Chapter 1

Introduction

I. Purpose of the Study

The 21st century will see Chinese culture and economic prowess spread throughout the world faster than could ever been imagined during the 20th century. Like first world countries, China understands the value of technology and has used it wisely in an effort to catch up with the modern of the world. By continuing on this course, China with its vast human resources, stable education system, and, of course, abundant natural resources will be able to utilize technology in such a way as to ensure China’s place as a future superpower.

Deng Tsiao Ping’s 1978 Open Door Policy has guided China successfully, albeit, slowly towards its primary aspiration of economic stability and prosperity. The Chinese government has been very progressive with regards to its economic policies. These policies have allowed Chinese people to pursue economic prosperity. Without the support of the government, China would never be able to take full advantage of its resources which is necessary for any developing nation wanting to compete in an ever increasingly intertwined global economy.

China has received much of the capital and technology in its possession through the efficient use of joint ventures and wholly foreign-owned enterprises. The joint venture is a cooperation between two countries through a partnership of business. More narrowly defined it is the sharing of management, of risk, of

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ownership, and of profit and loss by the participants.\textsuperscript{2} The joint venture is a type of transfer tool. Company A will supply Company B with its required needs and vice-versa. With the case of joint ventures in China, transfers usually involve the western side supplying management skills and technology while the Chinese side normally provides cheap labor, resources, and land. In this way, the joint venture is a useful tool bringing the two sides together in such a manner as to combine their respective resources and technologies such that both can accomplish their common goals.

To show the growing importance of joint ventures (hereafter known as j-v’ s) it can be seen that from official statistics drawn up by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC)\textsuperscript{3} that in 1998 according to the number of new projects being started in China that out of the approved foreign-investment contracts totaling 19,846 there were 8,146 equity joint ventures and 9,674 wholly foreign-owned enterprises and 1999 statistics (just for the first nine months) showed that out of 12,759 new contracts that 5,439 were equity joint-ventures and 6,183 were wholly foreign-owned enterprises. These statistics clearly show the growing importance of foreign participation in the growth of China’ s economy.

This paper plans to examine the role of foreign participation through the cooperative act known as the j-v in the growth of China’ s economy. This paper will explore foreign management in China with a particular emphasis on culture. The foreign manager’ s ability to understand and adapt to Chinese culture can be a significant factor as to whether their projects will succeed or not. Since the j-v has been so influential in the growth of China’ s economy it is only fitting that the j-v be the avenue by which this study should follow.

Much of this paper focuses on Chinese culture and its affect on the j-v and how a better understanding of Chinese culture by the foreign manager can play an essential part in the success of the alliances. Peter Drucker (1982) suggests that in future decades the business world will see a proliferation of autonomous corporate partners linked in a confederation rather than through common ownership.\(^4\)

As these business cooperatives become more prevalent, interactions between the different cultures will also necessarily become more common. Anytime people from different cultures come together problems and misunderstandings will inevitably occur. The j-v is no exception. This would naturally lead one to assume that if a j-v is to succeed the people involved must be capable of understanding the other side’s position and able to incorporate this position within their own plans toward the common goals of the j-v. Within a j-v there is no clear boss. It is a cooperative of two or more people in positions of power with differing goals and positions of thought. With no one company being the owner or sole parent, no one will be in total control, producing a relationship of mutual dependence rather than domination or subordination.\(^5\) Drucker’s theory is very relevant to this paper in that the research embarked on here suggests that managers’ understanding of other cultures and their ability to work effectively in another culture is essential to the success of these confederations.

Although this paper does not examine Human Resource Management (HRM) in detail (focusing primarily on culture and foreign management) it is important that HRM is understood in some detail as it is a vital part of any j-v. Managers must be able to use flexible HRM practices to resolve many of the problems which frequently hinder a successful j-v. Successful HRM programs can also

\(^3\) Ministry of Foreign Trade and Economic Cooperation, 1998, 1999 official statistics, official web site.
assist the West in its drive to influence China’s management style towards a convergence on standard uniformity which is also vital in an increasingly intertwined global economy. Under the HRM heading this paper adopts the view that the processes of industrialization and the spreading of technology will move countries toward similarities. Increasingly globalized competitive market pressures will give firms an incentive to adopt those HRM practices that yield sustainable competitive advantage. The two theories propagated by Drucker (1992) and Kidger (1991) as this paper will show provide a good example of the road China is traveling towards its goal of economic prosperity through flexible HRM and cultural understanding. This paper does not suggest that HRM practices from one culture be totally transposed onto another culture. This would be arrogant and false. What this paper does suggest is that through flexible HRM practices and cultural understanding more firms will adopt practices that will allow these firms to incorporate an HRM system that has more similarities than differences.

Flexibility is key to any successful HRM program and is at the top of the list as a critical factor to successful strategic management. Flexible HRM becomes that more important in China’s ever-changing and volatile economy. Flexibility is defined as the ability to cope with change and continual adaptation to the internal and external organizational environments. Flexibility is critically important in any company’s effort to fully understand the country culture(s) and socioeconomic environments in which a firm operates and is a vitally important factor of the

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strategic international human resource process. With regards to the j-v, oftentimes cultures which are vastly different come together in cooperatives which makes flexibility that much more important. For any firm wishing to be successful in the international arena flexibility must be bounded with a strong foundation, solid plan and a process for the successful integration of the varying ideas that will surely be encountered.

Although the United States is considered by many countries a leader to be emulated in a variety of areas including business, one does not have to look far to see that this is not entirely the case when it comes to the U.S.’ s success within Asia. Cultural differences have made doing business in Asia a very difficult task for many American firms. In this regard, the Americans can learn a great deal from the Japanese. Japan’s proximity within the Asia-Pacific region along with their cultural similarities with the rest of Asia and their ability to incorporate western business practices within their own system give the Japanese a distinct advantage over western firms. To show this, Campbell (1991) has outlined five interlocking parts unique to Japanese owned global organizations. These interlocking parts allow various human resource functions to work together in such a way as to not only produce harmony within the ranks of the workforce but also create an atmosphere where everyone feels they are part of a family with a primary goal of promoting the welfare of the firm in general. These interlocking include:

1) **Borderless structure and bottom-up decision making processes**-

People generally feel more comfortable when obstacles to free-flowing communication are taken down which, in turn, makes it easier for these

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7 R. Miles and C. Snow, ‘Designing Strategic Human Resource Systems’, *Organizational Dynamics,*
same people to communicate their ideas to other members in other departments within the organization. This will naturally make it easier for the firm to extend its ideas to others outside the firm for which it normally deals.

2) **Custodial leadership**- Japanese organizations are masters of instilling into their managers the value and vision of the firm while at the same time pushing them to their limits. This is done in a way that makes the manager feel he is working towards the betterment of the group, which, in turn, benefits the company and the country as a whole.

3) **Human resource management**- The Japanese human resource management system is very comprehensive. This ensures that training, socialization and promotions motivate workers to perform at their very best.

4) **Incremental planning and control**- Don’t grow too fast, make the best product found anywhere and after the best product is made find new ways to make that product even better. This should be the Japanese business motto. Planning, strict quality control and excellent service have shaped the modern Japanese firm.

5) **An extended family model**- The Japanese view the firm as an extended family and, as such, reward those who are loyal to it.

People both in developed and underdeveloped societies throughout the world spend a good deal of their lives at work, therefore, it is only natural to assume that these same people want firms to take an active role in their lives. Along the same lines, it can be said that if the firm takes care of the worker, the worker will, in turn, be loyal

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12(2), (1984a), pp. 36-52.
to the firm. The Japanese have proven by their economic success throughout the world that their HRM system is not only a practical way of managing a firm but is also highly effective in maintaining the long-term success and health of everyone involved with it. This paper suggests that with regards to HRM, the Best Practice Model which most characterizes what the Japanese have incorporated within their system would be the best model for helping foreign ventures in China succeed in accomplishing their goals.

The best practice model suggests that those organizations which have incorporated similar HR policies have also been the same companies which have been better able to adjust and adapt to their new environments. Although there are “no best ways” to manage people several similar elements are associated with this model and when used in conjunction with items outlined in a 1994 study by Pfeffer it can easily be seen why there is so much fluidity within the Japanese global organization. Pfeffer study describes various strategic management practices that can be used to support a model such as BPM. Below are outlined some basic tenants of this combination. For easy reference A will be the designation for the Best Practice Model and B will be the designation for Pfeffer’s 1994 study “What effective firms do with people.”

A

Well developed internal labor market arrangements
B-careful selection process in recruitment
B-high investment in training and skill development
B-elimination of status symbols
B-promotion from within
B-a long-term perspective
B-measurement of HR practice and policy implementation

A

Flexible work organization systems and performance-based and/or skilled-based compensation practices.

B-higher than average wages
B-employee share-ownership plans
B-financial incentives for excellent performance
B-a more compressed distribution of salaries across and within levels

A

High levels of teamwork and employee participation in task related decisions.

B-work organization practices that motivate employee effort and capture the benefits of know-how and skill
B-work organization based on self-managed teams
B-having people do multiple jobs and job rotation

A

Extensive internal communication arrangements.

B-extensive information sharing
B-decentralization of decision-making and empowerment
B-a coherent view of the employment relation

Although these practices are fairly basic they have shown to be stable over time. For the Japanese, incorporating workers into a finely tuned, highly effective and flexible team goes hand in hand with Asian thinking in general which stresses group-mindedness and obligation. The best practices model also stresses many of these same basic principles. If the Western partner in a j-v can learn to utilize these elements in an efficient manner it will not only show that the western side is flexible but it will also show that they are ready and willing to accept the other side’s views.

II. Cultural Differences between the Asia-Pacific Region and the West

Anyone who has traveled outside their own country quickly realizes that many of the values that they take for granted in their own country are just not followed in other countries. The same can also be applied to business. Organizations wishing to set up shop in other countries more often than not fail to realize how important understanding culture is. Americans often assume that they are always in the know. Armed with modern management techniques and great discretion with regards to important decisions good managers are looked upon as leaders who can lead an organization to success. Within one’s home country this may work well but for the manager filling an international post he must along with being an effective leader be flexible enough to fill the shoes of a student. To effectively manage peoples’ from

pp. 43-52.
other countries one must understand the culture of the people in question. The
effective management of the cultural differences can be the difference between
success and failure of the business.

The difference between Asia-Pacific culture are vast but probably the one
aspect that stands out most prominently would be the individualism/collectivism
dimension which sees all Asian/Pacific societies as collectivist or putting the interests
of the group first (group-minded) and all western societies as individualistic.\(^9\) This
collectivist attitude pervades Asian culture. Asians prefer to do most things as a
group be it eating, traveling, entertainment, etc. Westerners, on the other hand, are
just as comfortable doing all these same activities by themselves. Since this
distinction is so great between our cultures it is essential that the foreign manager try
to associate himself more within a group orientation. When invited to group functions
or when working with his work units the manager should do the best he can to
identify himself with the group. Understanding more about groups and group-
minedness will make both himself and the other members of the group feel more at
ease. The manager, in particular, must understand that he is not dealing with
individuals only, he is dealing with individuals within a group where the interest of
the group takes precedence over the sole individual. The manager may think his
decisions are directed at one person but in reality they are directed at the group. He
must always think group.

