JOURNAL OF INTERNATIONAL AND AREA STUDIES
Volume 8, Number 2, 2001, pp.37-54.

Cross Cultural Studies in Sino-Foreign Joint Ventures

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The People's Republic of China (PRC) is one of the most lucrative markets in the world. Because of the size and potential of the market, many corporations around the world have made a dash to capture a competitive advantage. In the current era of globalization, the joint venture has emerged as an increasingly useful and popular way for firms to carry out their foreign investment strategy. Joint ventures between foreign firms and local partners have been a particularly important component of the FDI (foreign direct investment) in Asia. This is because the governments of these countries have frequently provided a more favorable investment climate (e.g., in terms of regulations, approvals, licensing requirements, taxes, etc.) to foreign firms entering joint ventures with a local partner than to foreign firms attempting to establish a wholly owned foreign enterprise. The governments want part of the organization's equity, ownership and control to remain local. The foreign firm, unfamiliar with the business environment and culture of the local market, also finds the joint venture the most advantageous way to enter into a strategic alliance with a local firm who is already nestled in that market. This paper will highlight important factors and questions concerning joint venture operations and their ultimate outcomes. It will also strive to raise new questions for the future through three case studies: Beijing-Kentucky Fried Chicken (Beijing-KFC), Pacific Dunlop China, and Shanghai Volkswagen.

1. INTRODUCTION

The People's Republic of China (PRC) is one of the most lucrative markets in the world. Because of the size and potential of the market, international corporations globally have made a dash to capture a competitive advantage. Since 1979, Deng Xiao Ping's open-door policy has been forcing the PRC to close the gap between itself and the rest of the world, especially with respect to technology. The free market reforms helped stimulate China's economy to grow annually at an average of nearly 10% real GDP 1979 to 1998 (China Statistical Yearbook 1999). Foreign Direct Investment not only brought in capital but also technology. In combination with present-day technology and innovation, the business industry as a whole is explosive. Larger shares of control are captured without having large, fixed, bureaucratic corporations. A corporation wishing to do business outside of its national boundaries can choose among several organizational options, ranging from the creation of a wholly owned foreign enterprise to a simple technology and licensing agreement with a local company. In the current era of globalization, the joint venture has emerged as an increasingly useful and popular way for firms to carry out their foreign investment strategy and as a wise median between these two extremes.

Joint ventures between foreign firms and local partners have been a particularly important component of the FDI (foreign direct investment) in Asia. This is because the governments of these countries have frequently provided a more favorable investment climate (e.g., in terms of regulations, approvals, licensing requirements, taxes, etc.) to foreign firms entering joint ventures with a local partner than they have to foreign firms attempting to establish an entirely foreign enterprise. The governments want part of the organization's equity, ownership and control to remain local. The foreign firm, unfamiliar with the business environment and culture of the local market, also finds the joint venture the most advantageous way to enter into a strategic alliance with a local firm who is already nestled in that market (Makino & Delious 1996; Meschi & Roger 1994).

Despite the joint venture's popularity as a foreign inve stment strategy, as we will later observe with the assistance of several case studies, joint ventures have often run into trouble and too often have failed entirely. It is of utmost importance to examine the complexities of the joint venture operation. Foreign multinational executives have to be willing to take the time and the energy necessary to ask questions for the future. This paper will highlight some of the questions and factors that should be raised and the outcomes that foreign multinational corporations in the past have experienced in the past.

The three case studies that will be examined and analyzed in this paper are Beijing-Kentucky Fried Chicken (Beijing-KFC), Pacific Dunlop China, and Shanghai Volkswagen. In 1987, Beijing-KFC, a leading American fast food franchise, decided to take its service industry to Beijing. Along with a piece of American popular culture, American managers also brought with them notions of how people in the world should operate. This would lead to conflicts in expectations and roles of all parties involved. In 1995, Pacific Dunlop decided that it was time to venture into the Chinese market. The Australian-based clothing and textiles manufacturer, however, ran into major trouble with the delegation of tasks. China's labo r force lacked qualified middle managers, which left the foreign managers doing everyone's work. How could they have imposed a capitalist drive onto a society that still remains very socialist? Shanghai Volkswagen, the Sino-German joint venture, was established in 1984. Because of the financial and political support of both the Chinese and German governments, the joint venture had a lot of room in which to stretch its wings. Since the corporation was not in a service-based industry, raising quality standards was little easier. Not only were they able to find suppliers who were willing to devote time and energy into raising product quality, Shanghai Volkswagen also set up the supplier parts network that, in return for shares of the profit, revolutionized the supply-side of the automotive industry (Upton 1995).

From these three case studies, we can see that there are several similarities and anomalies that are specific to doing business in the PRC. There is an overarching theme of different attitudes and perceptions regarding product quality. There is a tendency for foreign managers looking at a situation to say that "this is bad", or "this is wrong", or "this is not how it should be done". But this is clearly a biased, ethnocentric view. It is extremely important to note that the two cultures are distinctly different. Chinese workers were unfamiliar with Western technology, which often led to western managers classifying them as "unskilled". In truth, there was simply a difference in the way the two corporate cultures organized their workplaces. Therefore it is paramount to observe what cultural, political and economic customs and nuances exist before assuming that the society is "inferior" or "flawed". This is why these three case studies, in further analysis, can be extremely useful in depicting patterns in Sino-Foreign joint ventures.

