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**GOING AGAINST CUSTOM: ON RE-CONSIDERING THE
SITUATION OF FOREIGN COMPANIES IN CHINA**

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GOING AGAINST CUSTOM: ON RE-CONSIDERING THE SITUATION OF FOREIGN COMPANIES IN CHINA

Abstract

Problems in Sino-foreign joint ventures are frequently claimed to result from cultural differences, particularly between East and West. It is also often argued that foreign companies in these joint ventures should change their management practices to accord with Chinese custom. Adaptation is not easy, however, because Chinese institutional practices are influenced by conflicting values. Industrial modernisation might require China to make the adjustment.

1. INTRODUCTION

The Chinese-foreign Joint Venture Law of 1979 was meant to assist the modernisation of China's industrial organisation by attracting direct foreign investment into it and providing rapid access to modern technology and management expertise. The response from foreign companies has been extremely positive. By November 1993, according to Zhao,¹ there were approximately 130,000 international joint ventures registered in China, employing about six million people. Foreign direct investment has also risen rapidly – by more than US\$20 billion in 1993 – and China has quickly become the largest recipient of it among developing nations.² There is nevertheless a question about how much the experience of working closely with foreign business companies has contributed to modernisation and change of industrial organisation and management in China. The effect in many cases has been less than might have been hoped, in fact Chinese managers and government officials have applied counter pressure on foreign firms to change their management styles and methods to comply more closely with those preferred in China. Some researchers have taken the same line, claiming that foreign companies will find their business in China more profitable if they comply. This shall be disputed here. For a start, compliance with Chinese culture is no simple matter, because it is more complex than many accounts have suggested. Secondly, compliance with Chinese institutional practices involves risks for foreign partners that should not be underestimated. Finally, there must surely be reasons to think that compliance with Chinese institutional practices is incompatible with China's stated aim of industrial modernisation.

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Pressures on the management of Sino-foreign joint ventures have increased with evidence of their overall poor performance record. Konieczny and Petrick described the record (and the record of joint ventures in other developing nations) as showing "a striking susceptibility to failure",³ and while it is difficult to put a precise figure on the failure rate (Konieczny and Petrick estimated it to lie between thirty and sixty per cent), there can be no question that a great many have performed significantly below expectations. Moreover, the problems have not been confined to small projects, where there might have been reason to suspect inadequate expertise and resources, because some have been very ambitious and well-resourced, and have involved large and successful foreign companies that have brought considerable expertise and experience to projects. One example has been the Shanghai Volkswagen Automotive Company (a joint venture between Volkswagen and four Chinese state enterprises), which is reported to have been plagued by high production costs and poor quality standards,⁴ and another has been the Beijing Jeep Corporation (between Chrysler and the Beijing Automotive Works), which has reportedly suffered very similar problems.⁵

THE 'CULTURAL DIFFERENCES' PROBLEM

A recurring claim in reports on troubled Sino-foreign business partnerships is that cultural differences between the partners have made the management of projects very difficult. Some observers have gone so far as to identify cultural differences – or more particularly, a refusal or inability to accommodate and adapt to them – as the major cause of problems. Ferraro claimed, for instance, that problems have resulted much more from "an inability to understand and adapt to foreign ways of thinking and acting rather than from technical or professional incompetence."⁶

Misunderstandings and disagreements are naturally likely to occur when different cultures come into contact, and many foreigners admit that they find Chinese culture difficult to understand and adjust to. Reporting on one failed joint venture project, Warner described how the foreign (American) partner admitted in the end that "Chinese culture is almost too hard to come to terms with".⁷ In view of this problem, the kind of advice given to foreign companies by many writers, including Kirkbride and Tang,⁸ Lockett,⁹ and Zhao,¹⁰ namely, to study Chinese culture and customs before entering into a joint venture, must be considered very sensible. For the most part, they have been advised to study traditional Confucian values, because the Confucian emphasis on harmony and conformity, polite respect, and giving and saving 'face', will most likely conflict with the approach to communication and decision making taken by Western managers, who are used to being assertive and direct. Similarly, the Chinese custom of using personal 'connections' (*Guanxi*) and exchanges of favours to smooth the path of business will also likely seem strange to Western managers, who usually rely on legally enforceable contracts to define mutual obligations.