Delving further into collectivist thinking it can be seen that any one person’s
thinking will be molded around particular groups which, in turn, directs how that
person interacts with his/her environment.\(^10\) For instance, the Chinese take the family
as the core which everything else surrounds, whereas, the Japanese see the work

group as most important. These, in turn, strengthen the group identity. Using the group as a base, it should not surprise the foreigner that the interest for group well-being extends well beyond the family or work-group to virtually all other interactions that the individual may be involved with. For the Westerner, the separation of business and friendship is common which helps the manager remain rational and objective. In this way the western manager avoids any conflict of interest with regards to his business dealings. For instance, he is not bound by obligation to purchase goods from an associate who may also be a friend. In the same situation in Asia the manager may be bound by obligation to purchase from a friend even if the quality is sub-standard or prices are higher. Keeping harmony within his group is far more important than the product itself. Producing new products is easy, building lifelong relationships is much more difficult.

Within Asian-Pacific societies lifelong friendships/relationships grow with mutual obligation as its foundation. For many foreigners this is hard to understand as we, in the west, make and discard friends with ease. These lifelong relationships, in turn, grow into powerful alliances which ensure member loyalty and the future interests of the group as a whole. For the foreigner, these relationships and the powerful alliances which grow from them are seen as a threat to rational and objective decision-making. This is certainly the case if the western manager does not have a clear understanding of the culture and organizational culture of the country where he is working.\textsuperscript{11} Here, the rational and objective decision making spoken of is based on a western point of view. The reader must not assume that the West is the sole keeper on what consists of as rational and objective thought. Western thought takes the


interest of the individual as the primary motivator of what decisions will be implemented and which will not. In the East, group considerations are looked at as most important when decisions are made. This is worthy of noting as this point alone is the starting point for which all decisions will finally be made. Putting the interests of the group first is not an inefficient way of organizing one’s thought pattern it is just a different way. Westerners have assumed that just because the 20th century has blessed them so well that they must be doing everything right and everyone else must be doing everything wrong. We must not forget that China has one of the longest surviving civilizations on this planet with many great successes and equally great failures. Civilizations should never assume or take anything for granted.

III. Understanding Chinese Culture throughout Chinese Society

With more than five thousand years of history behind it China has surely learned great many thing from a great many men. Probably the most recognizable of these men with regards to shaping Chinese thought patterns and value systems would be Confucious. Confucian principles such as strong work ethic, self-discipline, hierarchy, obedience, familism, thriftiness, flexibility and adaptability have not only shaped solid foundations for which many generations of Chinese have lived by but have also been an important guide driving modern economic successes throughout Asian societies, particularly the so-called Little Dragons: Singapore, Hong Kong, South Korea, and Taiwan.

The Confucian principles have successfully instilled into the Chinese psyche an obligation toward the group and to strive towards a commonality where hierarchy, obedience and self-discipline ensure that the interests of the group are maintained. But not every Confucian principle has been successful in ensuring that
the groups interest are guaranteed. Within a every chain there is a weak link.
Within Confucianism, familism seems to be that weak link. In any society with a
feudalistic history, change is slow and remnants underlying these societies such as
nepotism, clan mentality and favoritism die hard. For some people no amount of
preaching can stop some from embarking on activities which will surely undermine
the trust of the people. For many in China, familism has been a major modern
problem creating nepotism. This nepotism has found a natural home within China’s
huge bureaucracy. This has, in turn, led to major civil discontent.\textsuperscript{12} It can be seen
that every system has its flaws. That is where flexibility and adaptability serve
their greatest purpose. The Chinese are experts at adapting to new situations which
is one of the reasons why Chinese culture has survived for so long. This same
adaptability has allowed the Chinese to assimilate themselves so successfully
throughout the world.

Chapter II

I. Inside Chinese Culture and its significance to Economic Success

Understanding the Chinese as has been discussed with regards to Confucian
thought helps one to understand how the Chinese go about their daily lives. For the
purpose of this discussion, Chinese behavior within the organization will be analyzed.
As has been discussed previously, much of Chinese behavior is guided by Confucian
principles. One can not overstate the importance of these principles in Chinese
society. To help the reader understand more in detail Chinese behavior, Lockett\textsuperscript{13} has
further elaborated on the Confucian principles by stressing the Chinese respect for age
along with hierarchial position; group orientation with an emphasis toward the family;
and the concept of face which one must be concerned with at all times.

\textsuperscript{12} Zheng Xian Wang, Feudalism & Chinese Enterprise, in N. Campbell (ed), \textit{Advances in Chinese}
The protecting of one’s face and giving good face oftentimes manifests itself in the Chinese orientation towards indirectness and ambiguity. People tend to avoid conflict and are usually courteous towards each other. You never know when you may need that person’s help. In the West much less emphasis is placed on the concept of face. This difference in attitude can cause many problems for the foreigner in China. For Chinese, losing face can have devastating effects regarding one’s position in society. Oftentimes, foreigners are careless and insensitive to the concept of face. This carelessness can affect people’s lives in ways that foreigners could never imagine. One must remember to respect all Chinese that one meets. Never belittle Chinese people in front of others and never make fools of them just to make a point. If the foreign manager acts with no regard to face he will be the one that suffers the most in the end. Remember, you are dealing with the group not the individual. A mark against the individual is a mark against the group.

Within the group framework mutual obligation plays a prominent role. If one person helps another it is assumed that some time in the future the favor will be returned. Over time, these mutual obligations become so ingrained in the fabric of life in China that without it conducting business in China would become very difficult. Networking and mutual obligation in China is so extensive that there is really no need for contracts among people. Loss of face and other consequences associated with not fulfilling one’s obligations are severe enough as to ensure successful mutually beneficial outcomes. For such relationships to last over the long term there must be balance and harmony. Like a successful marriage, members within a group must not be quick to jump to conclusions or assign blame without first evaluating the situation and seeking solutions which avoid conflict and allow everyone to benefit.

In the West the situation is reversed. Contracts are the bedrock of any formal relationship. With the role of the law playing such an important part in Western society it is not unusual to see that the need for harmonious relationships taking somewhat of a back seat to the contract. But as more and more Westerners do business overseas they are quickly realizing that the contract does not always reign supreme nor is it always the best way of accomplishing goals. The mainland Chinese play by a different set of rules with the contract playing a lesser role than in Western societies. For the Chinese the contract really means nothing. It is just a piece of paper. The relationship, on the other hand, is everything. Even if there is a contract the Chinese will definitely expect the foreign side to be flexible allowing for frequent changes within the contract. This should not make the foreign side frustrated. Remember this is a relationship, if one side adheres to the wishes of the other now, they can, in the future, negotiate other points of the contract on their behalf. In a developing country like China, where anything can change at a moments notice this can be very advantageous to both parties.

**Guanxi**

No one concept exemplifies the relationship within Chinese society better than guanxi. Bond (1986) translates guanxi as personal connections and relationships. Every concept or system has its good and bad points and the concept of guanxi is no different. While guanxi assumes strong friendships and long-lasting relationships, like familism, within societies like China where there is no effective legal system it becomes a tool by which nepotism, cronyism and bribery thrive. Understanding the consequences of this unbridled use of guanxi China has through specific specific economic reform policies instituted responsibility systems which stress stricter

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definitions of responsibilities down to the individual level. To help implement this responsibility system the Chinese have actively imported foreign management methods.

Basically, China’s situation is not unlike most developing nations which lack proper legal systems and infrastructures. Connections are used in some form or another in all of these countries as a bridge to solve problems which arise from inefficiencies within their respective systems. This is a natural and effective way to solve immediate problems. The problem is that the more guanxi is used the more it is relied upon which, over time, makes official change that much more difficult to institute. This further de-emphasizes the role of the official resource allocation system causing great stress on organizational performance especially during periods of economic reform which China has been engaged in over the last two decades.

Negotiation

Understanding and possessing guanxi is only one part of the puzzle in any manager’s quest to effectively cooperate with the Chinese. After one has spent the time developing the necessary connections needed for any business alliance along with being introduced to the “right” people he must then embark on a long and arduous negotiation process which Perlmutter (1983) calculates can use up more than half of an international manager’s energy and time.15 Realizing that clashes in reasoning are inevitable it is logical to assume that the international manager must take on a role as a type of cultural attaché. Before taking on any assignment in a

15 Perlmutter, H. ‘More than 50% of international managers’ time is spent in negotiating—in interpersonal transaction time in influencing other managers’. Statement made at the Academy of Management Meetings, Dallas, Texas, August 1983, p.15.
foreign culture he must, to the best of his ability, understand the foreign culture and be able to see himself as if he were on the other side.\textsuperscript{16}

Since the cultures of the East and West are so vastly different any successful negotiation must have common ground. Understanding the thought processes of your opponent is essential if conflicts are to be understood and dealt with properly. The reasoning behind inevitable conflicts must be understood before proper action can be taken to resolve them. Without a full understanding of your opponent’s reasoning processes, which are based on cultural values, one will never understand the motivations driving your opponent’s behavior. For Westerners, efficiency is essential in any successful business operation and, as such, the primary focus behind reason becomes the search for the most efficient means to attain any given goal. The Chinese, on the other hand, following their belief in harmony and thoroughness\textsuperscript{17} at work see reasoning more as a process which not only pursues appropriate methods for realizing goals but also the ends to be sought. Here two basic cultural differences can clearly be identified. One is the Westerner’s quest for individual profit which again proves our individual nature and second is the Chinese need to examine any situation in its entirety focusing primarily on how it will affect the group as a whole. While at the same time using a consultative process of bargaining as a base to any decision-making. This ensures that all the members of the group are represented and also gives the opponent an opportunity to evaluate the advantages of joint-problem solving.\textsuperscript{18}

With consultative bargaining, the group is greatly involved in decision-making. This may seem very inefficient to western observers. Western negotiators, by contrast,

are entrusted with far greater powers and can, for the most part, finalize deals on the spot. In the Chinese case, for any joint-decision making scenario to be successful a type of holistic view must be incorporated within this arena. Negotiations are structured around scenarios as a whole and are used as a tool by which each party can show their point of view in a way that allows them to jointly solve problems such that both parties benefit. This can only be done if the manager has the necessary skills to be able to expand his rationale to include that of the Chinese. With further regards to negotiation, the manager must understand its rationale.

Chinese negotiating style takes a holistic, collaborative gradual approach. The Chinese are masters of the waiting game. This oftentimes frustrates their western counterparts so much that they decide to leave the negotiations altogether. Or they make the equally devastating mistake of giving into demands they should not give into just to clinch a deal quickly. If the Chinese side is sincere about closing a deal and not just using prolonged negotiations for the sole purpose of getting more out of the other side, negotiations can be mutually beneficial for both sides. Experience along with good information on the firms and partners involved is the best way to tell whether the former or latter is taking place.