All businesses attempt to operate efficiently within a web of uncertainty. There is such an enormous quantity of complex information that must be addressed by a corporation, including novel interactions and gross unpredictability in the environment that one cannot possibly consider all variables beforehand. This is amplified in cross-cultural business ventures. There are anomalies that are just as important, if not more so, to examine and discuss. Realistically, one cannot know a global truth, but can instead address questions that have arisen in the past, observe the actions that were taken and their implications and raise questions that are corporation-specific.

This paper provides an overview and analysis of the threats and opportunities presented to both the foreign multinational corporation and the corporate partner from the PRC. Using Beijing-KFC, Pacific Dunlop China, and Shanghai Volkswagen experiences as examples this paper will address some important factors and questions concerning joint venture operations and their ultimate outcomes as it strives to raise new questions for the future.

2. ANALYSIS OF THE SINO-FOREIGN JOINT VENTURE FACTORS

The preceding review of risks and opportunities presented by joint ventures suggests a range of factors which affect the formation of the joint venture, whether with a Chinese partner or with a partner in another country. Other management factors include:

- Cultural similarity between the partners
- Common or complementary goals
- Trust between the partners
- Dominance of one partner over the other in decision-making (studies suggest that equitable management structures are actually less stable because they are more likely to lead to conflict and slow-down the decision-making process)

Building on these factors, we must examine a more comprehensive list of critical issues to consider before entering into a joint venture (Lin & Germain 1998; Meschi & Roger 1994; Bruijn & Xianfeng 1993; Ralston, Holt, Terpstra & Kai-Cheng 1997). In the context of this paper, observed patterns were drawn from Beijing-KFC, Pacific Dunlop China, and Shanghai Volkswagen in order to determine if any patterns were significant and might be of interest to other foreign multinational corporations interested in investment in the People's Republic of China. Important questions that have been addressed by these corporations will arise from the case study. Equally valuable are the questions that were overlooked, the questions that even now require answers. This section will address the patterns seen and raise additional questions for the future.

2.1. Trust

As a multinational corporate executive, do you trust your partner? A number of factors can lead to distrust, such as communication problems, personal differences, a lack of support from middle management and front-line employees, distrust of foreigners on the part of local employees, conflicts created through the implementation of human resource management policies and technology transfer policies, and strategic mismatches. This begs another important question: are you trusted by the local parties, such as the local Chinese government and local suppliers?

This was the question that Pacific Dunlop China raised. They believed that building trust had enormous advantages. Steve Littley, divisional manager at Pacific Dunlop China, described the importance of cultivating and maintaining trust, and the value of relationships.

> "This is much more important that I ever, ever thought it would be. If you don't have the right relationship with people either built on your own, or especially through your partners, it doesn't mean anything that you are prepared to pay a lot to buy something. The customer is not King in the People's Republic of China – the supplier is. They will often refuse to sell to

> you at any price. Most often, they will smile and nod. Then nothing will happen.
>
> For example there are a series of tests to see how tough you are and how serious you are about doing business and working with the Chinese. We would go out to dinner, and I would have a few drinks with them, and eat a couple of things from the dishes that they set in front of me. Hardly anything to do with business seemed to get done at these meetings. But business was being done. They would bring an army of people each of whom would toast to me – I would end up plastered. Then they would talk business. I have learned, and to an extent they respect me for it. Now, I always take a load of my key guys, and insist that they each take a turn being toasted. You have to be willing to adapt. You won't get the supplies or the permit your plant needs to keep running. The deal just won't happen without doing this kind of thing – or if it does, you'll be compromised as a short term hit, rather than seen as worthy of a long-term relationship (Upton 1995)."

Adaptability is the lesson in Littley's anecdote. Through his flexibility and willingness to play along, he was able to secure working relations with many different local Chinese. He realized that Pacific Dunlop China's interests were long-term entities, and that cultivating trust was of the essence. In looking at this case study, another issue that arises is the threshold at which we begin to trust one another. Are full disclosure and transparency necessary to attain trust? How can we gauge levels of trust? Is there any way to define trust or is it simply a gut feeling? Is this less an issue of trust and more of an issue of predictability? Does anyone truly have enough information as to judge who is or is not trustworthy? Furthermore, is trust even a useful concept for discussion, or is it too closely associated to notions of culture?

2.2. Partner Compatibility

Do the partners have similar or complementary business interests and goals? The partners do not necessarily need to belong to the same business sector. However, if they don't share the same line of business, their businesses must be complementary, for example there must be synergy in the operations and goals. Each must add value to the joint venture otherwise there is little need for its presence.

All three case studies bring this factor to light. In Pacific Dunlop China, cotton purchasing had originally been carried out at the group level and sourced through Beijing or Shanghai, but as local relationships strengthened through the company's joint venture partners, cotton was being sourced locally from the state run Beijing mills. Spandex, Nylon, and Elastane had all been originally sourced outside of China, which was expensive. Finally, good quality indigenous sources were found, by their partners knowing someone, who knew someone else, who knew someone else, and so on.