It must be said, though, that this type of advice cannot prepare foreign managers completely for their dealings with Chinese managers and officials. Confucian cultural values do not explain everything about Chinese management practice, nor do they represent the only difference between Chinese and Western ways of thinking and acting.

Culture is a difficult thing to define or describe. Anthropologists generally describe it to mean a way of life of people living together in one place, which suggests that everything that influences the way of life is also part of the culture. The problem is, modern societies are

socially complex, and this makes it questionable to assume a single set of influences that shape a way of life. The poet and literary critic T.S. Eliot spoke of the 'baffling problem' of defining culture.¹¹ He observed that industrialisation has been accompanied by a cultural disintegration within society. We can rightly speak of cultural values being reflected through religion, art, politics, literature, work, and so on, but these values are now usually different, in fact often opposed, and do not combine to form a coherent cultural whole; they describe, in effect, different cultures. The 'multi-cultural' character of modern industrial society, more so now than when Eliot wrote, makes it questionable to speak of 'national culture' in a way that suggests it to comprise a unitary value system and a single pattern of social influence. The culture of the man on the Clapham omnibus (a long-time favourite representation of the common man) is not much like that of the aristocrat, we presume, nor the culture of the poet much like that of the business executive (which is just as well for poetry, W. H. Auden implied in his *In Memory of W. B. Yeats*). If there could be said to be any over-riding cultural value in modern industrial society, then it would arguably be that which Weber termed 'the rationalist way of life'.¹² More shall be said about this shortly.

If one accepts that institutional beliefs and practices form part of culture, or, at any rate, influence culture, then it might be permissible to reduce most problems in Sino-foreign joint ventures to problems of cultural differences. However, an inadequacy in the 'cultural differences' diagnosis has been that it has usually given a too simple account of Chinese culture. Even if there has been less cultural disintegration in China than in other nations, it would still be a mistake to think that Confucian values account for the whole of Chinese culture and its institutional practices. An understanding of the latter would scarcely be complete without reference to the powerful influence of socialist ideology and government bureaucracy. Many millions of Chinese people have been influenced all their lives by socialist ideology and education, and have also been thoroughly used to restrictions on their behaviour by government bureaucracy, and it would be remarkable if the effects of these on the Chinese way of life were not as great as those flowing from traditional Confucian values or from new 'market-oriented' thinking.

There could be some similarities, as Warner notes,¹³ between Confucian and socialist emphasis on communal sharing, but Chinese officialdom has not shown itself to be especially Confucian in its handling of situations. It is difficult to explain the government's actions in the Tiananmen Square 'incident' as an example of applied Confucianism, for instance, notwithstanding the preposterous suggestion by Kirkbride and Tang that student leaders might have been partly to blame for them because they failed to show respect and 'give face' to government officials.¹⁴ The view from the West, reported in an *Economist* leading article, is that Chinese officialdom is difficult to deal with, consistently showing itself to be "prickly, assertive, intent on its own interests, and with scant patience for the values of Western democracies".¹⁵

The point is, the political, bureaucratic, economic and Confucian elements of Chinese culture do not combine to shape a single, clearly identifiable and stable way of thinking and acting, and this might help explain why many foreign companies find Chinese culture 'almost too hard to come to terms with' Chinese ways of thinking and acting, including institutional practices, are difficult to comprehend and adapt to because they are influenced by conflicting values. It is also difficult for foreigners to identify the precise dimensions and locus of the conflict, for, as Ding points out,¹⁶ the conflict takes the form of a mingling and mutual

infiltration of different values. There is no sharp sense of a conflict between society and the state, such as was evident in the Soviet Union before the collapse of communism. Rather, Ding explains, the foreigner will more likely perceive an 'indefiniteness', 'ambiguity' and 'amphibiousness' in institutional policies and practices.

