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Staffing composition in foreign subsidiaries in China

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Part A: Literature Review

General Introduction

These days, a start-up should be prepared early on with a detailed plan which enables them to do international business. Going international has become a necessity in this global world and has proven to be a very effective way to expand businesses. Many small or medium sized enterprises (SME) face this pressure. When compared to bigger multinational companies, SMEs may not be prepared for this international step and therefore encounter difficulties, which may become disastrous for them.

The potential growth that can be achieved by entering a new market attracts many companies. However, only few of those who make the big step will establish a fruitful business. When companies enter a new market, they have to operate in a new environment and this brings about many new challenges. In order for them to be successful, it is important to identify, evaluate, and understand the differences between their current market and the market in which they want to expand their business.

There are many avenues to explore when seeking to expand markets. Some examples of such include differences in legal rules, political systems, and economic circumstances. Geographical distance, language, and societal differences are also possible initiators for problems that companies whom are expanding their businesses globally may encounter. Hence, it is important to recognize these differences and acknowledge the importance of every single one of them. In part, many of these differences can be anticipated before entering the market through a market entry analysis. However, some, notably under social and cultural differences, might require country specific first-hand experience, hence management practices are likely to differ.

Cultural differences are often neglected in a market entry analysis. However, they might be of major importance for performing well in this new market. A reason why these differences are seldom taken into account is that they are hard to identify. Moreover, once they are identified it is not easy to assess their influence on the success of a market entry.

Chapter 1 – Introduction

Section 1 - Case Study

Global expansion and market entry can be initiated in different ways, this study is inspired by the case of Kreon. The author of this study has been involved in the set-up of Kreon's Chinese office during his internship, where he gained firsthand experience and insight into some problems that arose during this market entry. Before stating the research question, the case study of Kreon will be described in order to give an idea of the situation and to state the interest of the research.

Kreon is a Belgium-based company been developing and producing architectural interior lighting and metal ceiling systems since 1982. The company was founded in Belgium and gradually expanded all over Europe. Their market expansion didn't stop in Europe, with offices in New York, Brazil, Dubai and Singapore they are a global player in the lighting market.

Kreon is a family owned SME that is preparing itself to double turnover within 5 years. Further global expansion will be necessary in order to achieve this goal. In 2014, Kreon opened offices in three new countries; Poland, Russia and China.

Their usual approach, when entering a new market, is to set up a sales satellite, starting with one sales person working to develop that particular market. When business is going well and opportunities become more tangible, the team will experience growth with the addition of an additional sales person, and later, an administrator for internal sales. In some cases even a designer is added to make lighting designs and provide technical support in the proposals.

This study was inspired by the set-up of their Chinese sales satellite. There are several reason why Kreon wanted to open a Chinese office. First, there is a considerable amount of sales generated from Kreon offices outside China for projects within China. The projects they have provided for within China so far were generated from France, Italy, Germany and Singapore. Beside this, Kreon saw a huge market potential in China because of the size of this market and its increasingly growing importance in the global economy. The presence, and success, in China of its European competitors, might have also served as indicators that it would be worthwhile to invest in the Chinese market.

Kreon consulted a Chinese-Belgian consultancy company that advised them in the market entry mode, assisted in the registration of the company, set up financial operations and organized some human resources. The Chinese subsidiary is registered as a wholly foreign owned enterprise. Kreon decided to take on the market entry carefully and grow gradually. They started with one Belgian employee, sent from the home country to discover and develop local business.

Kreon products, architectural lighting, are typically specified by lighting designers, interior designers or architects. Depending on the type of project, a combination of different parties can be involved. This can go from distributor, electrical contractor, general contractor and end client. This is more or less the same in every market. What seems to be different in China is that the designers have less influence and power towards the end client to stick to the specified materials and corruption or bribery frequently occurs. In many cases, the products that were initially specified, will be, for various reasons, replaced by one of the parties in between the client and the designer. Within this long chain, and especially in the relationship based market that China is, there is a high possibility that the end client will know someone personally, friends or family, or friends of friends, who can supply some other lighting. Also general contractor and distributors are eager to change the specifications and provide an alternative solution. From experience, this happens for a number of reasons, often it is in effort to increase profit margins on a project but often is also due to a of a lack of trusting relationships (guanxi) or communications problems with foreign suppliers. This is causing a difficult and slow market entry for Kreon in China.

Section 2 – Research Interests

After China opened its market in the eighties, it has been attractive to many Western companies. However, China is a particular market, presenting significant challenges for multinational companies. Even now, three decades after the big invasion of Western companies in China started, many of these companies still fail to successfully implement their business. The complex Chinese society and the increase in strategic importance that companies give to the Chinese market makes it interesting to explore the differences there are between business in China and business in the West.

When setting up business operations in foreign markets, companies should decide on their market entry strategy. This consists of different aspects and its success depends on the choices made throughout this entry process. At the market entry stage, the market in which to expand should be selected. Once this is known, decisions have to be made on the mode of entry, ownership structure, staffing composition, etc.

This paper has the intent to provide insights on the decisions with regards to staffing composition in foreign subsidiaries in China and to serve as a guideline for companies that are planning to expand their business in China or for those that already took the step and are facing problems with their human resources.

Section 3 – Problem Statement

Chinese organizational and managerial context is different from that of Western countries in many ways. Foreign managers often complain about how difficult it is to roll out a business in China and to work with Chinese partners or employees.

Guanxi is one typical example, widely known and well discussed in the literature. It is one of the major dynamic forces in Chinese business and the application of this concept at the organizational level has been pervasive and intensive. Guanxi is personal and guanxi between organizations is initially established by and continues to build upon personal relationships. When the person who brought a guanxi connection leaves, the organization also loses the guanxi (Luo. 1997).

This implicates the importance of strategic human resources. Companies considering to enter China should carefully consider who they will put in charge of this market expansion, who will become the face of the company. Should they send someone from their headquarters

or should they get someone local on board who is familiar with the way of doing business in that market? Both options will have advantages and disadvantages.

Section 4 - Methodology

The aim is to improve the success of market entry by guiding companies that want to enter China, or did so already, in the management of their human resources. More specifically, since foreign companies often face problems when managing their subsidiaries, this paper will discuss the staffing composition. How is the subsidiary staffing composition in China influenced by the social, cultural environment? The first part of this study will provide a literature review, covering the following topics.

Chinese cultural environment

What are the cultural differences and which implications do they have regarding one's staffing composition? Which issues arise from cross-cultural management in a foreign subsidiary in China?

In order to understand the needs a company has regarding its human resources when expanding its business in a new country, and since human resources is a social aspect, the first section of the theoretical part will be devoted to describing the Chinese market, specifically, the local management practices and cultural differences between China and the West.

Staffing composition

This section will investigate which influence the national culture and cross cultural management practices, as discussed in "Chinese cultural environment" will have on how companies will staff their foreign subsidiaries. How can staffing composition improve the success of a market entry?

Will a market expansion in China be more successful with an expatriate or local manager? from now on, workers send from the parent country to the foreign subsidiary will be referred to as expats. Further on this question will be raised whether expats are still necessary in China? What is the current trend on the role of expats in China and how will this evolve or devolve in the future?

Chapter 2 – Chinese cultural environment

Management tools such as Human Resource Management (HRM) have been considered as being universally applicable for a long time. However, due to increased internationalization of markets, it is now understood that practices such as managing personnel cannot be applied in the same way across the world. At least it is recognized that applying the same practices across countries will not necessarily result in the same impact, Verburg et al. (1991).

Cascio (1995) states the importance of the moderating effect of culture which, in most of the models of human resource management were neglected. These models generally focused on job analysis, staffing, performance appraisal and compensation. By doing so, they avoid emphasizing activities at the group and societal level such as communication, teambuilding and cultural values.

Managerial tools should be adjusted to the context in which they are applied. The cultural characteristics of a market plays an important role, human resource management is influenced notably. When applied in the right context, HRM practices will result in preferred behavior. Using the same practices in different contexts may initiate problems and is not a guarantee for obtaining the expected results. Before entering the staffing composition of a foreign subsidiary, it is therefore important to understand the context in which one will operate.

Section 1 - Cultural values

Chinese personnel and employment practices used to be characterized by the 'iron rice bowl' policy (Warner, 2005). In this model, companies act as a house father by providing their employees with housing, social and medical insurance, and employment security through lifetime employment systems. These personnel and employment practices gradually changed since the growing and opening economy of the mid-1980s and allowed the country to further development its economy and increase the living standards of the Chinese workforce. However, some ongoing practices or ways of acting by Chinese employees can be directed to this historical model.

Chinese society is often characterized by Confucian values (Hofstede and Bond, 1991), based on three main principles. Hierarchy, individuals should form a part of a system of interdependent relationships. Reciprocity, people should strive to become righteous. Personal power, power should be exercised only by those people who have been thoroughly educated to do so.

Harmony is another key Chinese value and is significant in every-day life. It can be seen in the central position of family in the Chinese society. Individuals will prioritize the group, thereby neglecting their own individuality, in order to maintain harmony within that group or family. One of the well-known concepts that can be related to harmony is “face”. A common practice is to make suggestions for improvement instead of openly criticizing since the latter will be seen as loss of face for both parties involved, in the workplace this is often manager and subordinate. In order to maintain harmony in the company, Chinese workers are more likely to listen and to comply, rather than to initiate change (Zhao, 1994). Changes on the shop floor are likely to be disruptive, as stability is vital for maintaining harmony in unequal relationships (Hofstede, 1991).

Another aspect of Chinese society is the importance of connections (guanxi) for success in personal and business life. Despite the many reforms in China the way things are organized still relies strongly on personal relationships and connections (Yeung and Tung, 1996).

Guanxi

Research on guanxi is not new. As early as the 1940s, the eminent Chinese anthropologist Fei ([1947] 1992, pp. 25–33) observed that, Chinese society is organized by concentric guanxi circles, extending from the family (the core) to relatives, friends, and so on.

Dawes & Lee (2005) also explain that the Chinese phrase “guan-xi” consists of two characters. The character “guan” means a gate or a hurdle, and “xi” refers to a tie, a relationship, or a connection. So the literal meaning of guanxi “pass the gate and get connected.” Guanxi is a concept referring to connections and interpersonal relationships. Most logically it can be related to kinship and friendship relationship, also social connections can be referred to guanxi. (Hwang 1987; Jacobs 1979).

In sociological terms, guanxi consists of personal ties or social bonds (Walder 1986) and is described by some management consultants as “the informal connections so essential to gaining approval for or access to just about everything in China” (Tsang 1998, p. 64).

Chinese firms have been using guanxi to build and maintain international business relationships (Zhou, Wu, & Luo, 2007) and generally it is known as a way of doing business by Chinese business men to develop better positions and maintain a competitive advantage (Standifird & Marshall, 2000). Guanxi can also directly affect market performance and indirectly influence it, Gu et al., (2008).

Different Types of Guanxi

A distinction has been made between guanxi (connections) and guanxi xue, which is the manipulation of connections (Yang 1994, Guthrie 1998). The former is widely known and discussed, while the latter implies the reciprocity of favors inherent in a gift economy.

