

An Analysis on Factors of Success for Chinese/European JVs in Culture Aspect

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Abstract

China is the largest recipient of foreign direct investment (FDI) among all developing countries (Tsang, 1998). Nowadays, more and more worlds leading multi-national companies have set out on a joint venture with Chinese State owned enterprises. The main motive for many European companies in establishing the enterprise in China is to gain entry to its potentially large market (Strange, 1998). A successful joint venture will offer the access to large market and the access to greater resources, including specialized staff and technology. It allows the firm to share the costs and risks with the partner. However, the potential problems of cooperating with a partner from a different national culture led to some unique risks. The cultural difference may also create ambiguities in the relationship, which may result in conflict and even dissolution of the enterprise (Barkerma, 1997). The principal reason why joint ventures fail is not because the contracts are poorly written but because the managers involved failed to make them work (Harrigan, 1986). This paper is a comparative study based on the Chinese culture environment and the international business environment literature. This paper focuses on the Chinese cultural environment and also compare with the European culture in order to find out the critical element for the success of the European/Chinese joint venture enterprise.

Keywords: FDI, Joint venture, Culture environment, Critical element, European/Chinese joint venture enterprise

1. Introduction

Broadly speaking, culture can be defined as, “a learned, shared, compelling, interrelated set of symbols whose meanings provide a set of orientations for members of a society” (Terpstra and David, 1991). Different culture leads to different values and beliefs, different communication, different norms of behaviors. Successful international business relationships rely on large measure on developing a polycentric approach in situations where cross-cultural issues arise, such as joint ventures (Morrison, 2006, P168). Geert Hofstede (1994) has developed a theory of culture, which holds that cultural and sociological differences between nations can be categorized and quantified, allowing us to compare national cultures. He distinguishes five cultural dimensions and uses them to compare value systems at various levels. The cultural dimensions are: Power distance, Uncertainty avoidance, Individualism, Masculinity and Long-term vs. short-term orientation (Hofstede, 1996). Later, Fons Trompenaars’ identified five relationship orientations. Research by Hofstede and Trompenaars has provided useful tools for cross-cultural analysis, in terms of both organizational and societal cultural profiles.

2. The main elements of the Chinese Culture

Two or more parent companies make up of joint venture, which should in theory work together in the direction of the same common goal. From this special modality, a European and Chinese company often has different precedence for setting up the joint venture. For the European company, the most important strategic reasons for their investment is Chinese square-built market and easier for the international expansion. What is most important reason for Chinese firms is technology transfer. Although the strategy reasons are different, by working together under the joint venture situation, both of them could reach their aim. Setting out on a joint venture with a Chinese company must adapt to Chinese cultural environment. In the following paragraphs, some main elements of the Chinese culture will be analyzed.

Firstly, in terms of collectivism and individualism, China is a Confucian culture and significantly different from Western cultures (Hofstede, 1980). The ‘Confucian ethic’ can be represented as a set of values in which loyalty, hierarchy, and obedience to superiors are paramount, and the individual is subordinate to the group (Morrison, 2006, P188). This Chinese philosophy remains a vital cultural factor in the development of Chinese society and is still effective in Chinese business culture today. In China, social relationships and group welfare comes first, which means all individual effort and achievement is expected to contribute to the collective good (Laaksonen, 1988). In the contrast, European cultures such as Germany are individualistic, which partial to individual ambitions and personal achievement. The Chinese group-focused nature of Confucian values built a direct conflict with the

Individualism of most European countries. For the group working in the Chinese firms, the interrelationship becomes much important. Establishing a joint venture with a Chinese company, understanding the Chinese management method and the Chinese culture orientation seems critical for the success.

Secondly, in China, each firm has its own enterprise culture. But there are several key concepts and values that are important in Chinese cultural environment and play an important role in Chinese business world. Child and Lu (1996) are point out five elements of Chinese culture relating to individual behavior, that is, respect for age and authority; group orientation; the importance attached to family relationships; close personal connections (*guanxi*) and face (*mianzi*). Among these, there is one most important element in the context of Chinese business cultural environment—*guanxi*.

The institutional context of the management process in China can largely be understood as a dynamic system of interdependency relationships (Child, 1994). The management in China stresses the significance of establishing relationships. Business transactions will followed by the successful relationships. Henley and Nyaw (1986) propose the management of Chinese undertaking is placed within a network of interlocking relationships. Pivotal elements of the Chinese management approach such as relationships and networks are discussed later in this essay. As more significance than in the Europe, the relationships in China gives that managing in China is based on a lack of regulations. Walder (1989) considers relationships as portion of “four facts of life” which he calls in the world of the Chinese manager. These are—cultivation of vertical relations, maintaining a political coalition within the enterprise, satisfies criteria that derive from the enterprise as a socio-political community and develop non-market exchange relationships.