The lack of a clear-cut authority structure and decision-making process can be baffling and frustrating to foreign companies, as can the seeming confusion over organisational goals. They might think they are dealing with their Chinese management partners, only to discover that they are not. They might think the goal to be efficient economic production, only to discover that it is not. Complaints therefore usually express frustration with institutional practices that incorporate opposing values. Borgonjon and Vanhonacker complained that 'ideological roadblocks' still restrict the development of a rational system of management,¹⁷ and others have expressed impatience with communist party influence at every level of Chinese enterprise structure.¹⁸ Others again have complained about excessive bureaucratic interference in management planning and control, and about the slavish way in which their Chinese management partners report all matters directly to government officials and seek their approval before making decisions. Aiello described this as especially frustrating to Chrysler management in its joint venture. Despite rhetoric and contracts to the contrary, he concluded, many foreign companies soon come to realise that their joint ventures are under government control rather than their own and their partners' control.¹⁹

CULTURAL ADJUSTMENT

It seems reasonable to concede that some adjustment will be necessary if further problems in Sino-foreign joint ventures are to be avoided. The issue is really one of deciding who should mainly make the adjustment. As was mentioned at the start, pressure has been exerted on foreign companies to change their practices, more so than on Chinese managers and officials, and this has been supported by two arguments, each featuring a different interpretation of findings from research into national cultural differences. They contradict each other, as shall be shown.

Research into national cultural differences, notably by Hofstede,²⁰ has found culture to have a strong influence on the perceived legitimacy of management practice. In other words, practices that are considered normal and acceptable in one nation will not necessarily be considered so in another. In particular, Hofstede found a large difference between the cultures of Asian and Western nations. Much like the difference between Confucian and Western customs that was discussed earlier, the difference was found to be that Asian nations value social harmony, polite ritual, deference to authority and collectivist interest, whereas Western nations (especially English-speaking nations) value egoistic individualism, assertive independence and the pursuit of self-interest - all of which, Kornhauser once explained, gives a powerful motivation for industrial conflict in Western society.²¹

These cultural comparisons were very broad, and took no account of political and economic influences, but they promoted a sensible appreciation of how culture affects perceptions of what is normal and acceptable. There is no quarrel with them here. However, some of the other inferences that have been drawn from them are far more open to question.

One interpretation posits that companies abroad should adjust their practices to accord with local perceptions of normal and acceptable practice, and do so regardless of whether this necessitates a sacrifice in efficiency. The advantage of having local support and co-operation, it is claimed, could more than outweigh the costs of inefficiency, especially if the alternative is to face hostility and a high risk of business failure.

This has been the gist of the first argument, but the choice of cultural adaptation is by no means as straightforward as it suggests. The choice is basically the same as that which Doz claimed confronts multi-national corporate strategists.²² They must decide between two conflicting imperatives, economic and political, which carry different implications for organisation structure and for management planning and control. The economic imperative demands rational and efficient organisation. With attention now increasingly focussed on producing for world markets, rational organisation has come to require world-wide integration of subsidiary operations, with consequent centralisation of planning and control and less autonomy for regional management. The political imperative, on the other hand, demands regional management to show 'good citizenship' by complying with national industry regulations and customs; by being a 'good employer'; and by designing and producing goods and services that meet the requirements of the domestic market.

The economic imperative has been the more powerful, according to Doz, but some foreign companies in China might have seen their situation differently. If they had proposed a joint venture with a Chinese enterprise mainly for the reason of gaining entry to China's huge consumer market, then it might well have suited them economically to act like 'good citizens' if they could see a profit from doing so. There would then have been no conflict between the economic and political imperatives, even though compliance with the political imperative could have threatened efficiency. It is possible to profit from inefficiency, as was shown by Volkswagen in its joint venture in China.²³ Volkswagen made a good profit despite the price of vehicles made under the joint venture being six times higher than it considered necessary. The inflated price was due to higher production costs than had been calculated, in turn due to overmanning and low productivity. The government had assigned 2,300 workers to do the work of the 800 that Volkswagen had figured were needed, and the engine plant consistently failed to produce more than a quarter of the daily production target that had been set for it. Volkswagen had no control over these processes, but was able to profit from selling components to the joint venture under the terms of the contract. No less significantly, the joint venture was protected by the Chinese government, which placed large purchase orders and restricted competition.