Shanghai Volkswagen shows the connection between trust and working relationships between partners. Before the joint venture ever got off the ground, the Germans and the Chinese had reached a specific agreement on what each side would contribute. The Germans would bring the technology and modern management know-how. The Chinese would contribute land, factory buildings, and the labor force along with an understanding of their society and recommendations on how to be most efficient in that environment. The latter became a particularly important tool when the emphasis on a parts supply network gained an added measure of urgency and when a timetable for the growth in percentage of localized components was written into the joint venture contract. The Germans and Chinese were working together, not against one another. Their shared philosophy was to respect, trust, and learn from one another (Upton 1995).

2.3. Political Risk

What is the political risk for this venture? What is the local partner's political liability? Before entering into any joint venture, there is a need to assess political risk in the proposed operating environment. Issues to consider include the stability of the home country's political regime, political factors in the labor force (e.g., are unions involved?), domestic political attitude towards foreign investors and foreign workers, and risk of nationalization. Another factor that should be taken into consideration is the political support coming from the foreign multinational corporation's local government.

The 1989 Tiananmen Massacre caused fear, unrest, and overall unease at being associated with the Chinese government. The few thousand casualties from the June 4th bloodbath still remain vivid images in everyone's minds, periodically reinforced and rekindled by possibilities of further political unrest. For example, earlier last year when the Taiwanese Presidential candidate Lee Teng-hui pushed the independence movement, the PRC fired missiles into the Taiwan Strait, causing the United States to send in its Pacific fleet. Such political drama affects business ventures and international public relations, not to mention the dramatic toll it takes on relationships with overseas Chinese business, which in this case is primarily comprised of Hong Kong and Taiwanese multinational corporations.

The PRC's recent crackdown on the Fa Lun Gong movement is another possibility for turmoil. The sheer number of Chinese involved in Fa Lun Gong concerns the Chinese government, which has taken a rather harsh view that this group is more of a cult rather than an exercise or spiritual movement. As the Chinese government continued its nationwide roundup of Fa Lun Gong members, Human Rights Watch said that China's intensified campaign against the exercise and meditation group clearly violated United Nations human rights standards (Jendrzejczyk 1999). Chinese officials have formally arrested more than one hundred individuals and are preparing to put them on trial. Even though presently this has not caused major disruptions to business interactions, it continues to create uncertainty for foreign partners.

The Shanghai Volkswagen case study (ò Ǭ Ᵽ «& × Ừ Ë ø1998) exemplifies how governments' attitudes, with respect to the joint venture, can tip the balance. Without the 3.5 million Marks that the German government had supplied for the establishment of adequate training facilities, both administrative and engineering personnel would have fallen short, and skill quality and production manufacturing would have collapsed altogether. Shanghai Volkswagen was smart, and perhaps a little lucky, in its proceedings with the local Chinese government. Article 31 from the Chinese government's 1994 policy for the automotive industry stated that:

1) Enterprises shall establish their own research and development infrastructure and be capable of developing new generation products in the People's Republic of China.
2) Such enterprises shall demonstrate an ability to make "world class" high-technology products.
3) Such Enterprises must balance their foreign exchange accounts primarily by exporting their own products.
4) In selecting components, with all other things equal, local parts shall be given preference (Upton 1996).

Shanghai Volkswagen decided that because it was far too costly to import technology, they had to develop it domestically. In taking this long-term stance, they aligned themselves most favorably with the government that was looking to boost the Chinese economy. The government and Shanghai Volkswagen both believed that innovation in technology would benefit all involved. Not only were the government and the industry grateful for the know-how entering the PRC, but this was amplified when Shanghai Volkswagen began sending key engineers from the Chinese suppliers overseas to train with their foreign counterparts. Upon return, the Chinese were happy to see that these engineers were able to elevate their colleagues' technological skill levels. The government's support was crucial in attaining a foothold in the automotive market. Shanghai Volkswagen was given special tax reliefs under Chinese guidelines for advanced technology partnerships, which was a standard two year tax holiday and special six year reduced tax rate exclusive to Shanghai Volkswagen in exchange for promised technology transfer. In 1992, Shanghai Volkswagen was deemed by the Chinese government to be the "best joint venture in China".

2.4. Economic and Industry Conditions

What are the basic economic and industry conditions in the proposed local environment? Factors to take into account in assessing local industry conditions include availability of supplier networks, reliability of suppliers and regulatory factors affecting the target industry. Issues to consider include basic economic stability (e.g., look at macroeconomic indicators such as inflation rate, growth in GDP, debt level, currency stability, etc.), trade regimes, and the infrastructure and basis of the economy.

One major obstacle that needs to be touched on is that of currency conversion. Soft currencies, like the People's Republic of China's *reminbi* (RMB) are not backed by gold and are often fixed at unrealistic exchange rates. Therefore, nations with hard currencies, like the U.S. dollar or the British pound, are reluctant to convert their assets into RMB. Because of fluctuating exchange rates, soft currency generally does not instill much widespread confidence in the global market and can usually be employed domestically, only. In all three cases, this made importation of foreign goods problematic, which forced the multinational corporations to search for high quality domestic suppliers.

