chinese firm which bought IBM's PC operations in 2005) is actually that the Americans are pretty much running the show," Witt says, as they are "training the Chinese management on how you should actually run an international competitive multinational corporation."

During a question and answer session, the panellists were asked how it could be that China's economy is booming if there really is a lack of leadership either in Beijing or the company level.

"Basically, I do not think anyone of us really said it has no leaders," Witt replied. "It has leaders. In the political realm, they are not actually that important."

"So while, on the one hand, China has historically been a country that has required strong leaders, ironically right now what we are actually seeing, at least at the macro level, it is moving forward in a bottom-up way."

"Leaders in the company? Yes. Strong leaders? Oh, you bet. Purpose? Yes, you bet. Basically, yes, you have strong leaders there. But what I would propose to you is basically they are good at some things, given the structure of the country, of the economy, of the culture in particular ... They will not be so good at products that are, what we call, systemic. Things that involve a very high level of complexity and consequently also a very high level of value-added. That is something that will be much harder for Chinese businesses to do successfully and that is actually partially related to the leadership model that is built into Chinese firms. So it has pluses and works really well right now. If we look at it in 20, 30 years from now, will they be able to really go up the value chain as they intend to? Here, I think we have real question marks."

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