While compliance with the political imperative might have suited some foreign companies in China, it has certainly not suited all – even though there might have seemed little option but to comply. Inefficiency and limited management control have not helped companies that proposed to export from a production base in China. Zhu and Dowling reported a case of this kind,²⁴ involving a Sino-foreign joint venture to grow, process and export asparagus from China to Japan. The prospects had looked good, initially, but arrangements for growing the asparagus and transporting it to the processing factory were changed, with consequent added cost to the project, after the contract was signed. The supply from the vegetable growers was also unreliable. Additionally, the work practices of the Chinese food processing employees were inefficient and unhygienic. The foreign partners in the project had no control over these factors, although they complained about them strongly. They did not help matters by being

constantly critical of their Chinese partners and showing that they did not trust them. The Chinese partners therefore suffered a 'loss of face', which was unpardonable. The project collapsed amid mutual recriminations when, after an inspection of the factory and the produce, the prospective Japanese buyer refused to buy.

Situations like this seem to require an adjustment from both sides, and a workable compromise to be struck between host nation co-operation and foreign company cultural adjustment. The main mistake in supposing that the adjustment should be unilateral, whereby the foreign company complies unconditionally with host nation culture, is that it regards cultural adjustment in a more or less value-free way. It simply echoes the reasoning of the adage "When in Rome ...", and takes the approach (a 'culture contingency' approach, let us call it) that adjustment to achieve 'goodness of fit' between management and the surrounding culture is sufficient to ensure an improved result. It implies, for example, that adjustment is required just as much from a Japanese company operating in a Western nation as from an American company operating in an Asian nation.

The last example was chosen deliberately to illustrate the difference between this and another interpretation of cultural adjustment that has been based on findings of national cultural differences. The second interpretation sees Asian culture to have some important advantages over Western culture, from a management point of view, because it is more helpful to management efforts to establish productive attitudes and good order among employees. This is the gist of the second argument, and it has been expressed most repeatedly (indeed, almost obsessively) in cultural explanations of the Japanese 'economic miracle'. Western companies have been exhorted by writers such as Ouchi,²⁵ and Peters and Waterman,²⁶ to copy features of Japanese 'corporate culture'. They were urged to adopt management policies and practices that had been observed in Japanese firms, and which had been thought to give them a competitive advantage over Western firms. Although questions were occasionally raised about the feasibility and legitimacy of 'Japanisation' (as the process of cultural change became known),²⁷ the economic imperative to perform better was accepted in 'mainstream' Western management literature as sufficient justification for socialising Western employees to think and act like Japanese.

There are plainly many differences between Japanese and Chinese cultures, but their similar emphasis on collectivist values has made it appear to some observers that there are also some useful management lessons to be learnt from 'behind the bamboo curtain', not only with respect to methods of negotiation,²⁸ but also to those of consensus management.²⁹

There has been a weakness in this argument, too, for it has also assumed cultural adjustment to be a unilateral process. Just as it is a mistake to treat all cultures equally, so it is also a mistake to regard some cultures as being wholly superior to others. It would surely be foolish to portray Chinese culture as being in all respects superior to Western culture, and the same applies to a comparison of Chinese and Western management practices. It would be more sensible to accept that "all cultures have certain strengths, but have much to learn from others".³⁰ Chinese managers have much to learn from the West, if the aim of modernisation has any meaning, but resistance to cultural adjustment has been just as strong on the Chinese management side as it is alleged to have been on the Western side. Chan argued that this resistance, and the persistent attribution of joint venture problems to Western management deficiencies, stems from belief in Asian cultural supremacy. She concluded that "the

irrationality of nationalism and Chinese ethnic superiority needs to be stripped of its emperor's new clothes".³¹

In any event, there has been growing doubt about the durability and effectiveness of collectivist culture in industrial organisation, and recent changes in Japanese corporate structure and philosophy have weakened the argument for adopting Asian-style management practices at what had previously been its strongest point. As a result of a rising yen, increasing competitive pressures and fatting profits, many Japanese companies have had to abandon the corporate culture that Western companies had been urged to copy: consensus management has been replaced, ironically, by American-style thinking and 'rule from the top'.³²

The last observation poses a question about the forces that shape change in industrial organisation. The rationalisation of economic production, which 'modernisation' entails, has been a powerful force for organisational change, and the history of Western industrial society shows that old traditions and cultural values have had to give way under pressure for rationalisation and modernisation of social and economic organisation. This has some bearing on arguments about cultural adaptation in China, although it suggests that future cultural adjustments might mainly have to be made by the Chinese.