It is important to examine how Shanghai Volkswagen was able to attain a significant competitive advantage in the PRC's automobile market. Sometimes both the foreign and Chinese partners work well at the top level while the joint venture as a whole does not progress due to problems emerging at the production level. Volkswagen was quick to point out that the PRC was not known for its ability to manufacture complex products with dependable quality. The primary reason was that most Chinese enterprises have been originally set up to service only small, local markets. Operations were not designed for national competition, and certainly not for international. Procedures were often not up to international quality standards, and many workers were not accustomed to such close scrutiny of their work. Low cost Chinese labor would only translate into cheap automobiles if the component was not be made up to Volkswagen's standards. Otherwise, the supplies would have to be imported and the high import tariffs of 25-40% would have cancelled out the savings on labor. Still the fundamental problem remained: where to find suppliers that could make parts up to German standards. Chinese manufacturers were complacent in the way that they conducted business and had little reason to change.

From the examples set by many multinational corporations, it appeared to Shanghai Volkswagen that the answer is to take a number of actions and procedures. Since the quality of the labor force is the key to the quality of production, one of these procedures is on site training and continuing education of the work force. Workers must have an understanding of the true meaning of quality and its importance in the success of a manufacturing firm. This investment can be seen as an infrastructure investment and its long-term benefit is immeasurable. In the example of Shanghai Volkswagen, most of the production workers only had junior high school level education. All the new manufacturing hires were given three-year training courses that included classroom lessons and practical training in machinery, welding, and forging. Training for sales and secretarial staff lasted two years, including lessons in accounting and bookkeeping. In addition to this on site training, Shanghai Volkswagen actively sponsored adult education in night schools for its workers. The company also provided overseas training for its local engineers, managers and financial staff. Such programs were designed to improve workers' understanding of quality, hence raising the product quality to the standards of excellence defined by ISO 9000, the international standard in quality measures (Upton 1996).

2.5. Market Conditions

A multinational corporate executive must ask: what are the conditions of the market? Is it favorable or volatile? Is the market sustainable? To answer these questions he or she must address issues such as supply and demand, domestic markets for materials and labor, and appraisal of the competition, both foreign and domestic.

The important point to highlight here is that the People's Republic of China will inevitably be one of, if not the most powerful player in this global market. If this particular nation was broken up into four countries of roughly equal size, their respective populations would rank second, third, fourth and fifth in the world. It is estimated that by the year 2010, China will become the largest economy in the world, with rising affluence among the 375 million urban residents of the coastal cities (Upton 1995). Even a small portion of the middle class in this large country could serve as an enormous market, not only as consumers, but also as laborers.

As specific issues pertaining to quality arose, foreign multinationals took steps to entice and motivate laborers. Beijing-KFC provided great incentives to lure applicants. As society moved from a socialist structure to one that was more capitalist and merit-based, people strove for more. One of the employees hired stated:

> " As an English teacher I was not well paid. The job was very dull, although most of my students enjoyed learning English. Still I wasn't getting ahead. I was teaching English, but I wasn't learning English, I had no one to speak to. At Beijing -Kentucky Fried Chicken, you have more chances to use and learn English. We are paid more here but we also work harder. The base salary started at 140 RMB a month. Each job was rated on a scale of 100. Each job had it's own standards set; if the standards were not met, we got point taken off. This also meant a smaller bonus. The average bonus each month was from 50-150 RMB. The best I could ever expect in a factory would be about 120 RMB a month … (Morrison & Beamish1989)."

This quote may sound a little strange, stating that not only does an employee at Kentucky Fried Chicken make more than an English teacher, but also that the job is more strenuous. Kentucky Fried Chicken struggled to develop a new definition of quality in the PRC; to push their employees go beyond the status quo. This novel concept of exceeding societal norms gave these Chinese employees the impression that they were working harder, and they were, if you compared them to other Chinese employees in the food industry. Yet, in comparison to their foreign counterparts they still fell sub-par by foreign standards.

Almost identically, Shanghai Volkswagen attacked this problem by creating a pay structure, which tied the worker's income directly to the quality of his or her job performance as we do in our United States domestic businesses. Production line workers at Shanghai Volkswagen are paid an average of 1300 RMB per month. The base pay of each employee is adjusted by a premium coefficient, which is determined by his or her line supervisor. The premium coefficient operates on a sliding scale of 0.2 to 0.8 (Upton 1996). This coefficient for each employee is calculated from a formula based on the number of units and the number of defects produced per production cycle. This pay structure gives workers incentives to produce quality products.

But turn to the market as a whole. Since all of these case studies predate the Asian financial crisis, there is no data presented in this paper depicting the impact the crisis will have on future joint ventures. The market conditions have an enormous impact on the country socially, which will inevitably lead to greater consequences. The crisis jeopardizes the hard-won results of East Asia's record, which is reflected in better living standards for hundreds of millions of Asians, giving them longer life expectancy, better health and education, and providing millions of others with the chance to rescue themselves from poverty and lead more hopeful lives. These achievements are real and must be safeguarded. But even before the crisis struck, there is much more work to be done.

- Although poverty for the region as a whole has declined, 350 million people were still living on less than US$1 a day; tens of millions of others live just above the poverty line.
- Rising inequality among geographic regions, between city and countryside, and among skill groups led to wage disparities that have undermined the region's relative equality.
- Most countries have virtually no unemployment insurance, social safety nets, and little provision for old-age pension insurance. Korea, for example, has relied on rapid growth and lifetime employment to provide social security for its citizens, while Thailand and Indonesia have relied upon rural family ties.

The ongoing financial difficulties threaten to aggravate these problems and erase the gains made by millions; therefore, it is imperative that multinational corporations be wary of not only the market conditions themselves, but of social sub factors which may have their own impact on the market.

