

Going Global: Cross-Culture Management Strategies of Chinese Private Enterprises

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Abstract

Chinese Private Enterprises rise is considered to be the symbol of the country’s “Go Global” strategy. However, Chinese companies have to learn to overcome a series of challenges in the overseas Mergers and Acquisitions (M&A). Based on “Four Centrist” Theories proposed by Malcolm Warner, Pat Joynt, the paper analyzed factors influencing cross-culture management modes and key challenges for Chinese Private Enterprises. Suggestions and recommendations are proposed to improve cross-culture management strategies of Chinese private enterprises.

Key words: Chinese private enterprises; Cross-culture management Modes; Management strategies; “Go Global” era 4.0

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INTRODUCTION

According to China’s Ministry of Commerce, China’s foreign direct investment keeps growing at an alarming rate since 2001 when China joined WTO. From 2003 to 2017, the average growing rate of China’s outward FDI (Foreign Direct Investment) is as high as 35.8%. Moreover, Chinese companies invested in 7,961 overseas enterprises in 164 countries and regions in the past year. As Xinhua news agency reported, the New Silk Road Tour was a strong boost to cooperation between Chinese and foreign firms. Meanwhile, Chinese companies carried out 197 overseas mergers and acquisitions (M&A) in the manufacturing sector last year, accounting for 26.6% of the total.

Katarina and Bojan (2017) note that Private enterprises’ rise is considered to be the symbol of China’s “Go Global” strategy, as they directly invested in foreign markets, set up factories overseas, employed local labor and acquired foreign companies and infrastructure. It is known as “Go Global” era 4.0, a period in which private companies are becoming the main driving forces. Over this period, China’s manufacturing bases gradually moved outside domestic markets and “Made in China products” was gradually received by overseas markets.

However, Ungson and Wong (2014) points that Chinese companies have to learn to overcome a series of challenges that occurred in the cultural integration, such as lack of qualified human resources, brand building and intellectual property issues.

Obviously, “Go Global” era 4.0 requires Chinese private enterprises to tackle the cultural conflicts successfully by choosing the proper cross-cultural management mode.

1. CROSS-CULTURAL MANAGEMENT MODES BASED ON “FOUR CENTRISM” THEORIES

According to Malcolm and Pat (2001) proposed “Four Centrism” theories to describe different cross-cultural management modes, which include Ethnocentrism, Polycentrism, Regionazcentrism and Geocentrism.

China’s foreign investment keeps growing at an alarming rate since 2001 when China joined WTO (World Trade Organization). From 2003 to 2012, the average growing rate of China’s foreign investment

1.1 Ethnocentrism

For transnational companies guided by “Ethnocentrism”, the typical management mode is to apply the management mode and corporate culture to the overseas subsidiaries. This type of companies tend to place the essential functional department in their headquarters, or parent companies. It is the parent companies that make policies which subsidiaries are only responsible for implementing. Therefore, the organizational structure appears to have “big and strong headquarters but small and weak subsidiaries”. The communication pattern is “one-way street”, which means the parent companies make business plans and give orders which subsidiaries report the results to the parent companies.

“Ethnocentrism” companies usually have strong capabilities which hereafter result in national pride and confidence in their own national culture. With the assumption that home country’s culture is somewhat superior to host countries’ culture, “ethnocentrism” companies are likely to believe home country’s management mode is undoubtedly better than other countries. Inevitably, it is found that home country culture undertakes a more aggressive role. For instance, the management mode and regulations are all adopted by the subsidiaries. Employees from the host countries are forced to accept home country’s evaluation criteria and management system. As a result, parent countries usually adopt unilateral actions to handle management problems triggered by cultural conflicts. However, in the context of people-oriented management and consistent upgrading of management mode, “ethnocentrism” appears inappropriate.

1.2 Polycentrism

“Polycentrism” is frequently referred to as “localization”. For transnational companies guided by “Polycentrism”, they accept the fact that cultural differences do exist and propose to establish, based on the practical situation of host countries, the management mode accepted by the host countries. However, under this kind of management mode, the parent company is not able to exert the full control of the subsidiaries and its power tends to be

weakened. Despite this, subsidiaries mainly undertake the task of achieving the goal of performance made by the parent company. In terms of the organizational structure, these subsidiaries (except some core department, such as Research and Development department) can be regarded as an independent company. Polycentrism helps the transnational companies to better adapt to the host countries by facilitating the production, sales and marketing in the local market. It also makes it possible for the company to expand the overseas market by eliminating the cultural conflicts between home country and host countries.