Jacobs et al. (2004) differentiate types of guanxi between the familial and the instrumental. The basis of the former can be found in the ethics of obligation and affection in the Chinese Confucian society; e.g. the father-son relationship where the son is guided by his father and the son has to obey his father. This guanxi emphasizes harmony and cooperation and is a web of extended family ties (Yang 1965, Fried 1969, Liang 1986). The second mode of guanxi, the instrumental one, is more functional; it is based on reciprocity of gifts and favors and involves a complex etiquette (Jacobs 1979, Hwang 1987, Yang 1994).

Wank (2002) differentiates guanxi based on the degree of obligation. The highest level of obligation is to family members. The next highest level, which he calls ‘guanxi savings’, are the ties fashioned by shared experiences before a person’s career and based on emotional attachment (ganqing). These ties typically are friends and classmates. The weakest level he terms ‘guanxi investments’. These are connections forged for commercial reasons, such as work colleagues and business partners. This categorization is consistent with the approach of Yang (1994) and M. J. Chen (2001). They categorizes interpersonal relationships (guanxi) in China into three groups: (1) *Jiaren* – between extended family members – the closest possible relationship in the Chinese context; (2) *Shuren* - between familiar people, such as neighbors, friends, people from the same town or village, former classmates or friends of friends with

whom one shares a significant connection.; and (3) *Shengren* - between strangers or mere acquaintances.

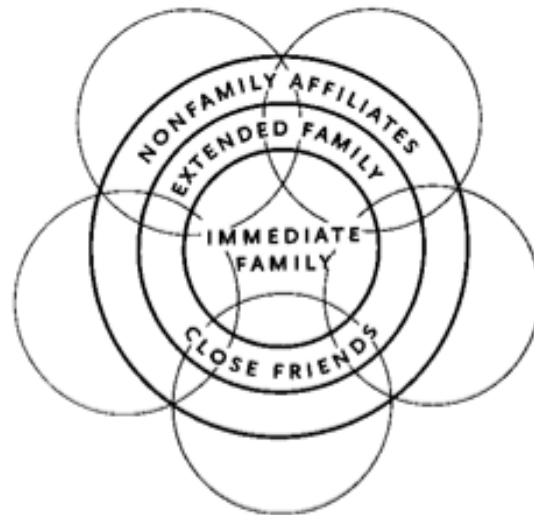


Figure 1. *Interlocking Guanxi Networks*. (M. J. Chen 2001)

Guanxi can be exclusive, but it is not impenetrable. The three concentric circles in Figure 1 illustrate the various levels of guanxi, starting from the core of most intimate family ties and extending out to non-familial affiliates. The interlocking circles represent the various interpenetrating guanxi networks. Even if you are a shengren standing on the outside, the interlocking circles show that your connections can link you to the inner circle. M. J. Chen (2001).

Different Components of Guanxi

In Wangs' investigation on guanxi, *An analysis of interpersonal relation-specific investment in China* (2014) there have emerged four dimensions related to guanxi: affect investment (ganqing), favor exchange (renqing), face management (mianzi), trust and trustworthiness (xinyong). These categorizations were in line with the “relational norms” (guanxi norms) that have been classified in existing literature (Yen et al., 2011).

Ganqing

The most noticeable aspect of guanxi is affect investment, it is proactive and effective in both building and maintaining guanxi (Shou, Guo, Zhang, & Su, 2011). The Chinese were instructed to think more of others' interests. Affection and loyalty to friends are highly

regarded in the Chinese society. Affect investment can be done through sharing inner feelings, demonstrating personal care through gift-giving, and participating together in social activities.

Different authors give slightly different descriptions or definitions to ganqing but most of them are quite consistent. Ganqing refers to the emotional attachment that exists among network members (Wang, 2007). It denotes a sense of loyalty, solidarity and the willingness to take care of each other under all circumstances (Chen & Chen, 2004).

Understandably, when two parties have grown positive feelings towards each other, it will most probably generate an increased cooperative behavior. In such relationships, individuals are often more receptive to developing a team spirit, willing to help tackle common problems and have the desire to maintain cooperative relations (Leonidou et al., 2002).

Renqing

Favor exchange or renqing is another typical aspect of Chinese business culture. It is also considered as an essential mechanism for guanxi in order to operate. When comparing relationships in the West, the reciprocal obligation to exchange favors can be considered as the most unique characteristic of guanxi (Yang, Ho, & Chang, 2013). Social exchange theory argues that, in relational exchanges, actors may perform a favor “without knowing whether, when, or to what degree the other will reciprocate” (Molm, Peterson, & Takahashi, 1999).

Face

Face management (face-saving, face-giving) is the hygiene factor for maintaining guanxi. Face (mianzi) refers to a person's positive image as perceived by others which, in turn, enhances one's self-esteem. According to Dawes & Lee (2005) face describes a person's proper relationship with his or her social environment, and its importance lies in the consequence of living in a society that is conscious of social contexts (Hofstede, 1991).

Face can be given by making decent compliments and satisfying others' requests and can be saved by avoiding public criticism and indirect communications. In the process of acquiring face, people sacrifice themselves to those who have helped them, such as teachers or former bosses (Bond 1991). Even where strangers are involved, the Chinese consider it important to maintain face. Respecting this practice can open up potential networks for the

Westerner, while unintentional disrespect can create unanticipated problems and cause severe damage. (M. J. Chen 2001).

Face is lost when people, either through their actions or the actions of those closely related to them, fail to meet essential requirements placed on them by virtue of their social position (Ho 1976). A loss of face brings shame to people and their family. Causing others to lose face is considered an aggressive act by those whose face has been discredited (Tung and Yeung 1996). The link between face and reciprocity can be made, according to M. J. Chen (2001), it is a shared responsibility not to damage the standing or reputation of others. When you cause another to lose face, you damage not only their reputation but yours as well.

Trust

Roy Y. (2012) explains in *Building effective Business relationships in China* that trust plays an indispensable role in cross-cultural business relationships. Partners from different cultures don't always have the same values or assumptions about how business works and therefore it lies at the heart of successful long-term intercultural business relationships. Building trust across cultural borders can be considered as being a key process for building effective business relationships.

In Chinese society, there is a clear distinction between in-group and out-group people, such as strangers. For in-group relationships, where it is common to have expressive ties, more attention is paid to attachment, harmony, and long-term relationships. This is done by following the group and avoiding rejection (Hui and Triandis 1986). For out-group relationships, where most of the ties are instrumental, there is an initial distrust among people. Moreover, Fukuyama (1995) categorizes Chinese society as a low-trust society in which its citizens tend to distrust out-group people and trust only in-group people.

Roy Y. (2012) noticed changes in Chinese business since the country opens up to global businesses and organizations. Part of that change is the increased prominence on one's business partners' competence and accomplishments. What that means is that Western executives need to start by developing the other person's trust in their capability.

Barnes et al (2011) mentions that in the Chinese context, trust occurs at the individual level among people, *xinren*, whereas in the west, trust tends to be discussed more at a corporate or business level. Formalized contracts don't mean a lot in China since it is

common practice to get to know their commercial counterparts initially and to trust them on their word, or verbal commitment.

The critical difference is the basis of trust or trustworthiness. Zolkiewski & Feng (2010) identify that a distinction has to be made in Chinese relationship management between xinyong or personal trust and xinren or deep trust. Personal trust or credibility building means trusting others and being trustworthy and is based on one's credibility as a person. Linking to reciprocity, someone who will return favors, one who has the capacity, willingness and sense of duty, and who can be counted on to do so, will be seen as credible. Deep trust, is the extent to which a partner is genuinely interested in the other partner's welfare and is motivated to pursue joint gain.

Roy Y. (2012) states a similar, two-dimensional approach. In fact, the Chinese word for trust, xin-ren, refers to both trust from the heart or xin, and an assessment of the other's reliability and capability or ren, resulting in two kinds of trust. The first is trust from the head or cognitive trust. This type of trust emanates from the confidence one has in a person's accomplishments, skills and reliability therefore it can be compared with personal trust. The second type, trust from the heart or affective trust, arises from feelings of emotional closeness, empathy and rapport.

Developing trust can significantly reduce what Westerners often complain of in their dealings with Chinese counterparts: unpredictable behavior and a lack of transparency, (Roy Y. 2012).

Kriz & Fang (2003) have an interesting finding that says when trust is high, the Chinese will do business as a gentleman. When there is no trust, the same Chinese would act as a strategist and potentially use whatever strategies and tactics are necessary to knock the opponents off balance. Trust appears to be more important than guanxi and the results support the findings of Matthyssens and Faes (2006) and Kriz and Fang (2003). They say that guanxi can act as a relationship initiator while trust determines how successful the relationship will become.

Section 2 - Cultural dimensions

The key for explaining cultural differences in the behavioral sciences is to focus on values (Bond, 1991). Culturally-based value systems result in six cultural dimensions. Hofstede (1980) described: power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance. Further research by Michael Bond (1989) identified a fifth "Eastern" dimension called long-term/short-term orientation. Currently, indulgence has been added as sixth cultural dimension in Hofstede's model. Comparing China with Western countries along these five dimensions give some major insights.

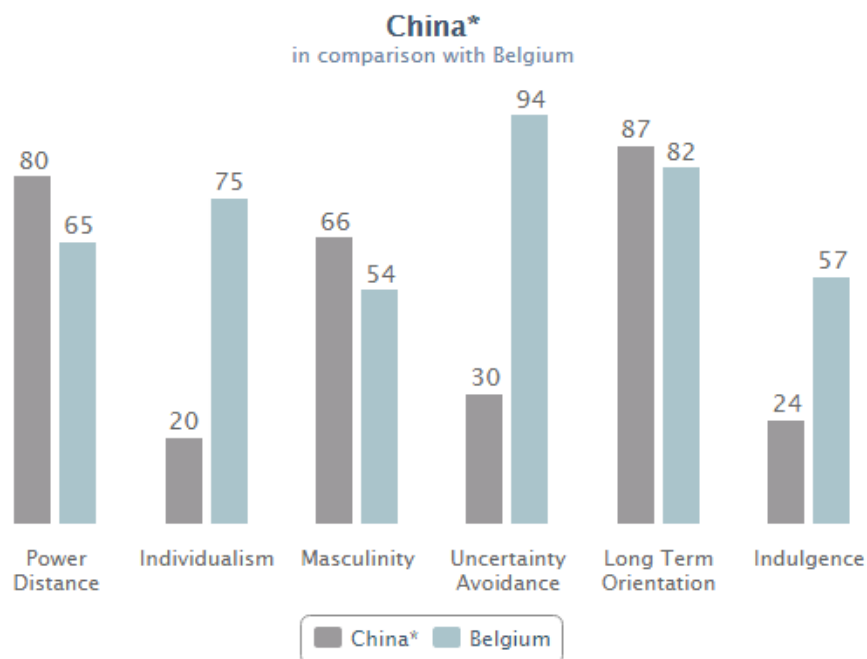


Figure 2: Hofstede's 6-D comparison China – Belgium. Source: <http://geert-hofstede.com/china.html>,

Power distance

Power distance is the extent to which less powerful people in an organization will accept and expect power to be distributed unequally. China ranks 80 on PDI which is very high. Hofstede (1980) explains that China, as a society believes that inequalities amongst people are acceptable. This can be seen in the relationship between subordinate and superior. There is a very clear difference in the level of power and abuse of this power is acceptable. It is not accepted that people have ambitions above their ranks

Collectivisme vs. individualism

This dimension reflects how members of a society depend on each other. Also reflected as “I” thinking or “we” thinking by Hofstede (1980). “We” thinking societies score high on collectivism and people members of “in groups” on which they can rely in exchange for being loyal to them. China is described as highly collectivist with a score of only 20. The group interest is placed before the personal interests. Commitment to an organization is low and personal relationships are more important than task and company. This implicates an improved cooperation with colleagues that are in-groups, the opposite is true for out-groups. Parkes and Bochner (2001) found that collectivists were more committed to their organizations and had longer tenure than individualists in Asia, as compared to Australian organizations.