Guanxi, in Chinese culture means “relationships” or “connections”. For centuries, it was the main way of accomplishing everyday tasks and can promote trust and cooperation (www.communicaid.com). It is more like a close association or a personal network of business environment. Building a supportive, genuine relationship founded on reciprocal respect. And for a joint venture, possessing the right *guanxi* is extremely significant for make sure the minimization of conflicts and frustrations that are often befallen. In China, establishing a good *guanxi* will not only bring benefits to the company, but also makes the firm interior operates well. Moreover, Chinese mutative business environment conceal some inevitable risks and barriers. When you get the appropriate *guanxi* network working for you, the risks you’ll encounter will be reduced. That is why *guanxi* is vital to any successful business strategy in China. This element will be analyzed into two parts: inner relationship and relationship with other companies. Both of them are deeply influenced by Chinese cultural environment. *Guanxi* is a formidable concept in Chinese business environment. To obtain the right *guanxi* in China, you must earn the trust and respect of your business partner. Most Chinese business people avoid doing business with people they do not trust. Ostensibly, this does not seem to be much different from the European world. But in reality, the faith on relationship means that before any business take place the European companies have to make themselves known to the Chinese. Besides, the *guanxi* does not simply exist between companies but also between individuals at a personal level. Sometimes, if you like to develop this kind of relationship, you must go out of the way to show the value you can add to the network. It is not just before cooperation, but is an ongoing process. Loose trust or break the promise will destroy the stabilization among the relationship.

3. How to set out on a joint venture with a Chinese company

How the European companies establish the relationship in China? First of all, it starts with and builds on the trustiness of the individual or the company. For the joint venture enterprise, the contract is just like the promise. Do as promise wants, the Chinese would be more inclined to work together again. Second, being reliable exactly increase the strength of the relationship. Just like make friends, you will not betray your friends even in tough times. Third, continual contacts promote understanding. Chinese people often feel obligated to do a good job for their friends first.

In relationship models of Chinese cultural environment, trust is presumably the most common form. The Cambridge International Dictionary of English (1995) defines trust as ‘to have belief or confidence in the honesty, goodness, skills or safety of a person, organization or thing’. In China, trust is the precondition of build the relationship. Trust in the Chinese culture has been described by Fukuyama (1995) as ‘in-group’ trust at the personal level, where as trust in Western culture is ‘system trust’ built up at the impersonal level. And this type of trust is depending on formal, functioning of society, which is differing from the motivation and actions of individuals. We can clearly notify that Chinese trust is interpersonal, while trust in the European business cultural is interorganizational.

Furthermore, another important crux that should be noticed through business interactions with the Chinese is the concept of ‘*Mianzi*’, which can be interpreted as ‘face’ in English. In Chinese business culture, face plays an vital role in some special circumstance, such as negotiation or conference. ‘Saving face’ or ‘loosing face’ sometimes can

make the business goes well or wrong. Roughly speaking, face is a symbol of personal self-respect and forms of the basis of the individual's social status and reputation. Thinking about others face when discuss cases because it can seriously damage business discussions if makes people loose face in the public. In other words, praising the company staffs in moderation can earn respect, loyalty and harmonization.

Thirdly, cultures can be largely different in the extent. From that unformulated and indefinite rules regulate how information is manipulated and how people interact and relate to each other (Hall, 1960). Much of the human behavior is sheltered and implied in the 'high-context' cultures. By contraries, in the 'low-context' cultures, much of the human behavior is observable and explicit. And Hall describes the West as 'low-context' and China as 'high-context'.

From Hall's investigation, we know that in the low-context cultures, the information included in coded, explicit, transmitted messages and are fully spelled out. To the people from the low-context cultures, solving problem means lining up the facts because they attach importance to logic, facts and directness (Wilson, 2005). The relationship between people is easily broken and low involvement. But in the low-context cultures, changes represented easily and rapidly and the distinctions between insiders and outsiders are inconspicuous. The communications between people become straightforward, efficient and concise. That is very different from communications in the high-context cultures.

High-context cultures, take China for example, are intuitive, pensive and collectivist. It is extremely shows that people in these cultures stress interpersonal relationships. Hall pointed out that people in this culture preferring group harmony. So the relationship between people is strong and high involved. People are less governed by reason than by intuition or feelings (Wilson, 2005). That means the speakers tone of voice, gestures and postures becomes more important than the words itself. Communicating with the person, you should recognize his fancy custom and even his family background and status. High-context communication tends to be more tortuous and more formal. In very interesting parlance, when the Chinese people say one word, they can understand ten, while the Westerners have to say ten to understand one. The distinctions build sharp between insiders and outsiders. This cultural pattern long lived and slows to change.