1.3 Regionazcentrism

“Regionazcentrism” is also known as “the initial phase of Geocentrism”. For transnational companies guided by “Regionazcentrism”, their subsidiaries basically adopt the general management criteria made by the parent company. On the other hand, the company categorize subsidiaries from different regions of the world into independent interest groups, which may adopt completely different management modes. But for the companies in the same interest group, the regional headquarters and its subsidiaries have a close interdependent relationship. “Regionazcentrism” guarantees that the parent company can have the full but flexible control of the subsidiaries.

1.4 Geocentrism

Different from the management modes mentioned above, “Geocentrism” advocates a management mode without any feature of any culture. Subsidiaries select the management mode and make regulations based on the practical needs instead of the culture of home country or host country.

“Geocentrism” have lots of better advantages. First, the selection and appointment of the employees is comparatively free. The scope of employment is on a global basis and is not limited by the nationalities. Second, the management mode can be localized or modified based on the practical situation. Also, subsidiaries adopt the advantages of both home country’s culture and host countries’ culture. Third, with consistent goals, parent companies and subsidiaries keep close cooperation on a global basis.

However, transnational companies featured with “geocentrism” may face more challenges. First, political risk looms large if managers of subsidiaries do not have a thorough understanding of the local laws and regulations. Second, companies may be faced with a difficult task of finding the talents who can handle sophisticated cross-culture management issues. Third, this management mode requires a universal standard of remuneration and high cost of training staff with diverse cultural backgrounds, creating heavy economic burdens.

2. FACTORS INFLUENCING CROSS-CULTURE MANAGEMENT MODES

2.1 Scale of the Overseas Subsidiaries

When the subsidiaries function as the production bases of the parent company, the main goal is to acquire cheap labor force and abundant resources, which means low degree of cooperation between parent company and subsidiaries. In that case, companies which choose “ethnocentrism” mode are more likely to achieve success with a lower cost. In contrast, when the products produced by subsidiaries heavily rely on the host market, employees or technology, polyeentrism or geocentrism is more appropriate. For instance, when the local market has a unique preference or taste for the product, transnational companies are supposed to conduct R&D and sales strategies based on the local needs.

2.2 Cultural Differences Between Home Country and Host Countries

Hofstede (2001) proposed his famous cultural dimensions theory which is a framework for cross-cultural communication. He provides spectrum of 4 cultural dimensions which puts together national scores (from 1 for the lowest to 120 for the highest). The theory is one of the first quantifiable theories that could be used to explain observed differences between cultures. When there is a remarkable difference of the two cultures scores on Hofstede’s cultural dimensions scale, the two cultures differ greatly. In that case, managers mainly adopt “polyeentrism” management mode to eliminate cultural conflicts. Product and services would be modified to satisfy the needs of local market. In contrast, then the two cultures have almost the same ranking on Hofstede’s cultural dimensions scale, the two cultures have a lot in common. The managers would mainly adopt “ethnocentrism” style.

2.3 Modes of Operation

First, for companies in acquisition and merge, they prefer ethnocentrism, which means culture of the home country is in a more aggressive position and greatly influence culture of the acquired companies. Second, for shareholding companies, Polyeentrism is an appropriate management mode. Subsidiaries from the host countries adopt the local management style based on the general directions made by the parent companies. Third, for joint ventures, it is advised to adopt regionazcentrism or geocentrism, which facilitate the integration of two parties cultures and a brand new management mode would be created.

2.4 Departmental Functions

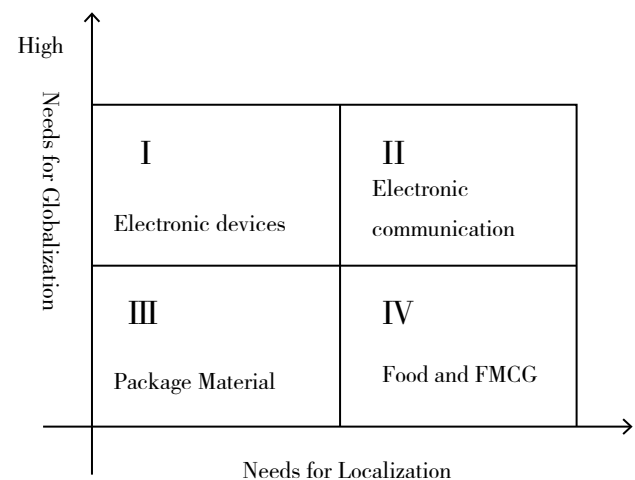
To fit into the international market, departments with different functions, even in the same company, may operate based on different management modes.