Masculinity

Competition, achievement and success are key for countries that score high on masculinity. This system has its origin in school and is reflected in the professional environment. People find their motivation in being the best, as opposed to be motivated by liking what you do as in a feminine culture. Chinese society is driven by success. Sacrifices will be made towards family and spare time in order to fully commit to work and obtain success. In the big cities in China this can be seen by migration of many people coming from more remote places to get better jobs and salaries. Another example is that Chinese students care very much about their exam scores and ranking as this is the main criteria to achieving success.

Uncertainty avoidance

This can be seen as the degree to which members feel uncomfortable to uncertain situations. Different cultures respond differently when faced with uncertainties because their past experiences determine how they’ve learned to deal with them. China scores low on this dimensions, implicating that they are comfortable with ambiguity. Laws and rules rather than absolute, may be flexible to suit the actual situation.

Long-term orientation

This dimension describes how every society has to maintain some links with its own past while dealing with present and future challenges. High scores take a pragmatic approach

where people believe that truth depends very much on situation, context and time. They are flexible to adapt themselves to seize opportunities coming from changed circumstances, in order to obtain *success* as described in the masculinity.

Indulgence

The extent to which people try to control their desires and impulses, based on the way they were raised is expressed as indulgence. China is a restrained society meaning they score low on indulgence. Typically, these societies tend to have strong presence of cynicism and pessimism. Restrained societies will control their desires and actions of individuals are restricted by social norms and the perception of others.

Section 3 - Cross-cultural management issues

The meaning of management varies from one nation to another and countries have their own specific management practices and ways of doing business. When acting in the global market, different cultures and practices come together and this merging may result in differing opinions, causing clashes. Issues arising from cross-cultural management and frustrations felt by foreign expatriate managers in China are discussed by Tung (1993) and later by Goodall et al. (2006). They provided an investigation of the influence of Chinese culture on cross-cultural management. This part of the study will link the human resource related themes as discussed by Goodall et al. (2006) with the cultural values and dimensions as mentioned here above.

Communication

Apart from the language barrier, another important factor leading to misunderstanding and communication problems, even when both parties are using the same language, can be found in the Chinese unspoken language. Five major characteristics of this unspoken language have been identified by Gao (1998). Implicit communication, listening-centeredness, politeness, a focus on insiders, and face-directed communication strategies. Chinese speaking practices are often perceived as shy, reserved or deceptive. The reason for this can be found in the high power distance, where subordinates generally don't want disagreements with their managers and will therefore be polite to remain harmonic. The importance attached to "face" utmost important in Chinese communications. In order to

maintain face, they will not deal with problems in public and negative answers or open disagreements are avoided at all time as they will cause loss of face for others and themselves.

Staff turnover

A study conducted in 2008 by Michael Page China showed that 52% of businesses had experienced problems with retaining employees in the previous 12 months, and 90% of businesses considered that retention would be a major concern in the coming years (Michael Page China 2008). This finding is contradictory to the Confucian values of loyalty. Ralston (1993) shows that, however they don't completely abandon their Confucian values, the younger generation in China demonstrates greater individualism than their older colleagues.

Finding local staff , committed to staying with the company will therefore be a bigger challenge. Goodall et al. (2006) mentions two main reasons, besides money (which is undeniable), why employees change jobs.

The Chinese workforce is becoming more ambitious and expresses this in their eagerness to learn, acquire skills, competences and attitudes. MNEs therefore should pay attention to these personal ambitions and communicate the future prospects for its employee clearly.

Fairness of the company is the second important reason for high staff turnover as stated by Goodall et al. (2006) This concern arises from the inequalities between expatriates and local staff in terms of compensation and promotion opportunities. In many cases, local managers have limited career opportunities because of the many expatriate posts.

Gaining loyalty of local staff has become a critical concern. An effective way of developing loyalty from local managers is to reallocate expatriate posts to them. Management localization in China is not just a priority, but also a necessity.

Empowerment and motivation

Traditionally, the Chinese State-Owned Enterprises were known for their high formality, low disclosure, openness, and high degree of centralization. Local staff has still some characteristics that can be linked to this traditional approach. When local staff are given responsibility or when they are asked to take initiative, they will often feel uncomfortable and try to avoid it. In the western management style, taking initiative and giving responsibility are

seen as giving more freedom to employees, to encourage creativity. In China, however, local staff will need time and careful support in order to change their mindset Goodall et al. (2006). Graf et al. (1990) found that employees in high power distance countries will not question their supervisors and readily accept decisions from them. McClelland (1987) mentions that the avoidance motive may be high in China. In this context, guidance is important for employees and their fear to make mistakes sometimes leads to a passive behavior. Hence, in order to enforce creativity and initiative, hands-on support and a careful step-by-step delegation by expatriate managers will be required.

Teamwork

Two major concerns arise when placing teamwork in a Chinese cross cultural context; the importance of personal relationships, and mutual trust within an organizational setting.

Chen et al. (2011) found a contradictory influence from Chinese culture on teamwork. Crucial aspects of teamwork such as a common purpose and a group orientation may be facilitated by the collectivist orientation and the importance they give to relationships and concern for harmony. However, the strong social hierarchy as implied by the Confucian system and the upward deference to leaders could create strong barriers to teamwork by maintaining top-down control.

The western view on teamwork focusses on task primarily and social/interpersonal relations secondary. The Chinese approach places higher importance on personal relationship (guanxi). These relationships will be used in teamwork, however, the distinction between in-group and out-group is an important side mark, since this will influence the effectiveness of teamwork.

Collectivism might be beneficial for teamwork. However, the Chinese perspective on people is based on 'in-group' and 'out-group'. The members of their social network are seen as in-group, while everyone else is considered out group. Members have higher confidence and trust in their in-group relationships and hence, teamwork with people from the out-group will be strained and perhaps more difficult.

Chapter 3 – Staffing Composition

Human resources are recognized to play a determinant role in developing and sustaining a competitive advantage in the highly competitive international business context of today. Lu and Bjorkman (1997) suggest that HRM practices should be studied separately because of variation in the levels of standardization versus localization of practices in the case of multinational companies. Some practices will be more influenced by the social, economic and cultural context than others. While all aspects of managing human resources are important, staffing of foreign subsidiaries continues to be an important strategic human resource practice that MNEs use to develop and sustain a competitive advantage in the international marketplace (Scullion and Collings, 2005).

Section 1 - P-E fit theory

In order to decide on the staffing composition of a foreign subsidiary, it is important to understand the subsidiary staffing needs. These needs are based on the circumstances in which a subsidiary will be operating. Different generic models and frameworks about strategic international human resource management are discussed in the literature. As this research is focusing on the staffing of foreign subsidiaries it will refer to the model of MNE subsidiary staffing as proposed by Tarique et al. (2006). This model integrates the person-environment (P-E) theory to provide a better understanding of how three environmental dimensions (strategic, national and organizational) influence MNE subsidiary staffing composition. A brief introduction to this model will be stated below.

The roots of the P-E fit theory can be found in domestic staffing and vocational behavior literature. The P-E fit theory suggests that individuals are selected by organizations based on the degree to which their qualities and characteristics meet the demands in the particular environment (Edwards, 2003). Both on individual and organizational levels, fit has significant consequences. Work adjustment, job satisfaction, commitment, performance, and career success will be increased by good fit. The degree of fit may also have an influence on the efficiency through increased harmony, cooperation, and high level of morale within an organization. A lack of fit can have a negative influence on long-run effectiveness of the

organization through decreased performance, dissatisfaction and inability to adapt to larger environmental turbulence.

Environment

Environment plays an important role in the person-environment theory and will be further investigated in this paper, therefore a definition will be provided. The term “job”, for a long time, has been seen as the environment in which one will perform its work. Recent studies show three new insights to this dated view. It is suggested that an organization can be viewed as an environment and a fit with the organization with regards to values and goals affects individual outcomes such as turnover and commitment (Schneider et al. 2000). Olian and Rynes (1984) note that staffing practices may need to fit organizational strategies suggesting that the strategic context may act as a unique dimension of the environment as well. National culture also plays a role that will determine whether there is a fit or not. According to Schneider (2001), these are clearly not universal values and so, national culture, must enter the equation for person-environment fit research.

To integrate the heterogeneous dimensions of a MNE's environment, environment has been defined as the context within which individuals carry out task activities by Tarique et al. (2006). This definition gives the opportunity to include variables at different environmental levels: strategic, national and organizational.

Fit

Fit can be described as the extent to which someone possesses the abilities to meet organizational demands as put forth by Edwards' (1991) , the so called “demand-abilities” perspective. Another perspective is “supplementary fit”, existing when an individual has similar characteristics as other individuals in an environment (Muchinsky and Monahan, 1987). According to Tarique et al. (2006), “an individual is said to fit the environment if and only if the individual possesses similar characteristics as those in the environment, or his/her knowledge, skills and abilities meet the demands arising from the environment.”

Section 2 - MNE subsidiary staffing composition model

In the current literature, HRM is presented as being context or environment specific. Several frameworks of strategic international human resource management in MNE exist and they both mention that HRM practices depend on the environment. This environment can be described as endogenous factors and exogenous factors. Endogenous factors or internal characteristics of the organization will influence HRM practices. These include a company's strategy, corporate culture, structure of international operations, headquarters international orientation, experience in managing international operations etc. Exogenous or contextual factors describe the external environment in which a company is operating. Two major exogenous characteristics can have an influence on HRM practices are; the industry and the country/regional characteristics.

The MNE staffing composition model by Tarique et al. (2006) describes subsidiary staffing compositions based on environmental antecedents. They illustrate three dimensions of the environment: strategic, national and organizational. The strategic environment includes the MNE's competitive strategy that is defined as the dominant strategy used to balance the dual needs of standardization and localization. The organizational environment, refers to managerial orientation at the headquarters. Finally, the national environment, which is broken down into two sub factors: parent country cultural dimension, and cultural similarity between the parent country and the subsidiary country.

When staffing a foreign subsidiary, a MNE can select from three types of employees. They can send parent country nationals (PCNs) or third country nationals (TCNs), appoint locals or host country nationals (HCNs), or any combination of the three (Dowling et al. 1999).

Many studies have been devoted to investigate the issues related to sending expatriates, such as selection, training, motivation and compensation, (Black et al, 1999). The high costs of managing and supporting PCNs on foreign assignments and failed assignments triggered MNEs to search for ways to find the right composition of PCNs, TCNs and HCNs.