2.6. Technology

What are the major issues related to technology? Questions to consider include the following: What is the availability of technology (e.g., will it be necessary to import all technologies or are local resources available)? What are the regulations and policies pertaining to the transfer of technology? Are there sufficient intellectual property protections?

When we examine technology on a micro level in the PRC, we can see that much of the nation is not prepared. This was very much the case with Pacific Dunlop China. Over-reliance on computer systems was dangerous because computer viruses were an endemic problem that could not be cured in the PRC as easily as they could have been in the West. Previously, a virus attacked the system so fiercely that Pacific Dunlop China's finance department was left keeping their books with paper and pen. Janet Mok, Finance and

Accounting manager describes the pandemonium.

> "We were dead for a week. The virus went through the plant like wildfire. Everyone says this is a big problem in China and it is. Another one of those things that sounds completely trivial when you are at home, but here it stops the operation dead. Western virus protection does not work against Chinese viruses and they are everywhere, on every disk. Even the CAD systems controlling the knitting machines were affected, meaning we couldn't produce anything. We managed to get some IBM people out here, but it took them almost a week to clean the plant. The machines aren't even on a network! And they were dying left, right and center. It was unbelievable." The virus problem was widespread throughout the People's Republic of China for two main reasons. First, virus transmission was facilitated by relatively liberal interpretation of copyright law in China concerning the duplication of software. While all software used in the plant itself was legal, people would bring disks into work to try out "borrowed" software, and use advance copies of newly released versions. The disks inevitably contained viruses. Even repeated proscription by Littley had not stopped the practice. Second, the viruses that existed were Chinese strains, mostly invented by hackers with time and imagination. Many Chinese viruses were not only unknown, but fully immune to Western virus-killing programs (Bruijn & Jia 1993).

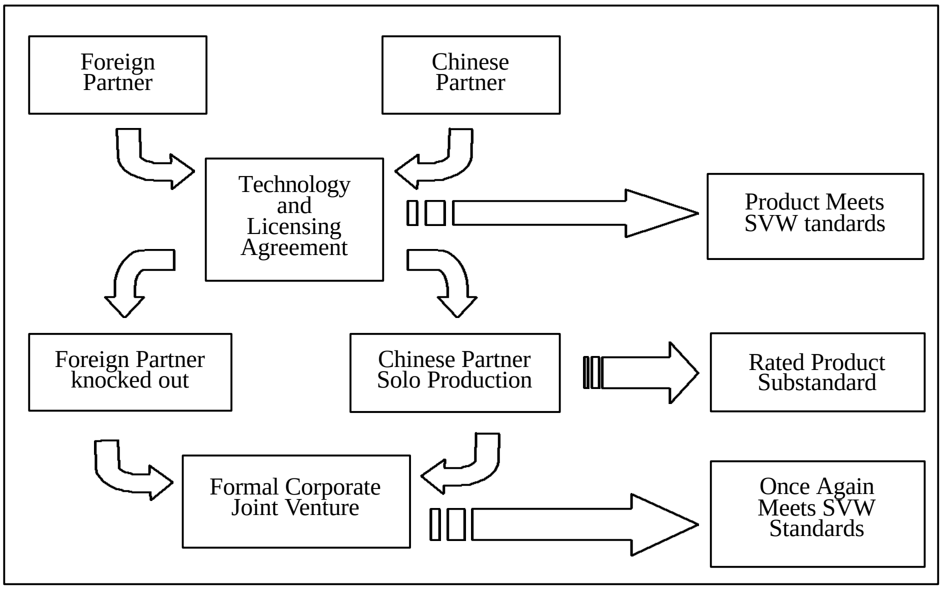
If workers will not desist from bringing in infected files and transmitting the virus in the workplace, what can managers do? Policies in China are difficult to enforce. Cleaning up after problems is time-costly and frankly, too late. The Pacific Dunlop China case study fails to demonstrate how to best tackle this problem. Perhaps, as technology continues to innovate, solutions will begin to emerge in other joint ventures.

For Shanghai Volkswagen we see a different picture when speaking of technology. Overall technology and quality standards soared high in the automotive industry because Shanghai Volkswagen was willing to compensate their suppliers generously. This spawned a mindset of excellence. Shanghai Volkswagen was willing to pay a purchase price capped at the price of a similar import plus custom duties as well as guaranteeing a profit for every manufacturer in its parts supplier network. But taken even further, this mindset began to revolutionize how open the market actually became.

The Chinese and Foreign suppliers were encouraged to form technology and licensing agreements in which the Chinese partner would bring the necessary resources such as land, labor, and machinery, while the foreign partner would bring the technology and the expertise. Often, when it came to renewing these contracts, the Chinese partner involved would have been so happy with the technology transfer and the training they received that they felt that it was time to work independently, thus bumping the foreign partner out of the picture. Frequently, the products that these wholly Chinese owned corporations produced slipped in quality as the Chinese firm tried to find shortcuts in production. These products were often rejected by Shanghai Volkswagen. Then Shanghai Volkswagen advised this supplier to seek out advice in improving production. Many times, the Chinese supplier requested the services of its former partner, at which time they would frequently sign a formal joint venture agreement. This time, when the products were submitted to Shanghai Volkswagen, they met necessary quality requirements. Therefore, as corporations begin to work cooperatively across national borders, we can observe evidence of the cultivation of trust and better working relationships.

