
What China's "New Normal" Means for Leaders



By Henri-Claude de Bettignies , INSEAD Emeritus Professor of Asian Business

Slowing economic growth and the changing shape of leadership and management in China.

2014 marked the end of China's period of miracle growth. Amid a real estate and manufacturing slowdown, economic growth slipped to 7.4 percent last year, China's lowest level since 1990. It marks the first time since 1999 that the pace of growth fell short of Beijing's target (which was 7.5 percent for 2014).

This is not a blip but the culmination of a multi-year trend of reduced growth. A new phase has begun in the maturation of China as an economic superpower, an era that President Xi Jinping has taken to calling "the new normal". The ongoing challenge for Beijing is to transition from a largely investment-propelled, export-oriented economy to one increasingly driven by consumption.

Hand-in-hand with the economic rebalancing effort, the Communist Party is orchestrating a perhaps even more delicate change in the leadership mindset it promotes among its members, from local cadres to the heads of the biggest SOEs (state-owned enterprises). To accompany the shift in focus

from *magnitude* of growth to *quality* of growth, Beijing is putting more emphasis on social responsibility and awareness of social context. In the past, local leaders have been accused of prizing GDP growth above genuine fiscal health, as advancement within the Party was largely pegged to short-term economic indicators. This year, in an unprecedented move, the Shanghai government opted not to submit a GDP target.

A reshuffling of priorities has also been evident in Xi's ongoing crackdown on Party corruption, which has been much more robust and sustained than similar housecleaning efforts by his predecessors. Foreign companies have not been exempt from the war on graft: Daimler, Qualcomm, and Microsoft are among the multinationals that have come under investigation in recent months. In September 2014, U.K. pharma firm GlaxoSmithKline was fined US\$489 million for allegedly bribing doctors.

Mixed Motivations

From the moment he assumed power in 2012, Xi has been at pains to present himself as responsive to the will of the people. The push for responsible leadership is part of this PR effort, which is aimed at burnishing his administration's credibility and defusing public discontent so that the Party can remain firmly in power. We can assume that Beijing wants very much to avoid a homegrown version of the umbrella revolution in Hong Kong, Occupy Wall Street, the Arab Spring and other watershed events in the current global struggle for emancipation illustrated in the freedom rising trend.

At the same time, it isn't all smoke and mirrors: following five years of living and teaching in Shanghai, I have noticed a serious commitment within the leadership to address some of the social issues that have cropped up as an indirect result of the nation's incredible economic growth, for example, pollution and environmental damage, and the often-desperate living and working conditions of migrants in mega-cities. Previous administrations talked about the public good, but this one manifests the will to make responsibility more visible and more than just a political buzzword.

How Must Leaders Change?

In the emerging civilisation we see taking shape today, long-term business performance and sustainable success will require responsible leadership – either by choice or by necessity. The need for effective performance in three main areas – economic, social, and environmental – is increasingly

recognised in the West. The same movement is now visible in Japan, Southeast Asia, and progressively in China itself.

I have a few suggestions to guide leaders on the bumpy path ahead in China:

- Develop a leadership mindset based on moral purpose, character, and critical thinking with the leader as coach, not merely a role model
- Define and enshrine an overarching purpose in your code of conduct: Place customers at the heart (and compete for customers' satisfaction)
- Value education at all levels and promote innovation
- While avoiding PR gimmicks, work within the profession to safeguard your company's image
- Strengthen a culture with a moral compass that respects nature, and promotes anti-corruption
- Once you have embedded CSR in your company strategy, make sure you walk the talk through your company culture
- Do not clone the West, but learn from the West's mistakes
- Build trust with all your stakeholders
- Initiate or maintain a positive attitude toward frugality, in the context of a green economy
- Increase awareness, develop a vision, stimulate imagination, enhance responsibility, and take action

According to the World Bank's International Comparison Programme, China has already surpassed the United States to become the world's largest economy. In the last two decades, China has captured the world's attention with its remarkable success story, pulling 500 million people out of poverty, building first-class infrastructure, and ensuring smooth political transitions. Through it all, the Chinese have displayed an ability to take the long view while leveraging pragmatism through quick, effective, short-term implementation. Now that Beijing, fully aware of the challenges, appears to be prioritising responsible leadership, the global business community has every reason to expect and prepare for significant change.

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