

An institutional economic perspective on management in Chinese cultural contexts

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Abstract

The aim of this paper is to examine various theoretical approaches used to manage in Chinese cultural settings, with a particular emphasis on cultural theories from institutional economics. Institutional economics offers explanations that are well-suited to understanding the rapid growth of the Chinese economy since the 1980s, when market-led economic reforms were introduced. This chapter provides a rigorous economic analysis that makes a strong contribution to the handbook, demonstrating the impact of economic institutional arrangements on the fast-growing Chinese economy. A significant contribution here is to highlight the complexity of managing in Chinese cultural settings. This complexity arises from the constantly changing soft institutions, such as the cultural practices of *guanxi*, which can vary significantly across different regions and communities. For instance, personal networks or *guanxi* are less important in overseas private Chinese businesses, Hong Kong, and Singapore. Due to economic activity, growth, and labor migration, there is a considerable cultural difference between different Chinese communities. Hong Kong, for example, has a distinct management culture compared to mainland China, as it has a long history of British administration and is an international trade and financial hub. This is evident in differences related to governance, the influence of the central government, relationships with foreign firms, human resources, and line management. The working language is predominantly English in Hong Kong, whereas Mandarin Chinese is the sole working language in mainland China.

1. Introduction

This paper tries to illustrate the theoretical framework from institutional economics and how it can be used to understand and manage a business in a Chinese context. A strong emphasis is on institutions. The term "institution" commonly applies to both informal institutions such as customs, or behaviour patterns important to society and to formal institutions created by law and having a distinctive permanence in ordering social behaviours. Primary or soft institutions are institutions such as the family culture that are broad enough to encompass and permeate other institutions.

In order to comprehend the institution within this context, the present chapter employs the theoretical framework of institutional economics, which centres on comprehending the impact of institutional evolution on economic behaviour. Institutional economics has arisen as a dominant economic paradigm within academia and has significantly influenced our comprehension of developmental processes, organizational structures, and transformations in economic institutions.

An economic institution is defined as "the constraints placed by law and social norms on human behaviour" or in North's words "the rules of the game". The purpose of the constraints is there to help reduce transaction costs. In the North's (1992) introduction to his seminal book, for example, he defined that "Institutions are the rules of the game in a society or, more formally, are the / humanly devised constraints that shape human interaction. In consequence, they structure incentives in human exchange, whether political, social, or economic. Institutional

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