To understand the Chinese and what motivates their behavior is to understand the group and group mentality. Negotiations are no exception. Problems associated with negotiations are handled in a group situation with mutual benefit as its goal. In line with the holistic view, the Chinese negotiation style stresses unanimous rule

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whereby everyone benefits\textsuperscript{22} and focuses on the long-term viability of negotiations rather than on its short-term implications.\textsuperscript{23} Probably one of the most confusing aspects of the Chinese negotiating style revolves around the fact that Chinese negotiators feel very comfortable discussing several issues at the same time, whereas Western negotiators like to take each point in turn.\textsuperscript{24} Chinese negotiating style can be viewed as a microcosm of Chinese thinking in general. For many incoming managers the negotiating table is the first place where he discovers how different westerners and Chinese really are. The western manager must remain calm at all times and never show his frustration. If the Chinese see his impatience or fear they will know he is anxious or pressed for time and will wisely use this knowledge to their advantage to seek concessions.

When dealing with the Chinese the western manager must realize there are no short cuts. Anything solid is based on long-term commitments. From the very beginning he must give the Chinese this impression. The manager should enter negotiations knowing he will be there for a long time. This is an excellent way to earn respect from the Chinese. Negotiating does not end when deals are signed. As a China manager you will constantly be in a position where you will be revising, changing or negotiating something. Make this part of your integrative bargaining strategy with the goal of mutual benefit. Integrative bargaining for mutual benefit is give and take. This is all part of bargaining, keeping in mind that throughout their relationship both parties benefit mutually.

II. Understanding the Chinese at Work

From the discussion so far it should be clear that Chinese life centers around the group, whereas, the westerner views individualism as central to understanding one’s identity. At the head of the Chinese collectivist structure is a patriarchal leader from which all others in the group fall under. Hsu\textsuperscript{25} in his 1955 work “Americans and Chinese” puts this in better perspective by stating that:

The pattern of cultural dependence directs all to seek their security through persons, through the alliances of superior and subordinate. This means further that when seeking a resolution of difference, the tendency is to compromise rather than to adopt an all or nothing position. ...The individual’s true identity is not to fight with the owners and managers for higher wages or better working conditions, but to achieve these by joining their ranks or influencing them through family connections, friendship, and neighborhood or communal ties.

This passage from Hsu shows how prominently the role group identity plays in shaping Chinese thought. If you win the hearts of the group anything can be accomplished. When it comes to human relations, the Chinese are extremely flexible and understanding.

The Chinese thirst for life and knowledge has allowed Chinese personality and behavior to remain accepting of change and conscious restructuring. This is one of the reasons why China is able, under a communist regime, to develop a market-style oriented economy. This is a very complicated manifestation of the use by the Chinese of coping strategies. These coping strategies come in many forms from just simply relying on one’s self or asking help from others to asking help from the supernatural

or just do nothing. The most logical ploy, of course, would be to work within a group (asking help from others) to accomplish necessary goals. But at closer examination of Hsu’s statements it may be that an agreement was reached not because of an overwhelming urge to work within the collectivist group but more so as a result of the individual’s willingness to reconcile with authority. From this example it is very difficult to say which is the case. The important point to note is that group orientation is very complicated and directs every individual’s life. It doesn’t matter if the individual or the group is seen to be reconciling with authority or manipulating the situation. In the end, it is everyone together, in the group, that has the final say.

More evidence to show that the Chinese are very adept at coping can be seen in overseas Chinese. Overseas Chinese have developed a unique multi-dimensional feature in that while they have successfully taken on many western individualistic traits with regards to their career paths they have, at the same time, continued to develop traditional network systems that so identify Chinese business culture. The western manager could learn a lot from this new breed of Chinese. If they can successfully integrate our ideas why can’t we theirs? Western thought, of course, is free but what hinders us is our arrogance. We have become so successful we have forgotten what made us successful. Open-mindedness and flexibility are essential factors to any successful undertaking. The next generation of managers will have the open-mindedness and flexibility to adapt and function successfully under varying conditions within any culture.

China’s economic culture is, of course, vastly different from what can be seen in western industrialized countries. One of the biggest difference lies in how enterprises are managed. One of China’s greatest problems in modernizing it’s

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enterprises can be found in the work of work groups which has consistently proven to be inefficient producing poor quality products.\textsuperscript{27} Many foreigners entering China get the impression that the Chinese are lazy and inefficient. This is, of course, not true as can be seen with many successful Chinese both in China and outside. Living under a Communist system can be very difficult and frustrating for many. To help them cope with their stresses and frustrations many Chinese follow the values espoused by Buddhism, Taoism and Confucianism which stress that the solution to the problems of life is to seek freedom from selfish desires and not be disturbed by incoming impressions or allowing what is already in the mind to disturb what is coming into the mind-hence the notion of emptiness.\textsuperscript{28} This has been a type of coping strategy which has allowed many individuals a way to vent their frustrations but has also led many Chinese to take on a passive approach to human behavior. Under a communist system where all the individual’s basic needs are looked after many find it difficult to keep motivated which leads to much of the frustration and disappointments found in China. Although much of this religious belief seeks to instill in people the necessary skills to live in a harmonious environment, frustrations, disappointments and despair are still prevalent among the Chinese.

Communism seeks equality but in reality people are not equal and every individual seeks his own aspirations. To stifle this only destroys the human spirit. Confucious believed that human personality and behavior are open to change and conscious molding. This can only be done in an environment where people are allowed to find their own way. The overseas Chinese have found a good balance which incorporates both the freedom to pursue their own goals while at the same time

\textsuperscript{PsychologicalTaiwanica} 19, (1977), pp. 61-73.
maintaining certain aspects of their traditional culture to ensure harmony throughout their lives.

The only way harmony can truly be maintained within groups is for the members within that group to realize that without the group nothing can be accomplished. Everyone within the group must feel they have a purpose and that they are useful to the group as a whole. No one person is more important than another. Everyone has his place. In order for this to be realized a “minimal self” must exist which is a pattern of thinking that de-emphasizes self-desire and importance while at the same time instills awareness of others. This, in turn, allows for increased social integration of the person with, for our purposes, the individual’s network at work and also extends to others in his family and non-work areas.29

Maintaining harmony for Chinese all over the world is integral to their life plan and any manager planning successful operations on the mainland had better plan on spending a good deal of their time within this arena. The manager must become an expert on Chinese conflict management. In the West, angry outbursts are common, whereas, in Asia, these same outbursts are actively discouraged in the interest of the group. The western manager must understand this and learn to manage conflicts which are often unseen but lie seething below the surface. A thorough understanding of the culture is one way to tackle these problems. But this is usually not enough. The western manager must see the problems as a Chinese manager would. From our discussion so far it should be clear that a Chinese manager would place harmony high on his scale of values and would do just about anything to avoid conflict. Conflict

being a behavior which only seeks the advancement of one party’s interest in his relationship with the other party only disrupts relationships.  

When examining how the Chinese manager reacts to conflict situations the western manager must always keep in mind how any action will affect the group and harmony within the group. To ensure the interests of the group are maintained and conflicts don’t get blown out of hand Chinese managers often employ several tactics which include compromise, avoidance and accommodation. These non-confrontational responses when used properly are all very effective. When employing the compromise tactic the manager banks on the fact that when he gives he will in turn receive. Empathizing with the other side also runs along these same lines showing your counterparts that you are willing to listen to their position. This weakens the other side’s position and makes them more forthcoming. Avoiding conflicts can also strengthen one’s own position in that this allows time for one to better understand the other side. Managers employing these tactics in the west would surely be looked upon as weak. Tackling problems head on and directly are the norm. In China, though, the successful use of these same tactics is seen as necessary if one is to smoothly resolve conflict situations.

For the Chinese manager compromise is central. In China, win-win scenarios are the rule not the exception. Win-lose scenarios are unacceptable and should be avoided at all costs. Why shouldn’t everyone benefit from negotiations? Win-lose situations only destroy relationships and create resentment among parties. A take charge attitude will get the western manager nowhere. The western manager must show he truly cares about his future relationship with his partner and be willing to

sacrifice in the interest of that relationship. Only in this way can he really get the respect and loyalty he will need for his operations to be successful.

III. Chinese versus Western Decision Making

Managers in every country are not only in a unique position to drive their respective country’s but are also situated such that they can educate and motivate employees to be efficient and loyal to the goals of the company. How this is done depends on the culture in question. With the east and west being so different in their decision-making processes it is understandable that an examination of this very important aspect of business management be carried out in some detail.

The Chinese make decisions based on patterns which were created in the past. Whereas Chinese decision-making is past-oriented, western decision-making is future-oriented. The western manager examines all the outcomes of actions of a situation then chooses the action most likely to have the best consequences. This is a very direct and sequential approach. The Chinese, on the other hand, view the manager’s motives and intentions as most important.32 The western manager can choose any action that will increase the bottom line. The Chinese manager, by contrast, must work for the interest of the group, otherwise, he may be perceived as working in his own interest.

China’s planned economy makes it easy for the Chinese manager to continue to base his decisions on patterns developed in the past. There is no need to expect that anything drastic will happen in the near future. Although change moves at a slow pace in China it is inevitable. The changes coming about from economic reforms have gradually began to influence and redefine the Chinese manager’s role. As China becomes more interwined economically with the rest of the world its managers must
become more future-oriented. They must view the decision-making process more in a sequential or repeated patterns such as is found with economic cycles. Only in this way will future Chinese managers be able to foresee and react to situations common to market-oriented societies. In China, where there are over a billion people it is important that the needs of the people be taken into account first. Failing to do this would surely cause economic as well as political instability. With so many people relying on their government to provide them with their basic needs it is not surprising that the Chinese manager is an expert at negotiation and compromise on the behalf of the group. For the Chinese manager, making decisions are probably the most difficult tasks he must undertake. Making the wrong decisions could adversely affect the group as a whole. This ensures that every angle of any issue is thoroughly examined before any decision is made.33

Oftentimes it is difficult for the Chinese manager to give a clear yes or no to any particular action. This should not be construed by the western side as laziness or lack of interest. The Chinese side just wants to ensure that enough thought has been given to any one decision and its affect on the group as a whole. Understanding this by the the western side would alleviate much of their stress and frustrations. What seems like a simple yes or no given by a western manager can be a monumental struggle for his Chinese counterpart.

It must be stressed that learning about another’s culture should not only be the goal of a manager it should be the goal of the company as a whole. There are a great many managers that, through time, successfully integrate themselves in the culture they have entered but still remain frustrated. This is not due to their lack of

understanding of the culture but to their own company’s ignorance about the culture they are engaged with. It does a company no good to send a person to China and expect that person to be successful without the continuing support of the company. The only way to ensure this is for all the participating members in the head office dealing with the other country to be knowledgeable of the culture in question and the problems normally associated with it. Several trips to the country in question by these key people will also help open their eyes to many of the real problems their manager there must face. Too often, people in the head office find it hard to believe that any one country could be so difficult to conduct business in. These people can be especially dangerous to sensitive relationships in the beginning. All managers dealing with China, both in China and the head office, must be sensitive to the delicate negotiations and special relationships necessary to ensure all networks connecting all participants remains strong and stable over time.