As alluded in Figure 1, however, the Chinese have the potential, after the handover of the technology has taken place, to serve as the foreign multinational corporation's direct competitor. Will this supposition lead to the less sharing of information? Could problems arise with the emergence of information that is not 100% accurate? Enforcement of patent and copyright laws is practically non-existent in the PRC's feeble legal system. Therefore is there any way to protect the information that enters China, or does it automatically become public knowledge when it crosses the border?

Figure 1. SVW changes international corporate interaction



2.7. Cultural Issues

What is the culture in the proposed environment? The literature on joint ventures and multinational business operations indicates that often the biggest single stumbling block in establishing a successful multinational joint venture is culture (Bruijn & Jia 1993). Differences in the cultures of the two partners can create conflicts in terms of goals, management structures, human resources policies, and efficiency of daily operations. The failure to appreciate cultural differences can often lead to a complete breakdown in communications, which in turn may put the entire venture in jeopardy.

2.7.1. The Primacy of Culture.

The work of Hofstede and others such as Earley, Huo & Steers, Ralston, et al., Bruijn & Jia, Adler, et al. has pinpointed a number of areas where cultural conflict between Chinese and foreign partners is most likely to occur. Particularly noticeable are conflicts between the Westerner's individualistic orientation and the Chinese partner's collectivist orientation. These differences have important implications for issues such as the design and management of human relations systems. For example, creating incentive plans which will be effective in the Chinese work setting will assist the motivation of the employees. In addition, these structures may be the most appropriate for operations in the Chinese environment while the Western partner may have moved away from hierarchical, authoritarian management structures in the home country (Earley 1993; Ralston, et al. 1997).

An excellent case study to examine for this particular point is Beijing Kentucky Fried Chicken. Being the first to enter the PRC, they encountered new cross-cultural tribulations and long hours of frustration. American multinational managers set quality and service standards that were commensurate with conventional American corporate norms, but the standards at which the native Chinese employees' performance fell short. The Chinese employees were sweeping the floors far fewer times than their American counterparts back in the United States (Morrison & Beamish 1989). The American multinational managers' insistence that the Chinese employees' interpretation of "clean" was not clean enough did not convince the native employees, who believed that they knew what the customers acknowledged to be adequate sanitary conditions. It is important to understand that the multinational corporations are representatives of a culture, in this case American popular culture, which the Chinese, for the most part, have neither a vested interest in nor a firm understanding of. If they cannot understand and appreciate it at the societal level, how are they to understand and appreciate it at the corporate level? The American managers needed to identify and be fully aware of this. They could not assume that the Chinese employees will simply understand the corporate standards and values or even wish to comply with their orders. The Chinese employees were written off as being indignant and insubordinate, but it is possible that they simply could not understand the value of the organization that they were working in and therefore could not have had a vested interest in the corporate-set standards.

The Chinese society is not one that regards service with admiration. The *fu wu yuan*, service people, are often looked down upon by other Chinese, and as a result have become increasingly rude and resentful of their station. This is perhaps engrained into the society's culture. Other cultures, like the Americans and even more so, the Japanese, find no issues with service. People at all levels of social status in Japanese society engage in service oriented activities with pride. But in Chinese society, this tends to be a task where often there is no incentive to bring "service with a smile." Accordingly the foreign managers need to be aware of the cultural and societal foundation to employee actions, or lack thereof. This is just one of the reasons why Chinese employees have such a difficult time abiding by corporate requirements.

In a socialist society, people work collectively to accomplish their everyday tasks. Food, shelter, and all the necessities are secured for them under this type of system. The quality of the work is not of the greatest importance. Consequently employees are concerned only merely with the completion of a task often disregarding the level of workmanship. In the PRC, employment is theoretically still guaranteed to all people, although this is slowly changing as state-owned enterprises are beginning to dissolve. The threat of being fired does little to frighten the employee into submission; therefore another tactic to instill personal motivation for excellence must be taken. As an alternative, there is a need to rethink and redevelop a new corporate ethic for foreign corporate enterprises.

To make a case for one example, Beijing-Kentucky Fried Chicken could have easily constructed a rigid description and schedule as to the tasks necessary to maintain this global corporate standard. This schedule would notify each employee what time they are to sweep the floors and how many often. Beijing-KFC's mistake was leaving it to the employee to define on his or her own what "clean" was clean enough. It is important to remember that constant turnover of employees was costly as a result of ill-spent training. With inconsistent staffing, a sense of corporate culture and values never had an opportunity to manifest. It should have been extremely important to have open, strong lines of communication and understanding among the heads of the corporation, management and local employees because it would have emitted an atmosphere of commitment to the employee. This could have served as an incentive for employees to not only want to hold onto their present position, but also strive to excel within the corporation.

Another important area of potential cultural conflict, as Hofstede observes, is long-term orientation. This is highlighted in the previous case study. Hofstede and others have demonstrated that people from Chinese cultures tend to be much more future-oriented than their Western counterparts (Hofstede 1991). This will impact planning on issues such as investment strategies, short-term profitability goals, payback times, and even the time to complete negotiation and planning.

In a society, historically, where all pertinent information was handed down, very little independent thinking was encouraged. But now, such culture presents quite a problem. Divisional manager of Pacific Dunlop China, Steve Littley explained.