RATIONALISATION AND MODERNISATION

'Rationalisation' describes both a way of thinking and a process of change in modern industrial society, and it involves a continual questioning of the adequacy of means to ends. It rests on the conviction that improvements are always possible, and the effects of it are seen most clearly in continual refinements in the structure, technology and management of industrial organisation. Rationalist thinking also permeates many other areas of modern life: education, for example, where, the purpose of developing and communicating knowledge has been absorbed into what (as was remarked earlier) Weber referred to as the 'rationalist way of life'.³³ Weber, whose writings on social and economic organisation have had a powerful influence on political, sociological and organisational theory, had observed, long before education had dedicated itself so thoroughly to serving the needs of industry, that 'cultural' education had given way to technical, vocational and professional training, and, likewise, the 'cultivated man' to the professional expert.

Weber believed that the rationalist way of life, characterised by an instrumental and calculative attitude to progress and gain, has become so dominant a part of modern society that opposition to it is almost unthinkable. The conditions that give rise to it in industrial organisation are basically the same as those proclaimed by economic theory, namely, the competitive pressures on firms to be efficient and innovative if they are to survive and prosper. Firms that adapt quickly and positively to changes in market forces are described as acting rationally, and this applies equally to people who, for example, choose to undertake training courses which they calculate, from observations of conditions in the labour market, will yield the best 'pay off' for their effort.

While economic competition is the major force behind the rationalisation of economic production, Weber recognised that other conditions had been necessary to sustain 'the spirit of capitalism'. Chief among them had been the Reformation, which brought a "radical

breakthrough in the domain of attitudes and dispositions",³⁴ and gave to hard work, worldly ambition and material wealth a virtue that had been denied by previous orthodoxy. In addition, the growth of science, secular education and a money economy emphasised the instrumental value of knowledge (literacy and numeracy, for instance), innovation and calculability. Finally, public and business administration came increasingly to depend on rational-legal authority, characterised by impersonal professional judgement and formal rules and standards, rather than on rule by 'notables' disposed to grant favours to friends and approved petitioners. Altogether, these conditions were sufficient to promote and sustain the rationalist way of life and break subservience to the traditional power of monarchy and church.

There is nothing in Weber's account of the development of modern industrial capitalism to imply that rationalisation has wholly desirable effects, or that the defenders of tradition and old-established custom deserve no sympathy for their (mainly futile) opposition to changes in their lives, their work or even their traditional games.³⁵ Weber had been deeply ambivalent about the effects, fearing that they would de-humanise society just as T.S. Eliot feared that the decline of religious values had weakened Western culture), and he was also concerned, as other writers have been,³⁶ that dependence on rationalisation and modernisation would deliver power into the hands of a 'management elite'. Nevertheless, these and other fears have had little effect on the rationalisation process, perhaps because, as Weber had claimed, dependence on it is too strong, or else, as Blau and Meyer suggested,³⁷ because most people believe that their lives are the better for it - which might amount to the same thing.

CONDITIONS IN CHINA: CLOSING REMARKS

It would be extravagant to claim that conditions in China are entirely conducive to the rationalist way of life or to the modernisation of social and economic organisation, even though there have been some claims to the contrary. For example, Chow claimed, fantastically, that her survey of Chinese managers - predominantly employed in state-owned enterprises - showed that they scored more highly than American managers in key areas of managerial work. She admitted that the survey had been conducted with the help of a senior communist party official, and that the results could therefore have been "somewhat inflated or biased according to the party line".³⁸