Parent country nationals

Parent country nationals are employees of the MNE who are citizens of the country where the MNE's corporate headquarter is located. Three fundamental characteristics of PCNs have been carried out by prior international human resource management (IHRM) research (Dowling et al, 1999;):

- (1) Familiarity with the MNE's corporate culture
- (2) Effective communication with headquarters
- (3) Ability to maintain control over the subsidiary's operations.

In general, the presence of PCNs in a subsidiary provides some assurance that the subsidiaries will comply with MNE strategic objectives, policies and goals.

Host country nationals

Host country nationals are citizens of the country where the foreign subsidiary is located and are employed in the foreign subsidiary. Two main competencies are generally awarded to them:

- (1) Being familiar with host country's cultural, economic, political and legal environment
- (2) Responding effectively to the host country's requirements for localization of the subsidiary's operations.

Third country nationals

These employees of the MNE are neither the citizen of country where the MNE is headquartered nor citizens of the country where the foreign subsidiary is located. They are, generally, for various reasons, seen as a compromise between PCNs and HCNs. On the one hand TCNs are less expensive to maintain than PCNs but, on the other, they still have a lack of familiarity with the host country's culture and the MNE's corporate culture. HCNs and TCNs both lack familiarity with the parent country culture and organizational culture. Through socialization by means of training, mentoring, coaching and observing, a HCN or TCN will learn about the corporate culture and become acquainted with the norms and values of the parent country culture.

Chapter 4: National environment and subsidiary staffing composition

Different factors such as an organization's strategy, entry mode, degree of ownership, stage of internationalization etc. will influence the choice among PCN, HCN and TCN to staff a foreign subsidiary. This paper, however, will further investigate the influence of the social, cultural environment, more specifically the Chinese national environment, on one's subsidiary staffing composition.

The biggest differences in national culture occur in the dimensions of individualism vs. collectivism, uncertainty, avoidance, and indulgency. According to Tarique et al. (2006) there are two major types of national environmental influences that will affect global staffing. First of all, parent country cultural dimension, referring to the national culture of the MNEs headquarter. Another important factor is the cultural distance between the parent country and the subsidiary country.

Section 1 - Parent country cultural dimension

Cultural dimensions for China were discussed earlier in this paper. In this part it is, however about the cultural dimension of the parent country, as this will state how the MNE is likely to act in the staffing of its foreign subsidiary. Among the dimensions of national culture, power distance, and uncertainty avoidance were found to have the biggest influence on a MNE's staffing composition in overseas subsidiaries (Hofstede, 1991). The level of intensity of integration reflects the need for localization or standardization of management practices and operations, and will be a major indicator of the preference for PCN, TCN or HCN when staffing a foreign subsidiary.

Uncertainty avoidance

Uncertainty avoidance reflects the relative tolerance for uncertainties and ambiguity of people in a society. High uncertainty avoidance cultures such as Belgium, Germany and Japan prefer clear orderliness, consistency and formal procedures and laws whereas cultures with a low uncertainty avoidance, such as the United States of America and China, have less need for formalized and standardized procedures. As can be seen in figure 2 Hofstede's 6-Dimensional, uncertainty avoidance is the dimension with the biggest gap between the national culture of China and Belgium. Hofstede (1980) suggests that uncertainty avoidance

will affect MNEs management practices. Companies in high uncertainty avoidance cultures, such as Belgium, will prefer formalized and standardized procedures and organizational structure.

This will result in an increased intensity of integration required by the MNE. Employees with a greater demand-ability fit with the organization's corporate culture will be preferred by MNEs because they will be able to exert a high level of control over the subsidiary's operation and communicate easily with headquarters, thereby decreasing ambiguities and uncertainty.

Power distance

The second dimension that has a high impact on an MNE's human resource practices is power distance. The higher the acceptance for inequality in power within an organization, the more respect for higher positioned people will be rewarded. Compared to China, Belgium scores lower in power distance, however, with a score of 60 it still can be considered as a high power distance culture.

Power distance can be linked to the determination of the staffing composition of a foreign subsidiary through its effect on interpersonal trust. Hofstede (1980) mentions that control systems based on trust in subordinates are not feasible in countries with larger power distance. The level of trust in employees from another culture, with other values, such as the trust from a PCN in a HCN or TCN, is likely to be even lower.

Hence, in the case of high power distance and low level of trust, a MNE will most probably prefer to staff its foreign subsidiary more with PCNs. Another implication which favors the choice for PCNs, especially in higher functions, is the need for a centralized decision making style in higher power distance cultures (Shane 1992). Overall, the intensity of integration required by the MNE will be higher in high power distance culture, hence the preference for staffing its foreign subsidiary with PCNs that have a higher demand-ability fit.

Section 2 – Cultural similarity

As two, or more cultures are involved in the management of a foreign subsidiary, the distance between the culture of the host country and the parent country where the headquarters are located should be taken into account. Issues in cross-cultural management might arise from the different cultures, this can have an influence on how to staff the subsidiary.

MNEs are facing two forces at the same time regarding its foreign subsidiaries. On one hand, there is a need for localization by adapting its practices to the local environment. On the other hand, part of their strengths can likely be found in the parent companies practices, hence the need for standardization or consistency within these practices should be guaranteed. Both forces require different staffing needs. Whereas, the force for localization will require a staffing composition that is congruent with the local cultural environment, the need for consistency with the parent country environment requires a staffing composition that can ensure the parent country culture.

The need for localization or standardization can be linked to the cultural similarity between two national cultures. Kostova and Zaheer (1999) state that foreign subsidiary should gain legitimacy by increasing the supplementary fit to the host national environment. The need for localization and gaining legitimacy can be found in social pressure and governmental regulations. Staffing foreign subsidiaries with HCNs will improve the supplementary fit because of the similar characteristics of the HCN with other individuals in the environment of the subsidiaries host country. As mentioned by Meyer and Scott (1983), the lower the cultural difference, the higher the pressure from host country's government to acquire HCNs.

In the case of China and Belgium there is, however, a low cultural similarity between subsidiary and headquarter.

Theoretical evidence for explaining the influences of culturally dissimilar subsidiaries can be found in Eisenhardt's (1989) agency theory. Two actors, principal and agent, play a role in this theory where the principal delegates, and the agent acts on the principal's behalf. The principal can be compared with the headquarter, delegating its agent or subsidiary. The central issue is the design of optimal control mechanisms because of the divergent interests of the principal and agent.

The agent's behavior can be aligned with the principal's interests based on three forms of control (Eisenhardt, 1989). Outcome control is a control mechanism that only can provide accurate results when complete and accurate performance information is available. A problem with foreign subsidiaries is that information about the performance is hard to compare due to different procedures, dissimilar levels of market maturation, volatile exchange rate etc. Schuler et al. (1992) mention that it is this non-comparability that is causing outcome control less than optimal. Behavior control can be done if and only if complete information about work processes and individual behaviors is available. Increasing cultural and physical distance will result in more serious information asymmetry. It will be more difficult and expensive to obtain accurate information on the subsidiary and its employees, and actions taken by the subsidiary become harder to interpret. All of this will complicate behavioral and performance based control systems (Chang and Taylor, 1999).

When none of the above information is available and cultural distance increases, cultural control can be used to evaluate a subsidiary's operations. A low cost cultural control mechanism is staffing a foreign subsidiary with individuals that have shared values and goals since they will be most likely to reduce uncertainty and act in accordance with parent strategic intent, and hence, headquarters can trust them more (Egelhoff, 1988).

When there is a better fit of values and goals between headquarters and the subsidiary's employees, coordination between subsidiaries and headquarters will be improved, implicit cultural control will be exerted over culturally distant subsidiaries and headquarters will be ensured that subsidiaries behave in accordance with parent values and goals (Ouchi, 1979).

Referring back to the PE-fit theory, it can be said that these employees have a better demand-ability fit with regards to control and agency cost reduction. Typically this will be PCNs or HCNs and TCNs that have been trained or socialized at the parent country headquarters.

Chapter 5: Future perspectives

Changing cultural values

The values in the Chinese society are thought to undergo some changes. Warner (2005) suggest that the increasing exposure to new economic and social forces will result in a deviation from traditional Chinese cultural norms and values. In regards to the work force, major changes can be found in a more goal-achievement oriented system and the tendency towards increased individualism (Cyr and Frost, 1991),. The latter will affect the way in which people behave in organizations and how they would like to be managed (Nevis 1983). It is seen that the new generation of managers, those who are 40 years old or younger, act more independently and take more risk and initiative in the optic to increase profit, even when these actions involve conflict, which is contradictory to the Confucian values of harmony.

Changing role of parent country national

The importance of a parent country national in a foreign subsidiary has been discussed above. However, will the parent country national remain required and how will his role evolve in the future international business environment? Researchers from Wuhan University Economy and management School, Jiannian and Dan (2011), investigated the evolution of expatriate managers in China. Their findings will be stated below.

In order to know how the role of an expatriate will change in the future, it is important to understand the transition in the role of a Chinese subsidiary. As China continues to rise as an important economic power, a Chinese subsidiary is moving from executive to strategic partner. The subsidiary should act responsively to the local market and eventually turn into a local company. In order to succeed, deep understanding of local practices, good relationships with local government, consumers, other enterprises etc. will be required. This shift can typically be achieved by hiring and involving local staff. On the other hand, the more strategically important the Chinese business becomes, the more attention, and hence, control, the MNE headquarters will award to this branch. In order to assure control and accomplishing global strategy, expatriates are currently still occupying key senior managerial positions. Other positions occupied by expatriates are senior administrators, technical experts and solution experts since they are the prominent force that is pushing Chinese subsidiaries ahead.

MNCs send these kinds of expatriates to China to guide and train local employees, because there is a great short of supply for these positions.

Changing source of expatriate

Assigning parent country nationals to a foreign subsidiary is a cost intensive operation. Moreover, the costs of failed assignments typically include reduced performance by the business unit in which the failure occurs, disrupted relationships with host-country nationals, and damage to a firm's reputation and brand. This has been a trigger for MNEs to find alternative solutions for PCN and is one of the initiators of the trend for localization.

MNEs, these days, can select expatriates from a diverse pool of talent that is no longer limited to PCNs, due to an abundant supply of expatriates and a booming international labor market.

Especially China, whom has known a quick economic development, has become attractive to overseas Chinese people coming back home and managers from other Asian countries such as Hong Kong, Taiwan, Thailand, Singapore etc.

These so-called third country nationals from other Asian countries, compared to local staff, have enjoyed more international exposure. Compared to western expatriates, they will be more familiar with China and hence be more effective in their assignment. They also more willing to accept local salary level and hence, MNEs are more likely to choose them instead for senior positions in Chinese subsidiaries instead of western expatriates.

Another aspect is the increasing expectations from local employees. They are becoming more internationally trained and skilled and are confidence in their competencies to take up responsibility. Not giving them appropriate career perspectives will lead to less aggressive job performance or leaving the company.

Chapter 6 – Conclusion

When describing the Chinese key cultural values, guanxi and trust have been found to be discussed extensively in the current literature. Chinese national culture is high in power distance, inequalities in power are hence accepted. The collectivist character emphasizes the group interest before personal interest and the masculinity implicates a success driven society. Differences in the dimensions of national culture between China and Belgium exist mainly on the level of individualism, uncertainty avoidance and indulgence.