Comparatively speaking, a joint venture is the admixture of this two context cultures. If the enterprise is established in China, the high-context culture seems dominant. And it is crucial for operating in the firm or communication with other companies.

Finally, managing in a Chinese/European joint venture, the leadership traits should also deeply influenced by the host cultural environment. In order to avoid one party dominating the joint venture, establishing a fitting system of management seems necessary. One of the joint venture parties will have to be in a position of negotiating with the employer of another party. In China, aggressive leadership styles will cause failure. The effective communication skills you can use in the company with Chinese business partners are humility. Respecting the colleagues, employees and clients in China is the first step. Sometimes when you admitting you are devoid of some areas knowledge can be powerful in establishing goodwill. You have to find a way to integrate with the host culture.

4. The counterplots for the risks of the JVs

Setting out on a joint venture with a Chinese company can be complex. Either building the relationship with the partner or managing inside the company takes time and mental efforts. The risks and problems are very closely associated with each other. Problems are likely to happen if different cultures and management styles bring on poor integration and cooperation. Why the joint venture enterprises fail in China? Generally speaking, they do not understand the nuances of Chinese business culture. Cultural issues and risk of misunderstandings can impact relations with employees and advisors in the International joint venture. Success in the joint venture depends on exhaustively complete research and analysis of the host culture. From above paragraphs, the Chinese cultural environment has been thoroughly analyzed. From that we can infer some particularly critical countermeasures for the risks of the joint venture enterprise.

First, establishing the uniform values as the important part of the organizational culture in the firm. The culture difference we talked about is mainly about the value culture difference, which is easier to arouse culture conflict. Different culture background has different values. And people always proud of their own culture and regard it as legitimacy. So eliminate this superiority complex seems good for the communication in the joint venture firm. Based on the respect of partner's culture, find the link of both culture and exert the predominance of both cultures, build the common organizational culture in the firm. This can enhance the coherence of the staff and when people working towards the same goal, the element of causing conflict will be neglected.

Secondly, cross-culture cultivation is an effective approach for culture conflict prevention. Solving the problems in the joint venture firm depend on a set of high-quality cross-culture manager. The characteristics of organizational

culture include common language and shared terminology (Morrison, 2006, P195). So the cross-culture cultivation comprises the language cultivation, cultural sensitivity cultivation, cross-culture communication cultivation and cultural adaptability cultivation. Benefit from these cultivations, the staff can intensively understand the culture of the participator. Then they can better involve in the work without disharmony.

Thirdly, localization plays a vital role for the joint venture enterprise. This not only means adapted itself to the local policy, but also means adapted itself to the local cultural situation. Chinese big environment include some especial local situations. The success of the joint venture firm also hinges on whether it fits local cultural environment or not. Use long-term partners, with the resulting awareness of cultural issues. The standardization of multinational parent companies and localization of host countries' practices will make the joint venture firm runs unhindered.

At last, the both sides of the joint venture firm should hold the same developmental target. Make sure joint venture members are not only solid on technical grounds but also maintain a great faith of the foreground. The management of the joint venture should insist on transparency and pursue security for member responsibility.

5. Further thought and Conclusion

The late president Deng Xiaoping's statement is a clear indicator to Western companies, be the same with European firms, before entering China you should understand Chinese culture first. Chinese business action is chiefly concerned with social exchange. In the European/Chinese joint venture firm, cultural exchange between parties helps to avoid conflict and misunderstanding. It also adds to the whole relationship and can be accepted as supporting to a long-term relationship. This paper turns the eyes on the corporate culture of the joint venture enterprise. When corporate culture emerged as a typical management concept, lots of ideas and concepts that linked it into the basic notions of how organizations operate successfully and in particular how they operate in the current climate of unpredictable fast-paced change and fierce competition (Fincham and Rhodes, 2005). It is no doubt that culture fosters success, excellence and innovation of the multicultural companies.

Joint ventures between European and Chinese companies continue to experience high rate of failure. From the above analysis, lack of understanding of each other's manner of business practice can lead to conflict between firms. This paper has examined key elements and discusses the conceivable risks of the Chinese cultural environment, which maybe vital for the success of the joint venture enterprise. However, distinguishing European firms will face with different circumstance. What is clear is that the interaction of the both sides culture occupies a significant status in the business world. We believe that in order to setting out on a joint venture in the Chinese business environment, cross-cultural research needs to take in culture as the actor bonds layer part. Chinese business environment is daedal but deeply based on the cultural environment, which steady continued for centuries. Times are in progress and culture is updating, so research in this aspect will never stop.

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