The more general view is that China will have to change some conditions if there is to be continuing progress towards the modernisation of industry. For a start, most observers agree, the training of Chinese managers will have to be improved, because it remains inadequate, still producing "subservient cadres with a strong natural science training, preferably with no mind of their own, and with limited practical ability".³⁹ Warner agreed, but saw an additional problem to be insufficient managerial autonomy in decision making.⁴⁰ The balance of thinking in management training and institutional practice, he claimed, still gives as much weight to socialist orthodoxy as to modernisation. This could be changing gradually, according to Bu.⁴¹ Management training in China is now moving to compensate for the lack of management expertise and market awareness in the old command economy, although the balance could still be improved: management training still focuses too narrowly on technical skills and neglects the 'human side of enterprise'. The latter was looked after by 'red cadres', Bu explained, but there is now a need for a rational and professional approach to human resource management training and practice. Zhu and Dowling argued the same,⁴²

although as much for the reason that more modern human resource management is needed to combat the costly problem of over-manning, which has been one of the characteristics of state-owned enterprises and the planned economy. Traditional practices, such as the "iron rice bowl" and those emanating from legal requirements, have made it difficult for state-owned enterprises to dismiss employees, or even hire them directly, but the shift from a planned economy to a market economy will necessitate greater enterprise control over the management of human resources if the aim is to be more efficient and competitive.

The largest problem, as most of these criticisms imply, is the conflict that persists between socialist political orthodoxy and new market-oriented thinking. They are mutually at odds in what they assume about the regulation of industrial enterprise, and this makes the business environment unstable and difficult to predict. A recent report on the experience of Australian firms in China declared that problems of all-pervasive bureaucracy, high inflation, material costs, a hugely complex tax system, and sudden shifts in foreign investment policy and foreign exchange controls "make business planning and execution in China no game for the faint hearted".⁴³ The report concluded that relationships and patience are among the major requirements for foreign companies doing business in China.

Even allowing for the view that "clearly, China is different from the rest of the world",⁴⁴ the conflict between the forces of political orthodoxy and industrial modernisation is, in principle, no different from conflicts that have occurred in other developing nations, and which exist whenever and wherever forces of rationalisation come up against deeply entrenched and powerful interests that are threatened by change. However, it is difficult to predict if the outcome will be the same in China as it has been elsewhere. A lot will depend on who succeeds Deng, and how the new administration will move to resolve the present 'power struggle' between free marketers and central planners. Many observers are confident, nonetheless, that reforms will continue and perhaps even accelerate under the next administration.⁴⁵

The uncertainty surrounding future conditions in China does reveal one risk for foreign companies. Those that have relied on *Guanxi* to obtain special favours could find that their 'connections' and favours will not survive the change in administration after Deng. Perhaps the only thing that could be judged certain, finally, is that foreign companies will find that Chinese culture will in the meantime remain almost too hard to come to terms with.

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38. Hau-Siu Chow, Irene, "Chinese managerial work". *Journal of General Management*, Vol. 17, No. 4, 1992, pp. 53 - 67 (p. 65)
39. Borgonjon and Vanhonacker, "Management training and education in the People's Republic of China, *op. cit.*, p. 340
40. Warner, "How Chinese managers learn", *op. cit.*
41. Nailin, Bu, "Red cadres and specialists", *op. cit.*
42. Zhu, C. J. and P. J. Dowling, "The impact of the economic system upon human resource management practices in China". *Human Resource Planning*, Vol. 17, No. 4, 1994, pp. 1-21
43. Shires, D. "Eight ways to succeed in China". *Financial Review* (Australia), 1 June 1995, p. 17

44. Zhao, "Human resource management in China", op. cit., p. 11
45. Barnathan, J., Engardio, P. Lindorff, P. and P. Dawson. "China after Deng". *Business Week*, 6 February, 1995, pp. 40-44. See also, "China speeds to market", *Economist*, November 20-26, 1993, pp. 25-26. A surprisingly optimistic prediction (in view of the circumstances) was made by Chinese civil rights activist Wei Jin Shen. Released after fourteen years of solitary confinement for publishing a demand for a 'fifth modernisation', namely, democracy, and still forbidden from speaking out publicly on the subject, he expressed confidence in an interview that reforms will continue and that "there can be no retreat from the march towards a market economy". Schildt, J. "Vierzehn Jahre allein im 'Loch'" (Fourteen years alone in the 'hole'). *Stern* (Hamburg) 7 - 13 October, 1993, pp. 232-233

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