These characteristics result in some issues arising among Chinese and foreigners. Communication has found to be causing misunderstanding, mostly at the expatriates side. The indirect communication style and high power distance make that Chinese people avoid to cause disagreement, make commitments and prefer to remain harmony, be polite and don't lose face. A high staff turnover has been noticed which can be based on the long-term orientation, opportunistic side of Chinese society. However this is contradictory to harmony and the high collectivism that is present. Different ways of motivating people may lead to the need for careful support and clear guidance of local staff, who are uncomfortable with responsibility and taking initiative. The personal relationships and the in-group, out-group aspect of it might cause problems in the collaboration between foreigners and locals.

The influence of the cultural environment on the staffing composition has been found to depend on the parent country national side and on the cultural distance between both countries.

At the parent country national culture side, power distance and uncertainty avoidance are the two dimensions that will exert the biggest influence on how a MNE will staff a foreign subsidiary. In the case of Belgium, both high power distance and high uncertainty avoidance point in the direction that the MNEs who want to open a foreign subsidiary would have a preference for staffing this subsidiary with parent country nationals. These individuals have a high demand-ability fit which will enable them to remain control over the subsidiary and improve effective communication with headquarters.

However, this preferred management practice is not considering the characteristics of national culture of the host country. Cultural similarity has been used to take this into account. Low cultural similarity or high cultural distance between host country of the foreign

subsidiary and parent country of the headquarters, as is the case with Belgium and China, will increase the need for intensity of integration by the organization. This increased requirement for intensity of integration can, de facto, be best achieved by staffing the MNEs overseas subsidiary with PCNs, or HCNs/TCNs who have been socialized at the parent country headquarters. High cultural distance also involves the preference for this type of employees since they can be trusted more by the headquarters, based on shared values, hence, acting as a cultural control mechanism.

Although there is a general trend towards management localization based on the high cost of PCN expatriate assignment and failure of the assignment, a larger supply of alternative expatriates and the increasing competencies and ambitions of local staff, MNEs tend to fill the senior managerial, strategically important positions, with parent country nationals to assure control and accomplishment of global strategy.

Part B: Empirical Research

Introduction

The practical part of this paper consists of four chapters. The first chapter will briefly state and justify the problematic of the research and finally refine this into more precise research questions. Then, the methodology used to realize this empirical research will be discussed. The data will be presented and the treatment of the data will be explained. Following this, the analysis and results will provide a descriptive presentation of the facts and results that were collected during the research. Finally, a critical evaluation of the work, the contributions and limitations, as well as the remaining questions will be provided.

Chapter 1 – Problematic and research questions

The literature review gave deeper insights on the following question: “How to staff a foreign subsidiary in China?”. The empirical research aims at investigating and comparing these findings with real cases of multinational companies that entered the Chinese market. The interest of this study is based on the case of Kreon and got further inspired by other multinational companies that are entering China. The researcher himself was involved in the set-up of the Chinese subsidiary of Kreon and hence got first-hand information on the challenges that came along with this set-up.

Setting up a new business is never easy. It can be assumed that it will become only more complex when this set-up takes place in a totally new environment. The ultimate aim of this paper is to provide guidance and advice to multinationals that want to open a subsidiary in China, more specifically with regards to their human resource decisions.

As China differs in many optics from the West, and as human resources are dealing with human beings, it is important to understand the culture and the cultural differences there exists between China and the West in order to make the right choices regarding your human resources. The literature review started with a rather generic analysis of the Chinese culture and got more specific by describing some cross-cultural management issues that are stated in the literature. This empirical study will further deplore these cross-cultural management issues faced by Western managers or entrepreneurs. What are the problems they face and how can they be related to cultural differences? How do these problems or issues limit their business development? Once it is clear where the problems come from, this paper will investigate if these problems can be prevented by making different choices regarding the staffing composition of a subsidiary. Obviously, local people will be better in understanding and dealing with the local way of doing business and building relationships with governmental institutions etc. However, can the local people be trusted and to which extent are they able to achieve a multinational companies’ global strategic goals? This raises the question of whether it would be more successful to roll out a business in China by sending an expatriate or by appointing some-one locally.

Research questions

- Which issues arise from cross-cultural management in a foreign subsidiary in China?
- How does the cultural context influence the staffing composition?
- Will a market expansion in China be more successful with an expat or local manager?
- Are expats still necessary in China?
- What is the current trend on the role of expats in China and how will this evolve in the future?

Chapter 2 – Methodology

The researcher of this study was involved in the set-up of Kreons' Chinese subsidiary during his six months internship. Being involved in this market entry, and being in China during this research allowed him to not only get information through direct observations within the organization of Kreon but also to get insights on how other Western companies try to set-up their business in China. The findings presented in this empirical research are based on **information** obtained through:

1. Three semi-structured live **interviews** conducted with business people in Shanghai
2. Two semi-structured interviews with entrepreneurs in Shanghai, conducted by skype
3. Direct **Observations**

The qualitative research method has been applied since it allows a more in-depth and flexible investigation on the complex , multi-cultural aspects of International Business (IB) and Cross-Cultural Management. Its offers the potential to surpass traditional value-survey empirical researches (Hofstede, Schwartz, Hampden-Turner, GLOBE) by providing a more accurate understanding and interpretation of the impacts of culture.

Different information sources have been used in order to obtain a certain degree of subjectivity. This is improving the likelihood of accuracy and reliability of the findings and will allow for cross validating the findings during the analysis.

Section 1 – Presentation of the data

Unit of Analysis

Determining the level and the unit of analysis in cross-cultural management research is primordial. For this empirical research, the analysis is at the organizational level i.e. different MNEs. This level of study is characterized by a medium level of social complexity (Appendix 1: Fink and Mayrhofer, 2009)

Data collection

Information was collected via direct observations and interviews with three Western and two local managers of MNEs in China, hereby covering two out of six data sources as identified by Yin (2003):

Direct Observations

The researcher has been based in Shanghai for one and a half year, the first six months doing an internship and later as full time employee within Kreon. This allowed him to meet many Western entrepreneurs in China, which provided him with first-hand information on the cross-cultural challenges they faced. These observations will be confronted to the research questions in the empirical research.

Interviews

Semi-structured interviews were conducted with entrepreneurs in Shanghai. Interviews were conducted with both Western managers and Chinese managers in order to obtain various opinions from different cultures. After a presentation of the general theme was provided by the interviewer, the flexibility of a semi-structured interview allowed the interviewees full freedom to express themselves. The interviewer had a framework of sub-subjects to cover and help the interviewees to navigate among all sub-subjects. An interview guide was prepared which is a "grouping of topics and questions that the interviewer can ask in different ways for different participants" (Lindlof and Taylor, 2002). Semi-structured interviews often lead to richer insights as it allows for tailoring new questions to the interview context and to the people being interviewed.

The duration of the interviews varied between 30 minutes and one hour. All interviews were held in English with managers of a MNE where English is the common language, hence there was no problem of language skill. All the interviews were recorded and transcribed in order to improve the quality and reliability of the information obtained.

Interviews are time consuming, however, in IB research and Cross-cultural management, they are considered as a key data source (Marschan-Piekkari, Welch). Conducting interviews with people from different cultures allows to contrast different points of view and offer deeper understanding of the empirical research.

In order to extract information from the interviews, the interviews are transcribed and analyzed. The analysis consists of data reduction, data display and a discussion. Data from direct observations was not subject to any treatment and added to the rest of the information during the data display.

Data reduction

The aim of data reduction is to facilitate and optimize the analysis of the data obtained by the semi-structured interviews. It is a process of structuring the information through the subsequent steps of selecting, focusing, simplifying, abstracting and transforming the transcribed data (Thomas, 2006).

The objectives are to:

- Minimize data overload by reducing mass data into smaller groups of analytical elements
- Identify the major themes and patterns
- Develop a cognitive map to understand interactions.

Although the findings are influenced by the questions outlined in the theoretical research, the findings arise directly from the analysis of the raw data and not from a priori expectations (Thomas, 2006).

Data Display

The descriptive presentation of the analyzed data from the interviews is summarized and organized in Chapter 3.

Discussion

The discussion (Chapter 4) will provide a critical evaluation of contributions to the literature and the limitations of the work provided. It will make the link between the results from the empirical findings and the previously stated theoretical research.

Chapter 3 – Analysis and Results

The analysis and results from the interviews and observations is presented in this section. The information obtained during the interviews has been analyzed and grouped according to similar topics. Before presenting these facts and in order to obtain a better understanding of them, the interviewees' contextual and professional background will be described.

Hilary Jiang is a young Chinese women, working as sales manager for a Danish furniture manufacturer. Previously she has been working as sales manager for high-end furniture and lighting manufacturers.

Anton Van Baalen is a Dutch entrepreneur active in the event business. His company does floral decoration for events and design of garden projects. He set up his Chinese branch office 4 years ago.

Hans Yeh was born in the Netherlands, grew up in Belgium but his parents are both Chinese. Five years ago, after finishing his studies as commercial engineering in Belgium and one year of consultancy experience with Deloitte, he moved to China to become general manager of Lamette Design in China. This is a Belgium manufacturer of wooden floors.

Bart Dauwe, CEO Chess-Belgium. Chess- China is a Belgian-Chinese consultancy firm that offers services, based on experience from both Chinese and Belgian side, for Western entrepreneurs that aim to invest in China or Chinese entrepreneurs that want to do business in Belgium or somewhere else in Europe. Bart Dauwe studied Sinology and Economics and has been involved in different sectors in Chinese business for 10 years.

Jennifer Lu is the CEO for Chess at the Chinese side. She has been working in several multinational companies in position of Investment director or CEO. This leaves her well placed to bridge the business knowledge gap between Chinese and foreign cultures. She has an extensive experience in M&A, JV set up and business operations.

Section 1 – cultural values

During the interviews, the interviewees were asked to describe how they experience the Chinese cultural environment, what are for them the relevant cultural values. After transcribing and analyzing the interviews, similarities between the different interviews were identified. These key values will be summarized below. Personal relationships was mentioned by all of the interviewees as being extremely important in China. It was believed that personal relationships have a different meaning in China compared to the West.

Relationships

Jennifer emphasized the importance of personal relationships. She believes that this is the biggest difference between Chinese and European. *“In Europe everything is based on following the rules. In their society people really work for the company and not for their personal interest. In China, yes, we also try to make up some rules but I think, we rely more on the relationships. More and more the companies here are also introducing rules but even if you have the rules in a macro environment to set some guidelines, on micro level the relationships will remain key. It is not easy to make a relationship with Chinese people, if you try to build up this personal relationship, you really need to read the Chinese mind, because Chinese are not as open as foreigners. Once you get it, it will be a very stable relationship and you will really get their help. This goes back to the traditional Chinese culture, if we are friends, we are brothers, we need to make sacrifices for each other. In a business context, if the buyer has a really good feeling for you, your chances to get the business will increase. Sometimes, of course, you will still lose the business but the next time they will give you the opportunity to get the business if you have this personal relationship.”*- Jennifer Lu.