> " The first three months when I arrived — I didn't know what had hit me. You feel like you're Robinson Crusoe with 350 Man Fridays. And like Robinson Crusoe, you have to find a way of communicating. I was running around trying to work out why things happened a certain way and why I couldn't change them. I didn't understand them . They didn't understand me. They find it very hard to come to grips with change. You have to tell them how to do everything at first, but then you're very quickly in a position where you are relied on for everything. People would never come to me and say they think that I'm making a mistake. My style had become quite autocratic in some ways, but I need to be autocratic to get things done, but that stifles responsibility. It's a catch -22" (Upton 1995).

Labor was abundant, but not very useful since workers could not think for themselves. Managers were left to do their own duties in addition to those not done or botched by their employees.

Information typically only traveled down the organizational structure, and any information received from the reverse direction was highly suspected. To compound the problems, Chinese managers often just said yes — that they understood a problem — when they did not. They would then procrastinate until it was too late to solve the problem. This forced the foreign managers to always be on their toes and seek out information on their own, taking large quantities of time and effort. This was a disastrous problem during the Great Leap Forward, as the people out in the countryside were afraid to send accurate information back to Chairman Mao. This was in fear of losing face, for on paper it seemed that they were less productive than the neighboring town, whose figures were typically exaggerated. Pacific Dunlop China had to find a system that cultivated trust, confidence and ultimately, a vested interest in the business partnership- be it between two managers, a manager and an employee, or between employees- in hopes of instilling a sense of self-reliance in a reluctant atmosphere.

Empirical studies of Sino-Foreign joint venture performance have confirmed that cultural differences between partners negatively impact joint venture performance, leading to increased conflict and a lack of responsiveness to market demands (Ralston, et al. 1997; Lin & Germain 1998; Meschi & Roger 1994; Adler, et al. 1989; Barkema, et al. 1996; Barkema & Vermeulen 1997). In their recent study, Barkema and Vermeulen sought to discover what specific cultural differences were most likely to lead to problems in joint ventures.

These researchers measured cultural differences along Hofstede's five dimensions:

1. Power distance
2. Uncertainty avoidance,
3. Individualism-collectivism
4. Masculinity-femininity
5. Long-term orientation

Barkema & Vermeulen's results, which were tested on longitudinal data covering 828 foreign entries of 25 Dutch multinational corporations in 72 countries between 1966 and 1994, have important implications for Sino-Foreign joint ventures:

> Differences in the cultural backgrounds of partners cause problems in joint ventures but, as this study shows, some differences are more disruptive than others. Differences in uncertainty avoidance and long-term orientation, in particular, cause problems. These differences have a negative impact on joint venture survival... Apparently, these differences, which translate into differences in how joint venture partners perceive and adapt to opportunities and threats in their environment, are more difficult to resolve than differences along the other three dimensions. Perhaps cultural differences regarding power distance, individualism and masculinity are more easily resolved because they are mainly reflected in different attitudes towards the management of personnel – something firms can make explicit agreements about before entering the partnership (Barkema & Vermeulen 1997).

Eliminating as much uncertainty as possible is always in the best interest of the joint venture as a whole. David Lau, Group Director of Pacific Dunlop China's Clothing and Textile Operations affirmed this notion. "On the subject of joint ventures, I can't emphasize enough how important it is to ensure that the articles of association are really specific and not left vague. The Chinese language is very ambiguous at the best of times – and if you leave things vague, you can be sure it'll hurt later (Upton 1995)."

Beijing-KFC was not clear in what roles each partner would have in the day-to-day operation of the joint venture. A major topic of discord was, as mentioned before, on quality, service, and cleanliness standards. Everyone had an opinion. The employees believed that sales would not suffer and morale would improve with a slackening of the corporate standards. The local partners felt that they knew the Chinese customer well enough to know that these high standards were a waste of time and energy. Kentucky Fried Chicken, as a corporation, was angry that their Chinese partners were overstepping their authority, and assessed why they chose those partners and what role they thought they were supposed to take on. Animal Production was supposed to play the role of the supplier: secure the chickens and the produce, nothing more. The Tourist Bureau carried two duties. The first was to secure the location, which they accomplished. Second, they were supposed to facilitate a working relationship with the local government, which as sales and reputation grew, diminished the Tourist Bureau's importance. With respect to the employees, they were simply to do what they were told: no questions asked, no opinions asked for. But this framework was never laid down from the beginning, and made interactions exceedingly difficult.

One point that was especially interesting was that the manager KFC sent was a Chinese American. The Americans felt that sending someone who spoke Chinese fluently and appeared Chinese would help to ease their entry into this foreign locale. But it only served to complicate matters. The Chinese employees and partners saw a Chinese face on an American manager and assumed that he would intrinsically understand the root of their cultural beliefs when in fact he was quite far removed. Their expectations were for him to internalize their way of thinking and then relent. In dealing with Caucasian managers, the

Chinese often felt that they could “get away” with more, but they often used double standards. They seem more willing around the Caucasian foreign manager since their company has an interest in the foreign nation and its people. However, there is some conscious or unconscious resentment toward Chinese who left their home country. Now, they have returned, talented and well to do, and envy and bitterness lay heavy in the air. This is not an issue that is specifically addressed anywhere in the KFC case study, perhaps to make the distinction between the West and China more black and white, but it would seem that this is an extremely important cultural concern for which more data need to be gathered.