Chapter III

Comparative Management

I. Differing Viewpoints

It is important that all managers seeking to be successful in other cultures have a clear understanding of comparative management. Comparative management represents movement away from the traditional focus on a universal organization and management toward seeking patterns of relationships in various settings. It seeks to develop a conceptual framework for the explanation of managerial similarities and differences across cultures. Four models have been outlined for the purpose of this analysis.

1) Economic Development Model – This model is best represented by Harbison and Myers (1959) whereby they hypothesize that there is a universal logic
behind the process of industrialization of all nations, which develops through four stages: from an agrarian-feudalistic, to an industrial-democratic system. From this model, it can be seen that as industrial development begins to narrow, managerial philosophies and practices are expected to become more familiar. It can not be forgotten, however, that culture and environment will have a strong impact on managerial behavior as well as on managerial and organizational effectiveness at least for some time.

2) Environmental Model – This model, developed by Farmer and Richman (1965) sees culture as an important variable influencing managerial effectiveness. This model is relevant in the sense that it can improve an organization’s awareness of the cultural impacts on the performance of individual employees and groups. This awareness can, in turn, help any multinational avoid unrealistic expectations on culturally different local employees or create an appropriate stratagem to overcome cultural constraints.

3) Behavioral Model – Representatives of this model include S.M. Davis, G.V. Barrett and B.M. Bass (1970) who all espouse that management practices and effectiveness depend on cultural variables such as attitudes, beliefs, value systems, need hierarchies, etc. To break down these categories in more detail (Davis 1971, Barrett and Bass 1970) emphasise operationalized cultural variables and divides them into three different categories: A) national character contours, which are related to specific organizational

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behavioral variables; B) attitudes and perceptions of managers regarding key management concepts and activities; C) prevalent beliefs, need hierarchies and value systems in a given society.37 These attitudes, beliefs, value systems, hierarchies, and managerial practices do vary from culture to culture, therefore this must be taken into consideration when management practices are transferred between different cultures.

4) Open Systems Model – This model, developed in the 1970’s by Negandhi and Prasad (1971) argues that if environmental and cultural factors were the main determinants of management practices, the management practices of two comparable business enterprises in the same culture should be similar to each other.38 Along with external factors and culture, the management process is also dependent on management philosophy which is the management’s attitudes and beliefs regarding governments, community, consumers, distributors, supplier, employees, and stockholders. Management philosophy can differ from culture giving it considerable influence on the management process and effectiveness.

In every one of these models the understanding of another’s culture is essential for success with the management processes, systems and philosophies based on culture and not separate from it. The study of different management systems not only allows the manager to understand other cultures better but also can improve the understanding of one’s own culture which, in turn, helps to develop sensitivity toward the diversity involved in international exchanges. This is an absolute necessity for

running a successful operation in another culture. For the purpose of this study, the cultures to be examined involve those concentrated in the Asia-Pacific region, in particular, Chinese. Since culture is so important to every aspect of this paper and due to the fact that it is difficult to define it is important that culture be defined appropriately with regard to this paper’s purpose. Culture can be viewed as a collective programming of the mind which distinguishes the members of one human group from another and the interactive aggregate of common characteristics that influences a human group’s response to its environment. In the business arena it is up to the manager to use his skills as a leader along with his understanding of the local culture to make decisions which will effectively motivate and unite workers to accomplish set goals. For the manager to survive he must adapt to the local culture as well as to its corresponding work situations.

II. Asian Management Systems

Japan and South Korea

For the western manager, adapting to the local culture is only the first step in his integration within the local culture. His next step will be acquainting himself with the particular management style he is involved with. Although the three major management systems examined in this study benefited from their long relationships with Confucian thought, they have, through their own diverse histories managed to develop quite different systems. These three management systems include: Japanese, Korean, and the Chinese family business. An examination of these systems helps the manager understand the underlying differences in the management styles found in the Asia-Pacific and the West. Although the management styles found in the east are

quite different than those encountered in the west, some countries, most notably Japan, have used their unique systems to build highly successful economies.

Both Japan and South Korea use large business groups known as keiretsu in Japan and chaebols in South Korea to drive their respective economies. The keiretsu and chaebol are similar in that they are very large and sophisticated. The keiretsu are heavily interlocked, self-financed and have extensive networks not only in Japan but also throughout the world. The chaebol, on the other hand, is very closely linked with the government for which it also relies heavily on for much of its financing. Another major difference lies in the fact that while the keiretsu is now run by professionals, the chaebol is still run by founding family members. Although these systems are similar in many ways and have both been instrumental in making their respective countries economically prosperous, the keiretsu still remains the more successful of the two. The chaebol relies too heavily on the government for support and as such the government has too much influence over decisions undertaken by management. True flexibility is also undermined by the fact that founding family members still control decision-making processes.

As we look toward the 21st century, it can be seen that the Asian economies will continue to develop at an average rate higher than that of the world average. For this to be done successfully Asian management systems will have to continue to be flexible and willing to accept change. This does not mean that Asian economies must blindly accept western management approaches to be successful but rather to borrow relevant strong points to supplement one’s own system. To further understand the
differences between Western and Eastern managements styles Waters (1991) has outlined several major points:

<table>
<thead>
<tr>
<th>Western</th>
<th>East Asian</th>
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<tbody>
<tr>
<td>1) Hierarchial, egalitarian command, segmented concern</td>
<td>1) Free-form command, roles loosely defined, holistic concern</td>
</tr>
<tr>
<td>2) Professional managers, position related to function</td>
<td>2) Social leaders often with high-sounding titles for low-ranking jobs</td>
</tr>
<tr>
<td>3) Particularism, specialized career path possibly with rapid evaluation and promotion, individually oriented</td>
<td>3) Non-specialized career paths, slow evaluation, regimented promotion, socially-oriented</td>
</tr>
<tr>
<td>4) Decentralization of power</td>
<td>4) Centralization of power</td>
</tr>
<tr>
<td>5) Mobility</td>
<td>5) Stability</td>
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<tr>
<td>6) Diversity</td>
<td>6) Unity</td>
</tr>
<tr>
<td>7) Direct approach</td>
<td>7) Indirect approach</td>
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</tbody>
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40 D. Waters, *21st Century Management: Keeping Ahead of the Japanese and the Chinese*, (Singapore: 32
8) Systematic analysis, standardization, categorization, classification, conceptualization, adaption, precision

9) Long-term set planning

9) Often lack of formal set planning, high flexibility in adjustment

10) Explicit control mechanisms

10) Implicit control mechanisms

11) Organizations and systems adapt to change

11) Leaders/Managers adapt to change

The above chart clearly shows that there are distinct differences between the management styles of the east and the west. At the same time, in an ever increasingly intertwined world economy things do not remain the same. To remain competitive the new breed of manager must be flexible and able to accept change. The chart is only used to show where the differences lie. Many Asian countries have borrowed various western organizational concepts which have, in turn, helped Asian businesses become better structured. The western manager must be able to examine the differences between the systems and find ways to bridge these two systems in such a way as to make the new organization highly efficient and profitable, at the same time, not displacing and/or alienating the workforce. Not every organization on the

mainland that the foreign manager will be involved with will be accepting of western practices. This is why the western manager must be a skillful negotiator with compromise as the primary facilitator towards goals that benefit all. No one system could possibly be right for every culture, therefore, compromise must be found along the bridge that connects the various systems.

**Chinese Family Owned Business**

The last format but probably the most important one for our discussion describes the Chinese family business or (CFB). By studying the CFB, the foreign manager can get a better understanding of how the Chinese can, through flexibility and extensive networking, build successful operations that go well beyond the limits of their small sizes. Simplicity seems to be the key. These operations normally only have one owner and can be found in fields like property, trading, and simple manufacturing which do not require huge sums of capital or extensive hierarchy structures within the organization.

The CFB can be seen as comprising two parts. One includes only family members. The other part is a kind of extended business format in which people outside the family are brought in. In the CFB, family members hold top managerial positions while non-family members fill secondary roles and have no decision making authority. With the family retaining the dominant position in the CFB many values attributed with Confucious come into play. Within the CFB, values such as paternalism, hierarchy, mutual obligation, responsibility, familialism, personalism, and connections reign supreme.\(^{41}\) This ensures loyalty within the CFB. Under this system, while each member of the family must contribute his earnings to the common fund, he also, at the same time has a right to part of it.

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The CFB’s management style is guided authoritarian leadership where the boss controls employees by limiting the amount of information they receive. The boss is always in the know and in control while the employees are made dependent on him. Basically, the employee does exactly what he is told because he does not have enough information to do otherwise. If the employees within any CFB wish to be successful they must not only possess the skills needed by the CFB, they must also be highly loyal to top management. These individuals are gratiously rewarded at the end of the year in the form of bonuses. Although loyalty ensures future employment with the CFB it also has a down side. When your loyal to someone, you always want to be on their good side. This oftentimes clashes with good management techniques. Loyalty suppress the creativity of many talented middle and lower level managers within CFB’s which, in turn, leads to frustration among these managers and high turnover rates for the CFB. Their dismissal is not as bad for the manager as it is for the CFB because whenever top management loses a talented manager they lose ideas. In today’s highly competitive business environment one must stay ahead of the competition. Top management in any organization should never provide working environments which make employees feel they can not express their own views and ideas freely. Despite the fact that many professionals feel frustrated and stifled within CFB’s, with as many as 50% in Taiwan alone transferring out every year, CFB’s remain fundamental economic units within Chinese societies.

CFB’s are very flexible and use their extensive connections to transcend their small size to move very efficiency within the global community. The CFB’s authoritarian leadership style allows the boss to control all vital information ensuring

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loyalty and cohesion within the group. The CFB’s small size, authoritarian leadership style and simple structure is perfect for non-complex industries such as retailing shipping, property or banking. Problems arise when CFB’s try to expand into one or more businesses and their centralized management systems can not or are unwilling to compensate for the expansion by diversifying or delegating management authority to other non-family members. Trust and loyalty runs both ways. If top management can not trust employees then successful expansion of business operations within different fields becomes very difficult. Within the CFB structure, where qualified people outside the family seldom enter the ranks of top management it is not surprising that the CFB rarely survives more than 100 years. As long as the CFB remains small and within one field as mentioned above it has a good chance of succeeding.

In the CFB, business connections fill the gaps left behind due to its small size and limited resources. These connections are generally very solid and help the CFB’s remain highly competitive through flexibility. Flexibility not only in the CFB’s use of connections to compensate for small size but also with regards to it’s authoritarian style of management which is well suited for quick decision making. Losing a talented manager may hurt the CFB a little but losing a solid connection could be devastating to your business. For the CFB, maintaining connections is of utmost importance. To give the manager a better perspective of the difference between in Eastern (E) and Western (W) management theories, several important points have been outlined by Montague-Pollock.