For financial and human resources “HR” department, “ethnocentrism” is the ideal mode. By controlling the profit distribution, investment approval and appointing and dismissing of senior managers, parent company can keep subsidiaries under efficient control.

For sales and marketing department, “polyeentrism” is preferred. As the technical aspects, R&D and product design are less likely influenced by cultural variables. There are universal standards about a great many scientific technologies. For instance, many transnational companies have established the research centers and institutions in China. China has become the third largest research center of Bell Germany, which attracted medical talents from various parts of the world to participate in the research work. Without any restrictions of nationalities, employees’ promotion and salaries totally depend on their work performance.

2.5 Industry Characteristics

Industrial characteristics can greatly influence a company’s management mode. When the industry where the company operate requires a high level of globalization, “geocentrism” can provide access to more information and resources. When the industry requires a high level of localization, “polyeentrism” works best by changing the products based on consumers’ needs. Zhao (2016) designed a figure (Figure 1) indicating how industrial characteristics influence a company’s management mode.



Graph 1

Figure 1
Influence of Industrial Characteristics on Company’s Management Mode

Quadrant I represents electronic communication products which requires heavy investment and high cost of R&D. Different countries and regions have different technical and service standards for this kind of products. Therefore, this industry has double needs for globalization and localization. Therefore, a combination

of “polycentrism” and “geocentrism” is ideal as a management mode.

Quadrant II stands for electronic devices which has a high demand for globalization and a low demand for localization. In most cases, functional products usually have international quality standards and certification system. Companies from this industry can realize economy of scale based on standardized production, leading to lower cost. As a result, “Geocentrism” works best for electronic devices makers.

Quadrant III represents package material, such as cardboard boxes, papers, etc. Compared with other products, package material has a lower demand for globalization since differences of package material are minor in various parts of the world. The point is not about globalization or localization, but about how to lower the production cost.

Quadrant IV represents food and FMCG (Fast Moving Consumer Goods), which requires a high level of localization.

Laudon (2010) stated that this is because culture is the broadest factor in consumer behavior because it shapes basic human values, wants, perceptions, and behaviors. Culture creates basic expectations that consumers bring to the marketplace, such as what should be bought in different markets, how things should be bought, and how things should be paid for.

3. KEY CHALLENGES FOR CHINESE PRIVATE ENTERPRISES

Managerial problems caused by cultural conflicts can be the key challenges for Chinese Private Enterprises. In the initial phase of “Go Global”, most private enterprises tend to neglect differences from host cultures of corporate missions, values, behaviors and regulations. A lack of qualified human resources worsened the situation. Consequently, some of cross-culture managers, without a thorough understanding of the other party’s culture, make decisions just based on their own culture and management standards. This triggered misunderstanding and conflicts, leading to management crisis. According to Hu (2015), more than 60% of Chinese overseas mergers and acquisitions (M&A) in the past ten years failed due to cultural conflicts.

3.1 Discrepancy in Corporate Rules and Regulations

For a transnational enterprise, the recruitment of employees on a global basis leads to the fact that employees in different countries and regions inevitably have different values, religions, traditions and modes of behaviors. The uncertainty of employees’ behaviors makes it much more challenging to manage the subsidiaries. This demands managers to adopt targeted management modes based on the cultural backgrounds of their staff.

For instance, for staff from the US, who values freedom, independence and democracy, managers are supposed to give them opportunities to express themselves. For staff from Japan featured with collectivism, managers should focus on building the leaders’ authority and team cooperation.

3.2 Discrepancy in Business Objectives

Another cultural barrier to cross-culture management is that people from different cultures have different business objectives, which means having different expectation about where the enterprise should go. For instance, managers from western countries, such as America, Britain and Germany, value the impact of market demand on the production management. Centered around market demand, they attach much importance on marketing techniques and emphasize standardization and regulation of management. In contrast, Chinese managers tend to focus on production process while having less budget for marketing.

3.3 Communication Obstacles Among Employees

Linguistic differences and expression habits differ greatly among subsidiaries and headquarters. This makes it extremely sophisticated and challenging for the transmission of messages between and among headquarters and subsidiaries.