“The major challenge in Chinese society is the enormous lack of trust”- Hans, he sees guanxi as the consequence of the lack of institutions in China. *“In the West we have well established legal frameworks and institutions that protect us in doing business and even with regard to our personal relationships. In China there is a huge lack of legal frameworks and institutions to be protected. Therefore, in China you have to build close relationships.”*

An example of how the relationships can affect your business is stated by Anton: *“There is a lot to do about the bonds between certain parties in China. For example, in a*

hotel, you have a house keeping manager who has a network of local companies, sometimes even family or friends, with which he works together and sometimes even get rewarded by these parties when he involves them in the business. In that case it is very difficult to be involved in the project and you will either need this western managers that supports you or you should have local staff that has these bonds or can make the connections”- Anton.

Hilary gave an example of how this relationships can be built. According to her, it takes time to build personal relationships, you should be patient and flexible. She mentions that these relationships are based on trust and have a reciprocal character.

“Before the designer will specify my goods he needs more than just liking my goods. I have to build a relationship with him and he has to trust me, you don’t need to push them but take it easy. Try to arrange a second and third meeting in order that you get to know each other. Also I should be flexible towards him and try to help him if I can and by doing so he owes me something and we build up a kind of reciprocal relationship. He trust me because I helped him, because I helped him he owes me something, because he owes me something, he will think of me the next time he can specify my products and try to convince the client to buy from me. By doing so he pays me back for the help I provided him with earlier. If the client finally buys from us, the designer will be rewarded with a commission and then we are in a continuous circle and the relationship has been established. In the end, many of the designers become friends, but initially you start as strangers, so there is a way to get there and mutual trust is an important factor in becoming friends.”- Hilary

This reciprocal character of relationships is also illustrated by examples of Anton.

“A way to establish these bonds is to help each other and to share knowledge, as we did in the factory in Shenzhen. Once you help them you will notice that they appreciate it and are willing to help you out whenever you need their assistance.” - Anton

Hilary and Bart both mention the guanxi circles. *“The best way to get a relationship with people you don’t know, is to know a friend of them that can introduce you to them. To get in to some ones circle, you have to be introduced by someone else. This is also an example of how I get referred to new clients by clients with whom I worked with on previous projects. If they are happy with the service you provided, the products you supplied, they will recommend*

you to their friends and introduce you to them, making word of mouth advertisement. This is really effective in China. You actually build up a reputation as a brand or as a company.” – Hilary

“I would like to refer to the circles of guanxi, you are either in or out. The closer you are to the person you want to relate to, the closer the circle is in which you are located. You have a second and third level but then you are considered outside the circle and hence they don’t see you as having anything to do with it. If you look at it in the organizational optic, more specifically for western firms in China, I think you will always be considered outside the circles. If you look at the Chinese word for foreigner, Lǎowài. Wai means outside, which, per definition already states that you are not inside the circle, so you will have to do a lot of effort to achieve the same as a Chinese firm. You also have to see it in the long run because in China, you have many functional relationships. You will notice periods were people are very friendly to you, this is the period were they need something from you. It also has to be clear that it is an engagement in two directions.” - Bart

Contradictory to Bart’s opinion that foreigners will always be considered outside this circle was revealed by an answer from Hilary. *“According to me, building the relationships depends more on the personality. There has to be a mutual good feeling and you have to see a potential reason why you should work together. For example local rich people often find it easier to trust Western companies or brands because they see Westerners as open minded, having good ideas, being experienced and good quality. Once you gained their trust, it is possible that they will trust you more as a Westerner than they would trust a Chinese.” – Hilary.*

Harmony

Jennifer believes that harmony is related to the importance that is placed on the relationships. *“If you are in a company you have the boss and the subordinates. From the old traditional Chinese culture, women don’t have rights, they have to follow their husbands, sons have to follow their father, if you are the subordinate you have to obey. This is also reflected in the company, subordinates are low level and have to follow the boss, who is high level. And why in harmony, because they don’t want to break up the relationship. They try to keep the relationship as good as it was.”- Jennifer.* However, there is an important side mark to this is

“Harmony is just from the outside, in the inside they are not in harmony. Maybe, internally they also disagree.”

Trust

Trust has been revealed in all interviews as an important value in the Chinese cultural environment. Examples of gaining trust were mentioned. But on the other hand, trust, or distrust, was also declared with regards to corruption, which is considered as being common practice in China.

Jennifer has an interesting opinion about the origins of the corruptive business environment. *“In China we have made a great progress in the last 20 years. We catch up with Europe material wise, money wise. However, before getting here, there has been a big pressure on the people because they were poor and had bad living standards. This forced them to push their limits and hence corruption is really tempting. They will literally take every opportunity they see to make money. Now, still a lot of people are in a mental mess. They don’t know what is right or wrong, they lose the principle, they just survive for the living. We were forced by the pressure and we could not do what we wanted. Now, we say, we lost this opportunity, so we don’t want this to happen to our kids. Finally, we also found what is the most important in your life. Before, what we received in our education is that only success makes sense. Now we think, actually, life is really short, so happiness is the most important. The children now also have the freedom to develop their selves since their parents created a good environment for them. They are not forced to take any job, just to make money, they can think about what they like to do and they build some principles regarding corruption.”* – Jennifer.

Bart states the importance of trust by referring back to the inside outside guanxi circles. *“You should take into account, you are initially considered as being outside the guanxi circles. They will have an initial degree of distrust among unknown people. You don’t start on zero but below zero. So you will have to build a lot of credibility before they even might consider to buy from you.”* – Bart. This trust can become by sharing your knowledge for example.

“If you know more than them, you can share your knowledge and they will appreciate it. Once they trust you they will accept everything you propose them so they will buy everything from you. They will consider you as a personal consultant.” – Hilary.

Face

Some interesting examples showing the practice of “face” were given by Anton and Hans. *“If you don’t know your supplier personally, they will be less involved with you and they will feel less need to do their best. Once you get to know them, they will do a lot of effort for you since they don’t want to say no, don’t want to fail and they don’t want to lose face. This is very strong.”- Anton.*

“Giving comments, even constructive feedback, is very sensitive for Chinese staff. It is therefore very disrespectful to do this in public since they will perceive this as losing face. In meetings where more parties are involved, if you cannot meet some requirements, you try to make this clear upfront. This, in order to make sure that this person will not lose face towards his colleagues or partners. The meetings in China are actually more ceremonial, no real conclusions will be made during the meeting since this is arranged before or after, but outside the scope of others”- Hans.

The concept of face can also be used to challenge people. When you tell them, “I am not sure if you can handle this job, it is complicated”, they don’t want to lose face and are eager to prove themselves so will do everything to show that they can do it.

Section 2 – cross cultural issues

After the key cultural values have been identified by the interviewees, they were asked about the issues they experienced based on cultural differences. Since there were both Chinese as Western interviewees, these facts will show both sides of the story.

Miscommunication

From my own experiences with Chinese colleagues I’ve learned that the miscommunication in China is not only caused by the inability of speaking Chinese. Mainly it comes from the indirect way of communicating. This finding has been confirmed by many Western managers and is causing a lot of problems. It implies confusion, misunderstanding and frustration among Western managers. For example, a Chinese person will not tell you

when they don't understand. If you explain them something and ask them if they understand, they will always say yes or "I will do my best" instead of asking for clarification when they don't understand.

Anton confirms this by stating the difference between himself, a Dutch person, very open in his communication and a Chinese person. *"I noticed that they envy this. In their culture it is not done to immediately say what you think, what sometimes makes the situations more complex. For example, sometimes when you ask if something is possible they say, difficult, so I think, with a bit more effort it will be possible, while they actually mean that they cannot help you."* - Anton.

Jennifer and Bart share the opinion that the indirect communication style is linked to self-protection. *"They will not speak out loud about what they think because this will result in making commitments, when they fail to meet these commitments they will lose face. Besides that, it is also not accepted in the culture that a subordinate expresses his opinion. An example, when I was young, my boss told me I could not share my opinion, I had to follow the ideas of my boss"* – Jennifer.

"In the West we are quite straight forward and have direct communication whereas in China they will make a long detour in order to say what they mean. They try to avoid confrontation, what actually is a nice character. They will avoid to say no, instead of saying no you can say 'it is a bit difficult' what, most likely, will be appreciated more than a no." – Bart.

"If we, in the West, would get a request for which we cannot meet the requirements we say, sorry I cannot offer this. You can never say to a Chinese that you can't do it, You say I will check it for you, or maybe. But when they say maybe, it means they can't." - Hans. Chinese people are very sensitive to this subtle, indirect use of language so they will understand what you mean.

Empowerment

Where we in our Western environment encourage individuals to take initiative and responsibility, Chinese employees are very reluctant to take initiative. I noticed that staff expect to be told in detail everything they have to do. The slightest variation that occurs in the expected situation will confuse them and before they think for themselves or try to anticipate

to the changed situation, they will immediately stop and ask what to do. They are really afraid to make mistakes. Therefore, focusing on delegation and individual autonomy is not recommended, at least not in the beginning. Some expatriate managers, others then those that have been interviewed even mention that they write out long lists for key staff describing exactly how things should be done. These check-lists are a stress reducer for them.

Where the Western managers would see this as a lack of commitment, according to Jennifer, this is inherent to the Chinese culture. *“Chinese will not take the initiative, not because they don’t want to, but because they cannot express their selves, they are shy. They will not argue for something, they don’t express what they want. But if you give them the responsibility, they will feel honored For example, the company where I previously worked for was looking for a CEO at the time being. I did not take the initiative myself to apply for the job, however I knew I would be capable and stand a chance to get the job. I waited until someone told me I had to apply for the job, otherwise I would be seen as too aggressive..”* – Jennifer.

Visible management is also very important in China. The managers have to be seen to be walking around keeping an eye on things. *“What I noticed as being important is to have physical presence. Due to a tight schedule, we couldn’t fit a visit to the production factory in to our agenda during a trip in China. Hence, they didn’t have any priority to the production of our goods, ending in a big mess. When you don’t do the effort to meet people in person, they see this as a lack of interest and hence they will not do any effort for you.”*- Anton.

Staff retention

What has been observed by myself is that employees in China are acting very opportunistic when it comes to changing jobs. They are willing to change their job for a minor increase in salary. While building up my relationships with designers and architects in different firms, they often left a few months later to another firm.

The young generation has become extremely money-oriented and has no sense of loyalty. Foreign companies are often seen as salary cash cows, to be milked before moving on to another, with an increase in salary to be gained at each move. They don't have patience, they take short cuts, and always want promotion.'

“The high turnover is mainly because of people coming from outside Shanghai that are trying to improve their living standards. I think there are three types. The ones with a too high pressure, they will change very easily because of the money. The ones that have no living pressure because their parents take care of them, they will leave because they don’t like it or don’t like to work hard. Finally the ones with a stable living condition, they will be loyal and devoted.” – Jennifer.

Staffing composition

Having discussed the key cultural differences, it was investigated how they affect the successfulness of a market entry. Most foreign subsidiaries choose to send an expat but will this result in a more successful market entry? What are the problems faced when expatriates are leading the foreign subsidiary?