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(E) companies perform their best when they stay small because they can benefit from economies of scale

(W) larger firms are competitive

(E) the business tycoons leading Asia’s revival have no regular management training

(W) management development is the key to raising company effectiveness

(E) it is dangerous to delegate authority to subordinates and employees

(W) the CEO should delegate management authority to subordinates and employees

(E) stability and consistency are important

(W) a new leadership is needed every few years to revitalize the company

The above primarily discusses the basic Chinese business unit employed by overseas Chinese, those Chinese living outside of mainland China. The way the Chinese conduct themselves within this unit is a basic representation of the way Chinese live their lives in general. Although, the rest of this paper will concentrate on business within mainland China many of the same aspects found in the CFB are also fundamental to the Chinese living there. The biggest difference, of course, is that management is developed under communist orthodoxy. To understand this further, an examination of post-1979 reforms in industrial enterprises in China is in order.
III. Post 1979 Reforms in Industrial Enterprises in China

Post 1979 communist reforms has an economic foundation and emphasis on the raising of people’s standard of living through economic development. To ensure that this goal is realized a new thinking toward the workforce, management and the role government had to be considered. To start with, the government’s role would be downgraded to that of a regulatory one, which would, at the same time provide a working environment where managers were more free to use foreign ideas, capital, and technology in their pursuit of efficient management. A responsibility system that provides incentives to managers and workers along with the guiding principle “pay each according to what each produces” is aggressively promoted to encourage hard work. The reduced role of government has also allowed many firms more freedom on pricing and distribution of goods and has also allowed firms the freedom to replace cost-plus pricing with value-to-consumer pricing. These, of course, are all relatively new ideas that both managers and workers alike are being asked to take on.

To help the workforce with this transition both the Chinese manager and the foreign manager must assume roles more closely related to a father guiding his children rather than an authoritarian ordering his subordinates. This new manager will have to be sensitive enough to allow his workforce to be creative while at the same time not feel threatened by the new openness that will surely arise. Chinese managers are not alone in their endeavor to make their workforces more open and efficient as this is right in line with the edicts of the free market system which most of the world abides.

In Asia, China would do itself good to study Japanese management which, in many respects, absent communist orthodoxy share various similarities.\textsuperscript{47} The Chinese

\textsuperscript{47} W.E. Ouchi, Theory Z, (Reading MA: Addison-Wesley, 1981), pp. 43-56.
and Japanese both use a collective approach and responsibility method when dealing with decision-making. They also both use slow evaluation and promotion systems, have lifetime employment, and take a holistic view towards human relationships. In American firms, things run quite differently. Employment is normally short-term with rapid evaluations and promotions. As opposed to the practice in China of assigning jobs to workers or the Japanese method of generalized career paths, the Americans use specialized career paths. Within American companies, responsibility tends to be delegated which requires the individual to be responsible for decision-making. Efficiency and bottom-line are predominant in American firms. The individual is important to firm as long as he is efficient while, at the same time, able to boost the firm’s overall bottom-line. The manager who takes the initiative and makes decisions which put their company ahead of the competition is considered a good manager. The same type of manager in China may be looked down upon as having his own interests at heart.

By now, the foreign manager realizes he must overcome many obstacles in order to succeed on the mainland. But he also has help. This help comes from the Chinese government itself, particularly, Deng Tsaio Ping’s 1978 Open-door policy which has slowly but surely de-emphazised orthodox communist economic ideology. This has, in turn, allowed China the opportunity to reform it’s economy to the point where it can truly be competitive on a world-wide scale.

IV. Examining General Management in China

Economic reforms in China have greatly expanded the powers of the general manager within Chinese enterprises. One of the most important reforms driving change in Chinese firms comes in form of the factory director responsibility system. In 1987, party policy established the responsibility of the factory director under the
supervision of the party committee which allowed the factory director to legally assume the central role in the internal decision-making processes and is directly responsible to the state and the workers for the results of his unit. This is called the factory director responsibility system. His power includes the right to nominate and dismiss the vice directors and middle managers which was previously in the hands of the party secretary.\textsuperscript{48} Less government interference has given the general manager an opportunity to behave in line with his western counterpart. His primary functions have been shifted away from meeting quotas to a thinking and responsive manager able to manipulate change through the effective use of his firm’s resources. This requires a manager knowledgeable in the ways of the market and the skills to manipulate the market for strategic advantage.

The Chinese manager has many advantages on his side in his quest for efficiency and competitiveness. For one, China is stable both politically and economically. Second, land and resources are plentiful and labor is cheap. Thirdly and probably the most important factor is China’s own willingness and drive to make China and it’s people economically prosperous.

The Chinese are a proud people and view economic prowess and wealth gained from that prowess as an honorable means of ensuring China’s future overall strength. The Chinese also realize that the West, with it’s long history of economic prosperity has much to offer China. This having been said, many aspects of Chinese culture still remain dominant within Chinese organizations. The western manager must realize that his motives will constantly be judged. Leaders, including others in top management, must be virtuous and benevolent. Leaders possessing these

qualities allow subordinates to feel comfortable and secure. This, in turn, helps to ensure employee loyalty and commitment to the firm and its established goals.

The Chinese are not unfamiliar to this premise as can be seen as far back as Confucious when he writes:

Possessing virtue will give the ruler the people. Possessing the people will give him the territory. Possessing the territory will give him its wealth. Possessing the wealth he will have resources for expenditure. Virtue is the root, wealth is the result.49

One way to ensure that employees feel stable and secure within their work group has its roots in the family unit. The work unit is basically a part of his extended family providing him with all the essentials he will need ever need during his working life. These include an occupation, basic salary, housing, medical care, education for family and extended training for himself when necessary. Providing these necessities ensures a stable environment for people to live and work while, at the same time, creates strong bonds of loyalty50 between the people, the firm and ultimately the state. Total dependence in the state is what the Chinese have grown accustomed to and this is the reality that the foreign manager must face. The manager must incorporate this reality as part of his frame of focus if his desire is to successfully assimilate himself within the existing Chinese organization structure.

Face and relationships also remain extremely important with Chinese organizations. Good solid connections along with maintaining good face ensures harmony within the group as a whole. Connections begin to be developed in the family and continue throughout one’s life. These connections must be continually maintained and extended throughout important areas of his life like in school, political

organizations, or his business life. It is not surprising to see adults periodically meeting with friends they have known all their lives. These close relationships would naturally lead one to assume there is a great feeling of obligation among Chinese people in general. This obligation is the glue that holds relationships together. This sense of obligation would certainly way heavily on the hearts of foreigners. We pride ourselves on being independent and not needing others to accomplish goals, or at the very least, not needing others in such a complex and extensive way. For the Chinese, this is a way of life and not one which will be changed anytime soon.

Within China, the foreign manager can learn a lot from general managers as they have increasingly gone from a manager with few responsibilities to one entrusted with the status of top manager ensuring that the organization is not only properly run but also that the interests of stakeholders such as employees, the party, and supervising agencies are upheld. This is all done in the face of increasing pressures from both competitors and clients alike. The successful Chinese manager is one who has properly integrated various western management techniques with his traditional role as father figure and coordinator of the different interests involved. Since, to some extent, reforms are destabilizing it is essential that the general manager act as a father figure to guide his employees through the rough times these changes are sure to create. He plays his role to an extent not even seen in Japan.\(^5\) This is done to ensure stability throughout the organization.

Lack of trust within the Chinese organizational structure requires the general manager to directly deal with day to day decisions that normally would be dealt with further down the hierarchy in any western firm. A main priority for the general manager would be to build up trust in the organizational structure through a

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responsibility system and its corresponding incentives. This, along with a structure whereby tasks can be routinized and examined according to stable criteria provide the best stage in which general managers can securely, through a set of stable and readily available rules and procedures, delegate power. These rules and procedures must be solid and managers must feel comfortable implementing them without fear of backlash from employees or others like the party or any other supervising agency.

In government run organizations where generations of families have lived under the iron rice bowl of total dependency it is easy to see why the new generation of managers are having such a hard time changing old habits and systems. It makes sense to find that multi-nationals and j-v’s are having a somewhat easier time starting from the ground up training a new generation of Chinese worker to be competitive in a rapidly changing global market economy. The Chinese managers of today will learn to be responsive to the market, organizational efficiency and profit and less concerned with the state and other supervising agencies for which he must deal.

Up until now, this paper has primarily focused on Chinese culture and its effect on both the foreign and Chinese manages within China. This was done to give the reader a sense of the problems these managers face everyday within China’s reforming economy. The Chinese economy is changing rapidly in order to modernize adding to the stresses managers must endure. The economic changes Deng Xiao Ping instituted in his 1979 open door policy is an attempt to bring China into the modern world. This modernization will, just by its very nature, give the manager the necessary tools to perform his job in a way as to make him and his firm domestically as well as internationally competitive. The j-v is an excellent way to bridge the gap between cultures, while at the same time providing the appropriate environment from

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which each can benefit from each other’s valuable resources. For China, this means much needed capital, technology and management training. For western firms, land and low-cost labor plus an opportunity to get in on the ground floor for an expansion of their own business into the Chinese consumer market.

Chapter IV.

I. Joint-Ventures

China has been very pragmatic in dealing with its economic problems, realizing that it can not solve its problems on its own. China, starting with its open door policy in 1979, allowed foreign firms to enter China. These firms helped enormously to improve China’s economic situation by bringing in much needed capital, technology and management expertise. This chapter will examine various features of the joint venture and why these ventures are formed in the first place.

In every relationship there is give and take. The j-v is no exception. One side has something the other side wants and vice-versa. The western side in a j-v established in China is generally looking for land and low-cost labor whereas the Chinese side is looking for capital, technology and management expertise. It must be remembered, though, that these are basic considerations when pondering the viability of any j-v. The foreign firm must first determine if they possess any advantages which could easily be transferred to China. These are called firm-specific advantages and include managerial skills, special promotional skills, brand names, research and development expertise, large firm size resulting in enhanced access to capital markets, existence of oligopolies in the markets for the firm’s products, and patents. If the

advantages offered by China which include access to raw materials and cheap labor complement a firm’s firm-specific advantages then the set-up of a j-v becomes viable. After the viability of a j-v has been established then its desirability must be examined. Just because a j-v looks good on paper doesn’t mean it is. In reality, it will certainly be fraught with formidable obstacles. Aspects to be examined in determining the desirability of a j-v include net profits, labor, materials, transfer of technology, business policies, government stability and regulations, management decisions and, foreign personnel. A brief examination of each of these aspects is in order to better understand the obstacles confronting the prospective j-v.

Although trust through the build-up of relationships is vital to the success of any j-v working in China it does not ensure it’s success. No matter how good the relationship is between participating parties one eye is always focused on the financial bottom line. If the j-v, within an appropriate period of time, can not at least cover its costs with the eventual goal of profiting it will cease to exist. Successful planning and ongoing negotiations are important tools available to the foreign manager before and after is arrival in China.