First, the dispersion of subsidiaries’ geographic locations minimize the instantaneousness of information exchange. This can be detrimental to staff’s morale and team cohesion. Considering that Chinese private enterprise are in desperate need of employees with good foreign language proficiency, intercultural interaction with foreign coworkers is a weak link. This is especially true in the initial phase of internationalization. Living in separate cultures for a long period of time, employees have little in common in personal experience, values, perceptions and language. As a result, there are serious communication obstacles among employees from different cultures.

Second, differences in nonverbal language causes diversified understanding of the same issue. Lustig and Koester (2007) states that nonverbal language includes body movement, distances, facial expressions, eye contact, punctuality, pose and even silence can transmit messages. But on a global scale, the same nonverbal signal can have different meanings. For example, German people are well known for their punctuality and are never late for any appointment. On the other hand, African people perceive time as a rubber, which means being punctual is not important and it is not impolite if late for an appointment.

3.4 A Lack of Qualified Human Resources

As Beebe (2016) pointed out, Chinese companies are struggling to develop a senior management team with the skills necessary to operate effectively on a global scale. Qualified international senior management team is vital

for implementing cross-culture management strategies. Qualified international senior managers are normally familiar with laws and standards of foreign markets, good language proficiency, international marketing techniques and have experience managing global operations. Beechler and Woodard (2009) made a survey that a successful international senior manager earn and create fat profit for the company while an unsuccessful one can cause a loss of around 80000 dollars annually. And if he/she is in the position for 3 years in a run, the loss will double and be as high as 500,000-1,200,000 dollars in total.

4 . S U G G E S T I O N S A N D R E C O M M E N D A T I O N S

4.1 To Keep Cultural Differences in Perspective

In the first place, to show respect to other cultures. It is essential to realize that no culture is superior to others. Each culture has its unique characteristics. When managing a diverse workforce, Chinese entrepreneurs need to understand and respect host cultures by learning the general social rules of host countries. Encouraging different cultures bloom in the same enterprise and leveraging a shared vision is crucial in realizing cultural integration. For instance, Fuyao Glass Industry Group insist that there is no need to make each subsidiary's culture as same as the Chinese headquarters. Instead, it is a more wise decision to integrate all the positive elements from diverse host cultures into its corporate culture.

4.2 To Promote Open Communication

It was reported that 86% of employees participating in a Fierce Inc. survey responded that miscommunications as the root cause for workplace failures. In fact, Chinese private companies have realized that effective communication is top priority.

First, to fully exploit the formal communication channels. They include convening conferences, submitting reports, internal interviews and questionnaire surveys. Senior managers should encourage employees with different cultural backgrounds to freely express their views.

Second, to focus on the informal communication ways, which include suggestion box, e-mails, online chatting systems. The informal communication can enhance employees' enthusiasm in other cultures .

Third, technology has come a long way and a lot of useful Apps can be applied to eliminate cultural barriers due to linguistic reasons. Internet technology can guarantee communication flows smoothly between subsidiaries.

4.3 To Develop Diversity Training Programmes

Chinese managers should provide the staff opportunities to learn about their overseas coworkers' perceptions and

way of doing things which is vital to build a healthy work environment. The senior management team must have a thorough understanding of each host country's culture, such as traditions, preferences, taboos. In fact, both Chinese domestic managers and local managers from host countries need to undertake cross-culture training.

4.3.1 Training for Staff in China

For Chinese staff, the content of cultural sensitivity training include three parts. First, Chinese staff takes traditional training classes concerning foreign traditions, custom and way of doing things. Second, simulation games can be employed to design different scenarios where employees can face as many cultural conflicts they may encounter in the work life as possible. In fact, complete cultural sensitivity training programmes can equip expatriate staff with necessary knowledge and skills to handle cultural shock and alleviate frustration they may experience in another culture. Third, staff from both home and host countries should also take language training classes. They should not only learn linguistic expressions and uses, but also body language, signs, customs and traditions.

For example, Huawei established Huawei University in 2005 to provide new staff training, management training and technical training. In addition, the company also provides a series of cultural training for expatriate staff, who would study the strategic analysis of North America market, an orientation to American life, Sino-American cultural differences and any other unpredictable factors.

4.3.2 Training for Staff in Host Countries

Local staff from host countries should also receive cultural sensitivity training. Due to geographic limitations, the number of expatriate staff is limited and most of the positions should be taken by the local employees.

There are two types of training for local employees. First, to send Chinese senior managers with working experience and strong cross-culture competence to the host country. They function as the cultural bridge between parent company and subsidiaries. Second, to invite the local managers with lack of experience in cross-culture interactions to the headquarters in China. They will receive training about Chinese corporate culture, management philosophy and other specific skills.

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