A typical problem with expatriate managers is that they don’t adjust themselves to the local practices, this has been confirmed by Jennifer: *“The first problem is that you have your rules, your way of doing things. The biggest bottle neck is in sticking to these rules when you come to China. Foreigners should realize that you are in China and you have to adapt to the rules here. Foreigners are judging already about the corruption, the indirect communication, different thinking, but that is what they are, so if you don’t like it, you don’t come, if you come you should like it and respect them first and then you build the relationships. Many foreigners come here after being successful in their country, and they think they can apply their way because this has been successful in Europe, they don’t listen. But in China it is different and it will not necessarily work like you are used to.”*

Respect and patience towards local people are important in order build a connection and to make people want to work for you. In the competitive Chinese market, people come and go very fast from one company to another, so if you don’t make an effort to understand their culture, they will act less loyal. *“It is important to respect the people and you need to be patient with the people, you need to make friends, relationship with local people. If you don’t respect the people or you neglect the importance of building relationships, you will fail.”- Jennifer.*

“You should treat people with respect and you should be able to empathize with the Chinese people, this will increase their willingness to perform well and collaborate with you”- Anton.

“Foreign general manager should be open, willing to listen to the local people and learn from them. If the foreign management doesn’t listen to the local management it will not work. For example local management will say that it takes time to get the sales because it takes time to build the relationship, foreign management doesn’t understand, they don’t trust the local people, they only trust their own way. It is very important that the foreign management understands what the local management tells them and why this is so. This will give them insights about how to adapt their strategies.” - Bart

China is a market that has been self-fulfilling for decades, without the need to speak one word of English. The globalization has definitely changed this need, however, for local people there is still no high pressure to speak English. Hence, judging people on their level of English might result in losing talented people. *“People are evaluated on their language level. If English is not good they don’t stand a chance, but sometimes they can be very talented people so the talent might get lost because of that. Of course the communication will create problem. But you should be patient to learn and don’t make your judgment too fast. Foreigners should also find their way of communication. They should learn Chinese or you should be patient to understand the people that cannot speak English.”- Jennifer*

Different opinions arise among the question whether an expatriate is necessary in a foreign subsidiary.

“They can send an expat but they need a local senior level together with that expat. It doesn’t matter how smart the expat is, he will always have problems to really penetrate in the market. An expat will never become real Chinese, they will never be able to fully integrate in the local market. Everyone can know the rules, but how to make it happen is something different. The only way to fully integrate would be to speak fluently Chinese, but still it will be difficult to level with the Chinese, just because the foreigner will always have a feeling of superiority with regards to local people. Therefore it is very important to have a mixed team. Then the problem will arise: how will these two people will work together? You cannot have the same level. One should be higher level, but should be open to listen to the local. In terms of roles the CEO could be an expatriate but then sales and marketing should be local.

Relationship with the government is typical example of why local management is required. I know in your society this is not important, so some foreign managers will not make time to build a relationship with them, they consider it as not important, however, in China this is primordial.”- Jennifer.

A purely local management would be possible according to Jennifer, however, in that case, the HQ should really have a deep understating of the local culture. *“I don’t see any problems with a local management, but then the HQ should really have a deep understanding of the local culture, otherwise, sooner or later, they will have the problem.”- Jennifer.*

The biggest problem arising here is that the headquarters should trust the local team. The expat will act as a bridge between headquarters and local. The headquarters will get impatient or will not understand the local practices or will not believe or trust the local team.

“If you can find a loyal local people, this will be most effective for the start up since they can fully integrate in the local business. Communication with the headquarter is actually something internal. They should make sure that this communication can go smoothly. For running the business I think the local management is better.”-Bart.

Anton’s point of view is based on the fact that he as foreigner is bringing the added value to China with his creativity. Sometimes, the reason of being successful is based on the Western values such as creativity, project management, efficiency etc. In this case it would be key to be able to transfer this characteristics to the subsidiary.

“There are many floral designers in China but they all lack creativity, design, and project management, which is generally true in China. This is exactly the added value we as Westerners can bring to this market. For example when it comes to making agreements, on time deliveries, keeping flowers fresh, logistic management is very basic and unstructured. So if you can enter this market, having this experience, you are already one big step ahead. We provide this creativity, concept development and project management, which makes it rather easy to compete with local competitor. In many cases, general managers are Western managers and they are very happy when they are doing business with another Westerner because of the more structured way of doing business and hence are willing to pay more. This also states the need for innovation and new designs.”

Local staff however is also seen as necessary by Anton. There are too many issues to be dealt with for which you need locals. Chinese employees are becoming more talented and

trained and expatriates become less attractive because of the high cost. *“A trend I noticed is the Chinese become better educated and trained themselves as well. For example general managers for hotels are now also Chinese whereas in previous years the trend was to have the Western manager, bringing in the knowledge. The reason for this is because Westerners are very expensive and additionally they want to invest in local people.”* - Anton

Chapter 4 – Discussion

From the findings of the analysis and results, we will look into the following questions:

- Which issues arise from cross-cultural management in a foreign subsidiary in China?
- How does the cultural context influence the staffing composition?
- Will a market expansion in China be more successful with an expat or local manager?
- Are expats still necessary in China?
- What is the current trend on the role of expats in China and how will this evolve in the future?

In this way, we will contrast the findings from the literature review with the empirical research. We aim at validating or invalidating the theory build in the part A.

Section 1 – Evaluation and contributions

The cultural values and characteristics of national culture as described in the literature, overall, have been confirmed by the findings from the empirical research. Guanxi or personal relationships have been discussed by all interviewees as being extremely important in the Chinese business environment. Relationships are important in any business environment, but in China, the need for these relationship is believed to be bigger than in the West. One of the reasons of the importance and dependence on the personal relationship is the lack of institutional frameworks.

The reciprocal character of relationships was mentioned to be highly present and very strong. Knowledge sharing for example can be used to build mutual trust. Helping someone

will put them in a situation that they are obliged to give something back or help you when you need their help.

In the literature, staffing composition is said to be influenced by the parent country national culture and the cultural distance between both countries.

At the parent country national culture side, the literature focusses on power distance and uncertainty avoidance as the two dimensions that will exert the biggest influence on how a MNE will staff a foreign subsidiary. Having a higher demand-ability fit and allowing for control of the subsidiary have been the driving forces for a MNE to send expatriates as discussed in the literature. This view has been supported by the findings from the empirical research. It was found that headquarters from cultures such as Belgium and the Netherlands intend to staff their foreign subsidiaries with parent country nationals in order to keep control over this subsidiary and to ensure that the organizational values will be reflected hereby reducing the level of uncertainty. The empirical research also revealed that in some cases, the fact of being Western is the origin of the competitive advantage.

The second influence from the cultural environment on the staffing composition coming from the literature, is the cultural distance between subsidiary and parent country of the headquarters. Belgium and China, will increase the need for intensity of integration by the organization. This increased requirement for intensity of integration can, de facto, be best achieved by staffing the MNEs overseas subsidiary with PCNs, or HCNs/TCNs who have been socialized at the parent country headquarters. High cultural distance also involves the preference for this type of employees since they can be trusted more by the headquarters, based on shared values, hence, acting as a cultural control mechanism.

The empirical research shows that the need for an expatriate depends on the extent to which the headquarters are able to understand the local practices in the host country, hereby confirming the cultural distance as criteria for one's staffing composition. Hence this is consistent to the findings in the literature, the bigger the cultural distance, the more it can be expected that the headquarters will have difficulties to understand the culture in the host country.

The empirical research discovered some additional cross-cultural issues that can give better insights and guide MNEs in their decisions on staffing composition. The major issues arising from the cultural differences can be found in the indirect communication style of the

Chinese people that is not understood by Western managers. This is causing many confusion, misunderstanding and frustration. Although this is not mentioned in the literature as being a key with regards to staffing composition, being aware of this and understanding its importance, will improve to decisions made by the MNE headquarters regarding its staffing.

The high staff turnover and opportunistic behavior of local staff will be negatively correlated to the trust from MNE management in local staff, hereby increasing the preference for parent country nationals.

Different opinions arose regarding the question whether a market expansion in China will be more successful with an expatriate or a local.

The effectiveness of business operations would most likely be best achieved with local management since they can interact in the local market more effectively and a full integration in the local market by expatriate is believed to be very hard or even impossible. The problem is that headquarters should be able to fully understand the local market. This is difficult because of communication problems between headquarters and local management and because of the lack of trust from headquarters to local people.

Headquarters feel the need to send a parent country national to bridge between the local culture and to transfer the organizational values into the foreign subsidiary. Although, the troublesome communication can be related to cultural differences, the empirical research revealed that this communication process should be optimized internally. Management should respect the local staff in their foreign subsidiaries, they should be willing to listen to them since the local staff can provide them with crucial information about the local market. Headquarters should take time to find a way how to communicate with the local team and they should understand the differences and needs from their subsidiary.

The literature discussed an increasing strategically importance of the foreign subsidiary. Hence, resulting in a bigger need to link this activities to the global strategy. With this regards, an expatriate would be favored by the MNE, however, the role of an expatriate would most likely to be focused on managing, guiding and supervising instead of being involved in the operations. On the other hand, there is a trend of increasingly competent local management, that is becoming more open minded and Western oriented. This would facilitate the communication between headquarters and subsidiary, hence, partly removing the need for expatriates.

The role of third country nationals has not received considerable attention in the empirical findings. The problem with TCNs is that however they can be closer to the host country culture, they will still not be able to fully integrate in the local environment.

Section 2 – Limitations

However the empirical research provides views from both Chinese as Western sides, the findings are based on a limited amount of personal opinions and experiences. This prevents that the findings can be taken for granted. Another bias might occur from the difficulty to speak about culture. The Chinese communication style is characterized as indirect, hence, the information that we become from the interviews was not always straightforward and required some interpretation from the researcher.

These limitations point out opportunities for further research.

Conclusion

The master thesis about staffing composition in foreign subsidiaries in China was based on the case study of Kreon. Kreon is a Belgian company that is currently trying to set up their business in China through the opening of a Chinese subsidiary. The researcher of this paper was involved in the set-up of this business during his internship. He was sent by the headquarters, from Belgium, to develop the local market by doing market research, promoting the brand and build up a local team. It was during this process that the interest to investigate the staffing composition of foreign subsidiaries in China arose. Being a foreigner in China and trying to set up a foreign business confronted me with many challenges. One of them is related to local staff, hence the interest to better understand the cultural differences and to investigate how the staffing composition of a foreign subsidiary in China could improve the success of this subsidiary. When foreigners and local staff have to work together, in many cases there are misunderstanding and frustrations which is not optimal in order to operate smoothly.

From my personal experiences, there are three main aspects of the Chinese culture that influence the staffing composition of a foreign subsidiary.

First of all, the *guanxi* or personal relationships as described in this study, are very important in China. It is difficult for foreigners to build these personal relationships and even almost impossible to fully integrate in the local business. This implicates the need for local management. However, trust in local management and communication with the headquarters are the two critical points. Chinese have been driven by success for many years and they act very opportunistic and often on their own behalf instead of in the interest of the company. A minor increase in salary might be enough for them to choose for another job. The differences in the Chinese market are hard to understand for the headquarters, hence a good communication between the headquarters and local management is required. This communication is difficult because of the indirect communication style of the Chinese.

If multinational companies can find a loyal local person, this will result in the most successful business integration and operation. The lack of trust and the communication problems could be overcome by sending an expatriate that can bridge between the organizational values of the headquarters and the local Chinese practices.