It is already known that the main reasons foreign companies want to enter China is to take advantage of its low-cost labor, land and access to it’s potentially huge consumer market. The western manager needs to convince the Chinese side that it is in their best interest to give the j-v as a whole reasonable rates for rent as well as operating expenses such as charges for water, electricity, and other services if he wishes to ensure suitable earnings. He must also convince his Chinese counterparts that they are true partners both benefiting equal from the venture. They are not two parties in a business relationship whereby one party gains at the expense of the other.
If the two parties are suspicious of each other’s intentions from the beginning it will be impossible to build the kind of trust necessary to make a j-v work.

Negotiating reasonable rents and utilities will be the easy part, ensuring the well being and labor force and gaining their respect will be much more difficult. In this regard, the foreign manager must think much the same as a Chinese manager in that he must take the interests of the group as a whole as primary. This does not mean the j-v will be run like a government-run organization. This method is used to ensure a smooth transition between what the Chinese have grown accustomed to and what will be expected of them in the future. The foreign manager must remember that although the Chinese government has opened its doors to economic change it is still a communist nation and it’s ideology remains very strong. Workers, be it in government-run organizations or j-v’s, still expect health benefits, sick leave, vacation time, pensions, housing, day care centers, and so on. The difference is the j-v has the resources and technology to provide the Chinese higher wages and further training which is a major motivational strategy at the j-v’s disposal. This, in turn, encourages higher levels of performance in j-v’s.

China, with it’s stable government and ongoing desire to attract foreign capital along with it’s ability to supply large quantities of raw materials and it’s potentially huge consumer market are perfect examples of why so many foreign companies are willing to risk so much to get a foothold in China. But foreign company beware, don’t let your desire to do business with the Chinese compromise your bargaining position. If you give too much to the other side negotiations will quickly turn into a win-lose situation. Be patient and calm and think through every potential decision. Making the hard decisions at the beginning will set precedents and save you a lot of trouble in the long run. To further avoid misunderstandings, the foreign manager
should never take anything for granted. What you think is reasonable and rational may be viewed by the Chinese as totally irrational. This is a recurring theme throughout this paper and should be taken very seriously.

The problem for the foreign manager is that the Chinese take an indirect approach with regards to dealing with problems leaving many foreign managers unaware that a misunderstanding had ever occurred. In other words, for fear of reprisal the Chinese manager may agree with the foreign manager verbally but in actuality disagree with him. This may lead the Chinese manager to conduct business as he sees fit hoping that the problem will resolve itself. These actions could, in turn, compromise the interests of the j-v as a whole.

From the negotiation stage to full scale operations, it is important that an open arena be established whereby every important item, even if thought of as trivial, be evaluated and negotiated or at the very least discussed to ensure understanding by all. The foreign manager can also contract the help of the president of the j-v, who will be Chinese, to help disseminate vital information. A good relationship between the president of the j-v and the foreign manager is important if the j-v is to survive and prosper. This relationship not only requires the two to get along but also requires that both have a clear understanding of the purpose and goal of the j-v. If these two have different goals, conflicts of interest will surely lead to the j-v’s demise.

Foreign managers in China face various problems which include finding adequate housing, getting accustomed to the food, entertainment, health care, transportation, and communications. Most cities in China can provide adequate supplies of the above, the problem is in the countryside where the foreigner, besides a lack some basic necessities, may feel isolated and at times very lonely. With extended stays foreigner managers may feel alone amongst millions. This is why it is
so important that the foreign manager be educated in Chinese culture. He, himself, must be a self motivator, very flexible, open minded and a people person. He must not be afraid to interact with the local populace. Putting on a smile even when he does not feel like it. Preparing these managers for overseas life is not easy and has become one of the more interesting areas of management research that has many potential applications.\textsuperscript{54}

For the casual traveler, understanding some basic rules and proper edicate is usually enough to get by in a foreign country. The foreign manager, on the other hand, will be working in a foreign land for an extended period of time under a system that he does not understand. Therefore, it is essential that his training program be quite formal. His training will embody a variety of aspects such as culture shock upon his arrival and the ongoing pressures that accompany adjusting to a foreign environment.

After his initial period of adjustment has run its course, he must then be prepared to take on more complex tasks which would include the difficult negotiations that surround every j-v, the establishment of the j-v itself, the day to day operations of the j-v, etc. These are all issues that are fundamental to the success of any j-v.

The difference between a foreign manager who succeeds in creating an organization which is successful and one that is not lies in the comprehensiveness of the cross-training program itself. It can not be bottom-line oriented. It must be culture-oriented. Nowadays, you can find people everywhere who have degrees in business but you would be hard pressed to find someone who is not only savvy at business but also able to assimilate themselves in other cultures. One of the most successful cross-training programs assisting business people prepare for life in China

\textsuperscript{54} Adler, N. (1991) International Dimensions of Organizational Behavior (2\textsuperscript{nd} edn), PWS-Kent.
is the “culture general assimilator or sensitizer.” As the name of this program suggests, it teaches the manager how to assimilate new information such that he will be able to reduce the stress, shock, and other disappointments he will surely encounter while in China. In addition, the program provides instruction on how to become sensitive towards the other culture. If one has an understanding along with a feeling of how the other culture functions one will, in turn, be in a better position not only to be able to tolerate but also look forward to living and doing business in a society so different from their own.

It takes a very open person minded person to work in another culture. It is not for everybody. Working and living in China is difficult. Before choosing people to lead your operation in China several aspects of the person’s personality must be evaluated. He must first and foremost be open minded and willing to admit he is wrong when he is wrong. This shows he is able to accept criticism and is willing to examine problems from all angles. He must also be strong-willed and able to think quickly on his feet. This shows he is confident and able to take on responsibilities others would normally shy away from. Last, but not least, he must be a people person. He must easily get along with people and they, in turn, must feel comfortable around him. This provides the type of arena necessary for open and honest discussions to take place.

To give the manager an example of problems and situations he may encounter, some important themes from Brislin’s interviews with foreigners who have experience living in other cultures will be examined. One of the most powerful feelings confronting any manager entering a foreign culture is anxiety. China is a

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huge country and for the newly arrived can be overwhelming. No amount of home study and cross-cultural training can prepare one totally for China. Feeling anxious about what lies ahead, how one should behave within certain arenas, and the future in general are all normal feelings. Only experience and time can alleviate one’s anxieties.

The incoming manager must not think of the Chinese as a single group under a communist banner. It is true that the communists rule China, but the people and provinces of China are different from each other as the countries of Europe. This is important in that when you have mastered the customs in one area you may find yourself traveling to other areas where different behaviors are adhered to. Never assume all Chinese are the same or the treatment given in one area will be the same as in another. Some areas of China are vastly more developed than others. In coastal areas, the manager can expect more modern facilities, better trained employees and access to greater amounts of information. But even in these areas universal business practices should not be expected. Be prepared for the unexpected everywhere.

China is the new land of opportunity but it’s not all milk and honey. It would be a mistake to assume that foreign companies are making fast cash. Both foreign companies and their managers alike must realize their in China for the long haul and not just to make a quick buck. One of the most important functions of any manager in China is to create a successful operation without alienating those within his organization. To make foreigners feel more comfortable in their surroundings the Chinese make it a point to be extremely polite and friendly. This does not mean that the Chinese are not nervous themselves. The foreign manager should take the Chinese lead by using this opportunity to make the Chinese feel just as comfortable by being just as friendly and giving to them. These are simple moves that help to
bridge the gaps between our cultures. Never come across as the tough manager that’s going to change everything. This will get you nowhere. Remember, always be patient and never jump to any conclusions. Straight answers are slow coming in China. This, of course, is a constant source of irritation for any foreign manager, but is a reality that must be dealt with through patience. To help put this in better perspective, it should be remembered that when interacting with people from other cultures, participants in conversations should not make the same kind of conclusions as they would if conversing with someone they know well from their own culture.59

What people learn and how they learn are major factors separating cultures. This leads to a way of thinking and the acceptance of certain knowledge that is oftentimes quite different or even the complete opposite of what the foreign manager had expected. This goes back to our theme of never assuming anything. Learn as you go and try to place yourself in the other side’s shoes. Always ask yourself why is the other side exhibiting behaviors contrary to behaviors you would exhibit when confronted with the same problem or situation. Once the foreign manager can answer these questions he will be well on his way towards a more thorough understanding of the fundamentals of the culture he resides in.

The foreign manager in China must realize that what works well in a highly industrialized first world nation will not necessarily work in a developing nation. The best way to look at China is from a family structure point of view. It pervades almost every part of one’s life in China. This can most predominately be seen in the workplace. This is really an extension of one’s family in that in exchange for total loyalty one is rewarded with everything from housing, food to education for one’s

children. Employees are expected to work harmoniously within their work unit and are expected to forge strong ties with other employees. It is not unusual to find employees getting together after work for dinner singing at ktv’s, etc. This helps to build strong links among employees.

Understanding the in’s and out’s of Chinese culture is one thing. Actually adapting and living in the culture is another. Here’s where patience plays its biggest part. Be prepared to wait, be it for friends, meetings or in the business arena. The Chinese seem to take a non-caring attitude towards punctuality. This kind of behavior would not be tolerated for long in the west. When waiting for others in the group, the foreigner must remain calm and shows no signs of irritation. The Chinese will look favorably upon this behavior. This is one way to significantly improve one’s standing within the group. For the Chinese patience is a great virtue and the foreigner manager possessing this virtue will be one step ahead of the rest. His improved standing will also give him greater influence in his efforts to ensure smooth operations within the organization.

Along with time concerns, the foreign manager must be prepared to have his personal space zone modified. In the west, people are accustomed to having a lot of personal space whereas in Chinese culture the concept of personal privacy commands far less respect. Much of this has to do with the space constraints of people living in big cities. Many family live together in cramped quarters. As far as the foreigner manager is concerned, he must also prepare himself for a variety of irritants he will surely encounter on a daily basis. It is not unusual for people in China to cut in front of others in line, bump into or cut others off while their walking or driving and be prepared for the incessant horn blowing from cars and trucks on the road. The foreign manager must be prepared to have people in his face all the time. If someone cuts you
off, bumps into you, walks into your office unannounced or does anything considered rude in your own culture just smile and always be courteous. Never scold or make someone lose face over something that is culturally accepted in their own culture. This will only cause you to look ignorant and will surely cause you to lose standing in their eyes. The goal is to gain credibility and respect among members of the group.

Causing people to lose face in China is something not to be taken lightly. When an individual loses face he will surely lose credibility and standing among his peers. This could be very harmful, affecting him in particular areas of his life say socially or in his career objectives. This is because the Chinese identify themselves much more closely to the group with the goal of forging lifelong relationships. In the west, people are much more mobile both in their social as well as business relations. For the westerner, face is not so important or at least not as much attention is given to face. Although face does not hold as much importance in the west as it does in the east does not mean it’s not important for the foreign manager to understand. It is essential that the foreign manager have the ability to sympathize with the feelings of the collective.