Lin & Germain, who specifically examined Sino-American joint ventures in their research on cultural differences and joint venture performance, also found that some cultural differences were more critical than others. Their overall findings illustrated that cultural similarity (across all dimensions) is a “critical antecedent for joint venture success”(Lin & Germain 1998). Therefore, in many cases, finding the similarities between the cultures opened up opportunities once overlooked.

Multinational joint ventures between foreign and Chinese firms present a wide range of opportunities and advantages to both partners. The potential to reap the benefits of these opportunities will be maximized when the partners can achieve a synergy of goals, resources, and outputs. As this review has shown, no joint venture is free of risk. Ventures between Chinese and foreign partners appear to be especially risky because of the inherent danger of conflict stemming from dramatic cultural, linguistic, political and economic differences. While cultural differences may pose the most significant threat to the outcome of the Sino-Foreign joint venture because they span the border between two nations, studies of Sino-Foreign joint ventures do not go so far as to suggest that these joint ventures are doomed to fail. Indeed, recent research has revealed that some cultural differences are more critical than others in ensuring the ease of operation of Sino-Foreign joint ventures. These research results, --which point to the critical roles of differences in uncertainty avoidance (risk-taking), long-term orientation, and problem-solving approaches,-- provide potential joint venture partners with guidelines for conflict resolution.

3. CONCLUSION

The global marketplace puts demands on corporations that mandate the formation of joint ventures. The trend toward globalization will undoubtedly continue –the extent to which corporations can successfully integrate with foreign partners will shape their futures in the economy of the 21st century. There are a few points to highlight that will conclude what has been discussed so far. Foreign multinational corporations attempting to capture a competitive advantage in the PRC find the joint venture the most efficient way to conduct business. The local knowledge and relationships are vital pathways into the market for companies without prior experience. Because of the large investment of both human resources and capital that is necessary for the development of infrastructure and skilled employees, joint ventures are not meant to be short-term projects.

A foreign multinational executive wants to know if he can develop a globally integrative approach. Can there be a formula or template for joint ventures that his company can use in the PRC that will guarantee success? Corporations are like individuals; built on independent philosophies and cultures, which make them unique in the world. The three case studies examined in this paper are from three distinct industries. They represent only a sliver of the business industry pie. Moreover, each exists at a distinct point in time. Perhaps the information that has arisen from the case studies examined has not manifested in the form of solid advice, but instead has opened the doors to considering the sorts of issues being tackled by several multinational corporations forming joint ventures in the PRC.

It is crucial to avoid making the assumption that if every multinational corporation acts in one such manner they will achieve ultimate success. Instead we must ask what questions and factors did the multinational corporations address in the course of their joint ventures and what insight does this lend to our own businesses. How were the problems handled and did an eventual resolution come about? What issues did they neglect to raise? Are there ways to reconcile the dilemmas that arise from being ill-equipped?

With this said, there remain important patterns observed across joint ventures in the case studies discussed in this paper. There are recurring problems, as examined earlier, which are seen in the People's Republic of China. These concerns have long-term implications for foreign investors in the PRC. Multinational corporations need to be aware of the existence of these issues, and also of how other corporations in similar circumstances dealt with the situation. They must consider the consequences these actions have on the ultimate outcome of the joint venture, both favorable and unfavorable.

Multinational corporations may want to know if these are trends in the market. For example are there particular industries that are better suited for joint venture partnership in the PRC? To respond to this particular question, it is important to remember that this venture is an international one. When going overseas to do business, or in any occurrence of inter-cultural business relations, one has to realize that standards and ways of doing things are culturally and societally engrained in the people. Excellence and pride in the service industry were not things that the Chinese were culturally accustomed to. This is not to state that service-based industries will not survive in this market, but they must have increased awareness of the difficulties that their predecessors have encountered. People in the manufacturing industry may have found success in the past, but conditions are changing and the environment to which multinational corporations are considering entry must be constantly reassessed.

We must remember a joint venture is not a conquest, but a partnership. These multiple partners need to devise a way to operate symbiotically. Foreign multinational corporations often export their domestic notions of authority, quality, law, politics, education, and the general concepts of "right and wrong". If one imposes too much force on any single object, such as a metal pipe, it will snap. It is necessary to be adaptable and willing to let things go slowly. Foreign multinationals remain just that, foreign, therefore they cannot expect to come in and run the show. Steps need to be taken by both parties to assimilate and understand the premise upon which each partner bases its viewpoint. Neither party can merely state their viewpoint and compel their partner to comply. But if steps are taken gradually and compromisingly, and corporations are willing to make a long-term investment in this market, then any pipe can be yielding. Adaptability carries the potential for great returns.

This paper may not present an approach that is entirely globally integrative, but its discussion does seem more useful than the rhetoric that is often provided by those believing they have devised the perfect "cookbook" approaches to analyzing joint venture issues. Providing a broad spectrum of questions that the multinational corporations must consider, the conclusions made in this paper seem applicable to the situations of multinational executives encountering unprecedented cross-cultural situations. They will, then, be able to ask themselves specific questions under each umbrella category. These findings will serve as the springboard for new questions and insight concerning joint ventures and their future as a strategy for foreign investment in a cross-cultural environment.

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