It takes experience living in China to truly understand the themes outlined here. The foreign manager going to China must be able to open his mind to new ideas. The ideal person would be an individual who enjoys change and is not afraid to participate in different kinds of activities. People who like to exercise and read find these activities essential in diffusing much of the boredom and frustration one encounters in China. Learning the Chinese language, although difficult, can be indispensible for foreign managers in their quest to assimilate themselves in Chinese society. Learning Chinese not only helps the manager get along in society but also helps to make Chinese people feel more comfortable around him. This is especially true for those
Chinese who speak no English at all. Chinese speaking ability also helps the manager to incorporate all members of the group into a more efficient working unit. This is done by disposing of the need for third party interpreters to convey your instructions. Anytime a third party is needed to interpret the chance for misunderstandings grow.

The manager must always keep in mind that the Chinese believe in long-term relationships. Learning the Chinese language shows your partners you really are interested in China and are there to stay. The more the foreign manager can do on his own the less dependent he will be on others for help. This shows both strength and determination on the part of the foreign partner. The foreign manager must be focused, strong-willed, determined and have great confidence in his abilities. He will be dealing with, as stated by Richard Holton⁶⁰, a situation whereby:

“the Chinese employee is trained to take orders, but not to initiate change...It is difficult to push the Chinese manager into taking responsibility for getting things done on his own; he is more inclined only to respond to the specific instructions from his superiors. Thus the Chinese enterprise is likely to be a very static organism, except for changes which are initiated by the authorities to which the unit reports or are required by circumstances which absolutely demand some sort of response.”

Even though j-v’s and the government-run organizations are quite different many old ideas and traditions continue to remain strong within the workforce. Now more and more j-v’s must deal with problems associated with these old ideas. The only way to change old patterns is for the western manager to lead by example. In this way, he will have many opportunities to motivate Chinese managers to be more creative and take more initiative. The western manager can start by assuming most
the responsibility then slowly, through example and education, delegate more responsibilities down line. At the same time, the foreign manager must pay a great deal of attention to the feelings and emotions of the Chinese workers. This shows the Chinese manager that one can effectively take on responsibilities thereby influencing the course of production, quality, deadlines, etc., while, at the same time, remaining loyal to the workers and their concerns.

There is no doubt that foreign influences have had a profound affect on the people of China. Be it if you’re a tourist or a business person remember to be on your best behavior and respect the local culture. When working or visiting another country you are your country’s representative. Everybody will be watching you. The Chinese want to see who you are and what you’re about. Don’t be afraid to show who you are just remember to do it within the confines of respect. For most Chinese, watching tourists is the only way they can learn about other cultures since very few have the means to travel or study abroad. The foreign manager, on another level, has many opportunities to influence Chinese business thinking, that is, to produce and distribute goods in the most imaginative and efficient manner that it can.61

The main mission of the foreign manager in China is to bridge the cultural divide. No matter how difficult one finds it to forge relationships always remember that it can be done. Although the Chinese are very courteous to foreigners don’t expect them to be your best friend or share personal problems with you. The Chinese, in a very real sense, have been brought up to be cautious, conservative, and resistant to change. The only way to gain the acceptance and loyalty of the Chinese is to show them the same respect you would expect. The foreign manager is in many ways a

teacher, but in just as many ways, he is also a student. In this capacity, the manager will gradually, over time, become more familiar with and, hence, more accepted within the culture. Acceptance will allow the manager to forge ties unique to his personal situation. These unique personal relationships will then be used to help bridge the gap between cultures.

Although bridging the gap is a prime directive for the foreign manager it is a good idea to proceed cautiously. Very often, American business people have romantic and idealistic ideas with regards to China. Business people from Japan, on the other hand are quite pragmatic in the approach. According to Takeichi:

“US companies approach China more idealistically or in a more venturesome manner. Japanese companies are quite pragmatic in their decisions to choose where and with whom in China they will do business or create joint ventures. Large Japanese corporations are very cautious about business in sensitive countries. They have enough corporate resources already invested to judge and act reasonably, based on both Japanese thinking and a global perspective.”

Western eagerness is oftentimes seen by the Chinese as an opportunity to extract as much information as possible from their potential partners. This can be seen most prominately with the case of technology. One of the main reasons Chinese set up j-v’s is to acquire desperately needed technology. Chinese businesspeople will play on the potential partners eagerness to enter China and use this as an opportunity to grill the presenters about the technology behind the projects in question. Playing it cautious in the beginning will help set the stage for future negotiations and will help avoid the presenters giving away too many secrets over the long haul. If you’re firm has technology the other side really needs and your willing to negotiate a j-v that
benefits both sides then you have nothing to worry about with taking it cautiously. Doing business any other way is just a definite way to ensure the failure of negotiations and the project as a whole.

The Chinese are very savvy businesspeople and will take full advantage of initial meetings to examine carefully the behavior of the other side. The first obstacle the Americans must confront involves the layout of the issues within the projects themselves. Americans prefer avoiding the generalities of projects and like to concentrate on specific details to come to agreements whereas the Chinese prefer to concentrate on the generalities. When encountered with this situation the foreign businessperson must remain calm. His biggest mistake would be to show impatience and frustration. The Chinese would take this as a great sign of weakness and would use his impatience against him in an attempt to gain concessions. The foreign businessperson must realize that the Chinese are masters of the waiting game. This is a fact of Chinese negotiation strategy and for the Chinese very pragmatic. No matter how patient the foreign businessperson is he will surely encounter many delays in his negotiations. He must also convince headquarters back home to allot him the necessary time to conduct business along Chinese time lines. This may be very expensive for the foreign company and the Chinese know this. Setting the foreign businessperson up for long negotiations not only shows the Chinese side your firm has the necessary resources to conduct business in China but also shows your potential partner that you are serious about your intentions.

Both the Chinese and the Americans view the j-v as the most efficient means by which each party can attain what the other seeks. The Chinese generally seek to acquire capital and technology whereas the Americans look at the billion-plus

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Chinese as a potentially huge market for their goods. The Americans are also interested in China’s large cheap labor force and access to its vast natural resources. To assist both parties, the Chinese government allows three different forms of investment. These include: the equity j-v, the contractual j-v, and; the wholly foreign-owned enterprise. The United Nations 1968 Handbook of Industrial Joint Venture Agreements in Developing Countries recognizes two types of j-v's; the contractual j-v and the equity j-v.64 The biggest difference between the cjv and the ejv is that in the cjv the respective parties do not share in proportion contributions to the registered capital of the venture as they do in ejv’s.

In the case of China, the cjv normally sees the Chinese side providing land use rights, natural resources and labor with the foreign side contributing the necessary capital, industrial equipment and know-how.65 The cjv is structured such that the terms of the j-v can be negotiated just as long as both parties follow a principle of mutual benefit and consideration of equal value. Under this format the foreign manager may not need to worry about problems concerning management, labor, the building of factories, and problems of valuation of land. The down side is that at the end of the contract, his firm may lose all of the assets that were contributed to the enterprise, including technology and know-how to the Chinese side. The Chinese figure that the foreign side has had ample time to recoup his investment. Firms setting up wholly foreign-owned enterprises will not need to worry about a Chinese partner. In any case, the foreign partners can view the cjv as an efficient way to do business in China.

67(6), P. 40.
64 1968 Handbook of Industrial Joint Venture Agreements in Developing Countries, p. 11.
In today’s high-tech world, new technologies and know-how are being developed at a rate faster than at any time in human history. In this way the foreign partner is at a clear competitive advantage. Even if the foreign partner loses technology and know-how to the Chinese it may not matter much to them. By the end of the contract both the know-how and technology may be outdated or by then general knowledge. If this is the case the foreign partner’s biggest loss may only be equipment and the like.

Joint venture contracts are negotiated and have a contractually limited life. This means that profits must be earned within a specific period of time. There is no time to waste, therefore, pre-joint venture strategies must be prepared in detail with consideration of likely problems to be encountered. The foreign partner must keep in mind that in China any part of a j-v contract can be negotiated. This can be a good thing in that the whole contract can be thoroughly examined and changes can be made where necessary. When negotiating points of any contract always be realistic. This along with solid preparation will help to ensure a successful j-v.

The second type of j-v and the one most preferred by Beijing is the equity joint venture. Unlike the cjv, the ejv partners own the assets together and share in the profits, losses, and risks. Ejv’s are limited liability companies formed by two or more partners whose assets together form a separate legal enterprise for the purpose of undertaking a specific business. This type of j-v is much more sophisticated than a cjv and requires much trust between partners. Ejv’s work well in environments where there are great inefficiencies in intermediate markets. According to transaction cost

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theory, j-v’s can be justified as a device to bypass inefficient markets of intermediate products. These intermediate products include raw materials, and components, various types of technology, physical and human capital, communication and information systems, and distribution services. Transaction costs would include information costs, bargaining costs, and enforcement costs. China’s reforming economy needs the ejv as a bridge during this intermediate period to ensure that successful business operations can be conducted. The ejv like other forms of partnerships provide an excellent forum by which trust and connection building can take place. As the ejv’s position within the community rises so will its ability to influence and guide the bureaucracy which will, in turn, allow the ejv to work more easily within China’s market.

Several factors are critical if the j-v is to be a viable avenue for which the two parties can conduct business. Before any j-v can be set up a suitable partner must be found. Finding a partner in a country where the culture is so different from our own can be a daunting task. For one thing, partners must share the same goals. In China’s quest to modernize its economy many organizations have been slow to reform and been left with continuing inefficiency. Many of these firms are seeking to join with foreign, capital rich companies in an attempt to revive their own slowly dying ones. The foreign partner must find out as much about his partner as possible to avoid falling into this trap. A good start would be to ask several important questions. Some questions may include:

1. What is the financial situation of the potential Chinese partner?

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(2) What ownership does the Chinese partner have? Public, collective, or private?

(3) Are leading members of the Chinese partner professionally competent and devoted?

(4) Does the Chinese partner receive strong backing from its overseeing governmental institution, which has a stake in the prospective joint venture project?

(5) How much authority does the partner have in obtaining essential supplies and raw materials? What kind of access does the Chinese side have to China’s domestic market?

(6) Are competing ventures planned elsewhere or does the Chinese side have the political and economic clout to keep a dominant position in its field?

(7) Can the Chinese side successfully assimilate the transferred foreign technology?

By asking these kinds of questions the foreign partner may gain access to information previously unknown. The foreign partner may not get clear answers to every question but at least they will have more information to help guide them in their future decision making. Information they don’t receive from asking these questions can be just as important as information they do receive. Attempts to be evasive on the Chinese side with regards to financial position, production capacity, or future goals should be taken as warning signs. Avoiding organizations that are financially distraught and joining forces with financially strong institutions is the best possible way of insuring that a good foundation is set.

Besides having solid financial foundation the Chinese side must also be well-connected (guanxi). This guanxi assumes a continual exchange of favors. Guanxi
also assumes flexibility among all parties. It is essential that the foreign partner understands everything is not black and white in business. In the west, business is business. Once a contract is final, it is final! In China, on the other hand, good friends are oftentimes in business together with deals being made without any contracts ever being signed. When problems arise, one is expected to be flexible with the assumption that if you will bend on this point now, in the future, I will make it a point to be flexible on points of concern with you. The well-connected Chinese partner can greatly benefit the j-v in cutting the j-v’s production costs, helping the j-v to get a foothold in China’s enormous consumer market, as well as, enhancing the technology of the parent company.

There is no doubt that finding a good partner is probably the most important aspect affecting whether a j-v will succeed or not but it is not the only one. In America, businesspeople have long realized that a good location is vital to the success of any organization. This is also true in China. The most profitable j-v’s in China can be found in Shanghai and Shenzhen. With regards to Shezhen, this is easy to see due to Shenzhen’s proximity to Hong Kong and Hong Kong’s incredible success and subsequent investment and influence on its neighbor city. Shanghai, on the other hand, has benefited as China’s cultural center which has had a long history of foreign influence. Shanghai is also a coastal city which has allowed it to develop into an export center. Lying near the ocean has naturally given the coastal regions a distinct advantage over inland regions. This situation however has begun to change over the past few years. As infrastructure and technology improves in these areas so has their ability to compete with the coastal areas improved.

In an attempt to attract more j-v’s to the inland many local officials have made it a point to ensure that the j-v’s in their areas receive more personal attention and
support. With the support of such high ranking officials as a provincial governor or mayor it is not surprising that many j-v’s who would have otherwise failed have instead overcome various obstacles to thrive. The foreign partner must, if possible, work with government officials, not against them. They can be instrumental in the success of the j-v. For many American businesspeople, this relationship between government and business may seem unusual because in the United States government normally stays out of business.

Chapter V

I. The Expatriate in China

Joint ventures are excellent business solutions in countries where lack of proper infrastructure or other than market-oriented economies create situations whereby standard business operations are not possible. J-v’s by their very nature must deal with a variety of forces not normally found in developed countries. This, in turn, makes it that much more necessary to find individuals able to manage under these types of environments. China is considered by most western countries as a hardship assignment making it even that much more difficult to find qualified personnel willing to move to China. Realizing this, western companies have set up incentive programs that offer a variety of incentives which include hardship allowances of 30-70% of base salary, housing allowances, relocation expenses, education for spouse and children, transportation arrangements, insurance and medical care, a couple of free trips home each year, shopping trips, credit cards, and even favorable exchange rates on currency.

Providing these incentives along with a salary which is usually quite a bit higher than their home-based salary makes staffing j-v’s with foreign managers very expensive. That is why it is essential to find personnel able and up to the task of
running a j-v in China. Good managers are hard to find but once found can be instrumental towards the success of the j-v. Foreign investors realize this and many of them pay a major portion of the expatriate package themselves.\(^71\) This, of course, can become expensive. Companies, realizing this, have gradually been more inclined to promote Chinese employees to management positions. In the long run this shows the Chinese side that the foreign side is becoming more confident in the Chinese ability to run their operations in China and, in turn, builds trust throughout the organization.

Chinese managers bring with them guanxi which is critical to the j-v in its effort to secure such items as different kinds of permits and raw materials, and may also allow the j-v easier access to prospective buyers. Assigning Chinese managers tasks that are particularly geared around the workforce could also save the foreign manager a lot of problems with regards to face as many Chinese employees feel western managers are insufficiently sensitive to “face”, which may damage work and business relationships.\(^72\) Along the same lines as promoting local Chinese to management positions, many j-v’s also opt to hire overseas Chinese to help them manage their operations in China. Their knowledge of mandarin and, for the most part, understanding of the local culture make them prime candidates for strategic positions within a j-v in China. These managers can also provide a great deal of help to the foreign manager towards improving his basic knowledge of local culture.

Although these managers bring to the table a great many advantages there are also many problems the j-v must watch out for when hiring overseas Chinese for key

positions. Like western managers, overseas Chinese managers also make mistakes with regards to culture in China. The difference is, when a foreign manager makes a mistake or fails to observe proper protocol it is normally overlooked because it is assumed that the foreign manager is just ignorant of the ways of correct social behavior. On the other hand, being of ethnic Chinese origin, the overseas Chinese manager is not afforded this luxury. The failure to observe these same rules by overseas Chinese is usually counted against them. This could eventually have negative effects on him and the company. On many occasions, overseas Chinese, in their zeal to show the western side that they are qualified to assume these positions, oftentimes, alienate local Chinese staff by not being properly sensitive to their emotional needs, face or any of a number of social needs so necessary to make the operation run smoothly. This can be a serious problem creating intense resentment among the local Chinese staff. Many Chinese feel jealous of the overseas Chinese because they feel although their all Chinese the overseas Chinese don’t have to play by the same rules as everyone else. Being overseas Chinese entitles them to privileges and salaries not afforded to local Chinese. Nothing makes local Chinese staff more resentful than an overseas Chinese manager behaving tougher towards them than the western manager himself. In these cases, it is not uncommon to see the western manager intervening to resolve these conflicts. Just because people are of the same race doesn’t mean that they will necessarily like each other or, for that matter, cooperate with each other. Every manager must remember that his primary function is to manage with the goal of developing a cohesive workforce capable of accomplishing goals necessary to ensure the steady growth of the organization while at the same time looking after the needs of the workforce itself.
Although it is expensive to staff foreign managers in China it is necessary. The western partner can be very demanding, especially under the stressful operation of setting up and running a j-v. There need to be managers who have a thorough understanding of the western side to ensure that both sides have a true sense of how the j-v is doing. Another reason why western firms want their own people in top management positions is psychological. Many western firms, mainly due to a lack of knowledge about Chinese culture and a general misunderstanding of Chinese people, mistrust the Chinese. In an effort to compensate for this mistrust, foreign managers are sent to oversee operations on the western side’s behalf to ensure that operations are running according to their standards. This is understandable, especially in an environment where people have long been suspicious of each other because of political or other reasons. Over time, through the build up of trust, this fear and mistrust will naturally disappear allowing for more promotional advancement within the workforce. This does not mean the need for foreign managers will disappear. It only means that their function will become more specialized allowing them to utilize their talents more efficiently.

**Conclusion**

This paper is a study on how joint ventures and their efficient management can effectively bridge the gap between the needs of China’s developing economy and the expectations of those firms wishing to take advantage of China’s vast resources and potentially huge consumer market. In an effort to show how both sides can achieve their desired results, the j-v has been chosen as the best model. The j-v provides the only viable arena whereby technology, resources, and labor can be smoothly and efficiently exchanged in an environment such as China where there is a lack of proper
A vital component of j-v’s are foreign managers. These foreign managers will influence other members within the j-v in such a way as to direct the j-v’s management style towards a convergence on uniform standards of efficiency. This will be the guiding principle which allow the workforce and managers to work on behalf of both parties more efficiently towards their common goals. The foreign manager will understand the cultural differences among the parties involved in the j-v and will be able to effectively manage these differences. The foreign manager must show that his management style and techniques are superior and effective than the local culture’s old habit and traditions. This does not mean that the Chinese management style would be discarded. That would be a mistake. Through the foreign managers compassionate, sympathetic and direct management style, he would gradually gain the respect of the Chinese workforce. This would lead the workforce to gradually accept the foreign manager’s recommendations that would allow old and inefficient methods to be discarded and replaced by new and efficient ones.

The foreign manager must convince the Chinese side that change is in their best interest. In order to do this he must lead by example. This will show that he truly means what he says. For the foreigner manager, the joint venture is very personal. He is not only there to manage and teach western techniques, he is also in a very unique position to learn a great deal about the Chinese way of doing things. As the Chinese begin to scrap old ideas, the western manager should take the opportunity to build upon Chinese strengths. The foreign manager must be flexible and work within the Chinese networking system if he truly wishes to be successful in China. To ignore the Chinese ways would be a mistake, indeed. The foreign manager must
remember he is involved with a j-v. It is a cooperation between two sides with no one party dominate. This means that both sides must share their own unique ideas and ways of doing things. If this theme is not strictly adhered to, mistrust will surely follow.

Most newly arrived foreign managers in China think that they are the outsider with all the answers and the ability to considerably improve the way things should be handled in the j-v. The reality is he usually meets little opposition to his ideas which he will present during his first meetings. Eventually, he realizes that his decisions have not been implemented. During this time, he receives little information on what is going on in the organization and soon, open hostility erupts between him and the top Chinese executive. In the end, the only option left for the foreign manager is to leave. These situations occur frequently and are all the result of the foreign manager’s lack of knowledge of how Chinese organizations function, and, therefore, had little understanding of the Chinese managers in the joint venture. From this, the manager violated many local behavioral norms. This produced a situation which was impossible to solve without the departure of the manager himself. For real changes to be instituted the manager must first work within the existing Chinese system. Even though the foreign manager must learn to effectively work within the organization, he still needs to remain firm towards the Chinese partner and the Chinese employees. He should always be honest and should constantly work towards creating an environment where the open exchange of ideas exists. Gradually trust between the two sides will increase.

China, in many ways is like America’s wild west. Even in the best of times life can be difficult for the unprepared foreign manager. Everything could be considered a challenge from getting accustomed to a change in diet to building strong
long lasting relationships. To help the new foreign manager adjust to his new surroundings the parent company can help in several ways. When choosing managers for the China assignment, past experience, and interest, in Third World countries should be taken into consideration. Since there are many adjustments which need to be tended to, people selected should have a great deal of patience and a high tolerance for frustration. Good teachers, listeners, and those not considered arrogant should also be considered for the China assignment. Both older and younger managers possess advantages for business in China. Older managers tend to be more patient and better negotiators than their younger counterparts but younger managers are more easily molded and eager to learn. The company must decide which type of manager would be best suited for their operations in China.

One of the most overlooked problems facing managers in China is lack of support from headquarters. After being assigned to China the manager is expected to deal with problems that go well beyond anything he has ever dealt with at his home office. Oftentimes the manager feels overwhelmed with responsibilities and with no real support structures from headquarters may feel alienated. The home office should be aware of the difficulties involved in working in China, and support their manager whenever possible. If possible, at headquarters there should be people with experience in China to handle the company’s Chinese operations.

Most Chinese organizations are formed around a leader/father-figure who is a problem solver and has the ability to guide his subordinates in the right direction. The new manager in a joint venture must posses the same characteristics as his Chinese counterparts. He must be compassionate, understanding, nurturing, flexible and above all patient. As a foreigner your expected to possess qualities that are perhaps lacking on the Chinese side but this does not make you better than them just different. The
incoming manager must realize that the Chinese possess many attributes that they will need to learn in order to survive within the Chinese organizational structure. The manager should realize that he should never expect anything. Anything is possible in China. It is truly the new land of opportunity. The manager should get as much pre-training as possible and upon arriving in China continue his training and always keep an open mind.

For the talented foreign manager, the joint venture can be an exciting way to test his skills. For companies, it is an excellent way for them to expand their business activities globally. This can only be done successfully if the development of management is made a priority. The joint venture is only a tool for achieving objectives and is only as good as the people who make it up. As for China itself, it will be seen that as China begins to enter institutions such as the World Trade Organization, structures which traditionally blocked unified business and legal codes will disappear.