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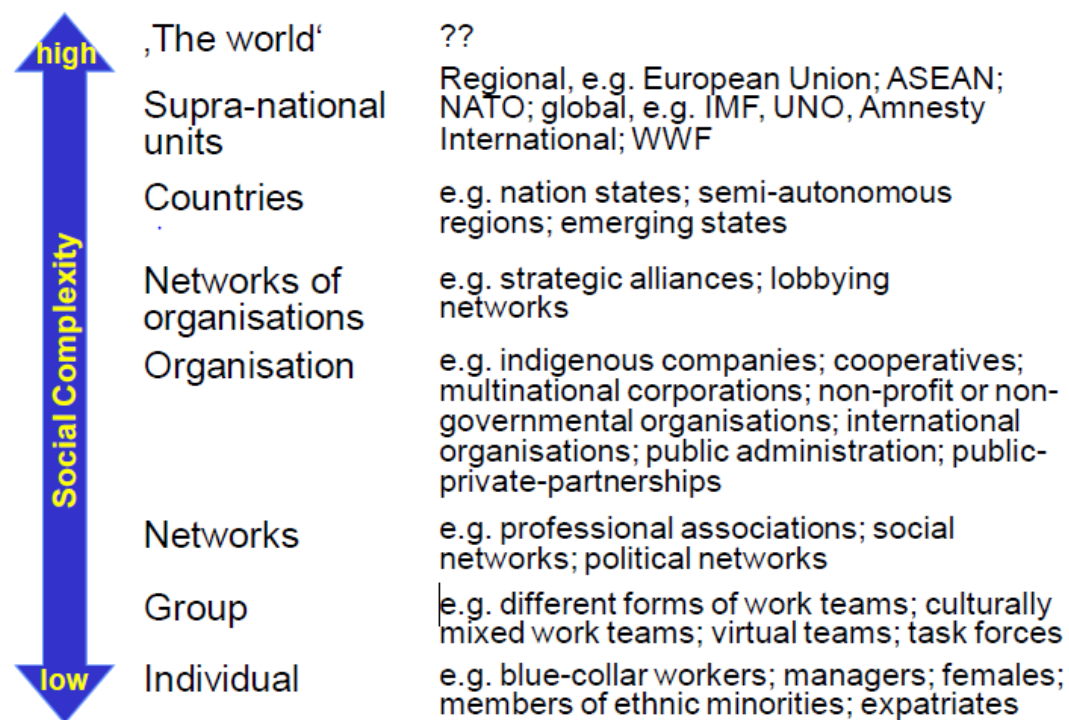
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Appendix

Appendix 1: Levels and Units of Analysis in Cross-Cultural Management Research

Figure 2 Levels and units of analysis in cross-cultural management research (see online version for colours)



Source: FINK, Gerhard & MAYRHOFER, Wolfgang (2009). Cross-cultural competence and management – setting the stage. *European J. Cross-Cultural Competence and Management*. Vol 1(1). 42-65.

Appendix 2: Interview Guide

Introduction
Introduction interviewee
Chinese cultural environment <ul style="list-style-type: none">• What are the key cultural values in Chinese society?• How is this reflected in business• How is this causing problems between Chinese and Western managers?
Staffing composition <ul style="list-style-type: none">• How can the cross-cultural issues be related to staffing composition?• Will it be a better choice to start with an expat or a local manager?• Is an expatriate really necessary?• How will this change in the future?

Appendix 3: Interviews

Interviews:

1. Hilary Jiang
2. Anton Van Baalen
3. Bart Dauwe
4. Hans Ye
5. Jennifer Lu

Interview 1 – Hilary Jiang

Hilary Jiang is a Chinese women, currently working as sales manager for HAY furnitures, a Danish furniture manufacturer. Previously she has been working as sales manager for high end furniture and lighting manufacturers.

How have you experienced trust among buyers in your sales experience?

She describes two kind of rich people in China. Very rich people that travel a lot, know what they want, for clothing, for their house, for their family. If you know more than them. You can share your knowledge and they will appreciate it, they will trust you and accept everything you propose them so they will buy everything from you. They will consider you as a personal consultant. A second kind of rich people are the rich people without taste. They are really confident and selfish, they think they are always right, even though you are a designer or an experienced sales manager, they will not trust you. They will ask a designer to make a design for them but in the end you cannot control them, they will do how they like it. This kind of people is really hard to do business with. You cannot get into their world because they consider you as second grade people.

How does it work to build good relationships in China?

Relationships in China is a complex matter because the Chinese people are complex. The minds of Chinese people is different from the minds of Western people. The way of thinking is completely different. About the rich people, another example from a friend of mine. They are doing a project with the second rich generation, or the new rich, which are the children of the rich people. Doing a project with them is even more difficult because this generation cannot control the money. The money is from their parents and they have to ask for money. So when you do projects with them, you will have to wait for a long time for the payment.

Can you tell me something more about relationships in business to business.

Trust again is very important in these relationships. In order for a distributor to purchase the specified goods from me I will need the support from the designer. When the designer has a good influence in the specified goods, the distributor will not change anything. But before the

designer will specify my goods he needs more than just liking my goods. I also have to build a relationship with him and he has to trust me, you don't need to push them but take it easy. Try to arrange a second and third meeting in order that you get to know each other. Also I should be flexible towards him and try to help him if I can and by doing so he owes me something and we build up a kind of reciprocal relationship. He trust me because I helped him, because I helped him he owes me something, because he owes me something, he will think of me the next time he can specify me and try to convince the client to buy my goods, by doing so he pays me back for the help I provided him with earlier. If the client finally buys from us, he designer will be rewarded with a commission and then we are in a continuous circle and the relationship has been established. In the end, many of the designers become friends, but initially you start as strangers, so there is a way to get there and mutual trust is an important factor in becoming friends. The relationship with the designers will be easier to build because they understand your products better than the end customer might do. Since every person has his own character and personality, it is always different to build a relationship. Doing some research about his back ground, his habits, his family etc. might facility and speed up the relationship building.

Do you have to try to build a personal instead of a professional relationship?

Yes that is true, but most of the high end clients, it is not easy to create this personal affect as I explained before. We don't belong to the same world. They are in a really small, elite circle of rich people. They just consider you as a work person, a sales guy. So in order to keep the relationship, you will stay on a work level or professional level, providing them services. The way to get to these people, however, is to know a friend of them that can introduce you to them. This way you can get into their guanxi circle. To get in to some ones circle, you have to be introduced by someone else. For this high end clients, it is also true that once they have worked together with you, and they are happy with the service you provided, the products you supplied, they will tell their friends and introduce you to them, making word of mouth advertisement and this is really effective in China. You actually build up a reputation as a brand or as a company.

You already mentioned reciprocity, what about giving favors or renqing?

I think this is something the company will do, for example in the end of the year, when holidays are there, the company will prepare some gifts to their clients or even to designers because you worked together with them for a long time. But on a personal level, you can do it as well. For example, having a dinner or afternoon tea time, you build trust and they will ask you for your advice. This is not with everybody, only with a small part of very good clients.

Do you think it is more difficult for westerners to gain trust than for Chinese?

No, according to me it depends more on the personality. There has to be a mutual good feeling and you have to see a potential reason why you should work together. For example local rich people often find it easier to trust Western companies or brands because they see Westerners as open minded, having good ideas, being experienced and good quality. Once

you gained their trust, it is possible that they will trust you more as a Westerner than they would trust a Chinese.

How do you see the evolution of guanxi?

I think Chinese are getting more aware of how Westerners act in doing business. For example a friend of mine has a production company which started very small ten years ago and now they work together with western companies doing import and export for them. Actually the Chinese like to learn the different approaches in business. We will not copy the same way of doing business as we applied in the past, we will try to adjust more to the Western approach since this is useful for both of us.

Is face important?

Yes this is really part of our culture and people pay a lot of attention to it, especially men, business men. Actually I don't know why, I guess it is because it is rooted in our culture and our previous generations acted like that as well.

Can this help to market high end goods.

Yes, actually through buying luxurious goods, they can improve their face or reputation. Chinese people are very hard working people and everybody wants to have a good lifestyle and have a nice handbag or a nice car. But for the very rich people this will be less important, they don't care about what people think about them. Other people might spend more money on things that are visible to others, to show off and increase their confidence and reputation.

Are people prepared to pay more for foreign brand

Actually, in the previous years, when you mention the origin of the goods, people valued this and, yes, they might be willing to pay a higher price because they associate it with a superior quality but also to improve their face or reputation, they want to tell their friends they bought a chair from Denmark for example, or a handbag from Italy. However, I think this is changing now a days. The new or younger generation is making a more consideration between price, quality and ease or comfort. In the furniture industry for example, local firms offer reasonable quality to considerably lower prices, hence people might want to choose for local goods. Also we are getting more and more Chinese brands, for example in the car industry or even in the furniture industry, local Chinese brands are improving their image. I think we learned a lot from the western goods that came into the Chinese market. Especially the government is supporting this movement.

Interview 2 – Anton van Baalen

Anton is a Dutch entrepreneur active as floral designer. They do floral decoration for events but also design their own outdoor projects. He start with explaining how he got involved in China. 4 years ago they started with developing Christmas products in a Chinese factory in Shenzhen to sell in the Dutch market. So he traveled a lot between the Netherlands and China to develop and produce these products. In that time, the European economy went down while the Chinese economy was growing very fast.

I had some friends in the business world in the Netherlands that were already in china. A friend of mine is general manager in a hotel in Shanghai, so each time I went to Shenzhen I combined it with going to Shanghai as well and that is how I saw some opportunities. You meet more and more people in your business (event business, decoration business) and then at a given time I decided to start a business in China. But at that time it was still unknown how to deal with it, if it would succeed etc.. We started with establishing a “whoefie” WFOE, wholly foreign owned entity and decided to start in the flower business, event business, decoration business after we spoke to some people in this sector. There are many floral designers in China but they all lack creativity, design, which is generally true in China, and project management. Those two things is exactly the added value we as Westerners can bring to this market. For example when it comes to making agreements, on time deliveries, keeping flowars fresh, logistic management is very basic and unstructured. So if you can enter this market, having this experience, you are already one big step ahead. We provide this creativity, concept development and project management, which makes it rather easy to compete with local competitors.

What about the price of your products compared to the ones in the local market? You don't face a price sensitive market?

Yes, price is of course an issue but you should make sure that you stay competitive. In the end, the products don't necessarily have to be more expensive, if you add this creativity, design and project management, you can charge for this since they are prepared to pay for this. But in the end, the products have to be provided for competitive prices.

Do you have a different price strategy here then you have in the Netherlands?

Honestly we still have to work on that. We are still trying to get more feeling with the market. But we don't have one fixed price, it is always project based. So you have to look at each single project. Something else is that we often work together with famous hotels. In many cases, their general managers are western managers and they are very happen when they are doing business with another westerner because of their more structured way of doing business and hence are willing to pay more. But for other projects, in many cases the government is involved in it, and then they will do tender process to compare different proposals, which is mandatory in government cases. Even hotels are sometimes government own. And then you have a lot of competition because there will always be someone that can offer it less expensive. But you have to be very careful not to prevail every detail. For example sometimes they ask for a sample but we decided not to do that, because of the fact that our products uniqueness is in its design and sometimes even the technology. Once they have a sample they will be able to reproduce a similar one, and of course for a lower price.

Beside creativity and project management, what else has influenced your success in China?

In the very beginning we were quite last minute involved in one of ‘the’ hotels of Shanghai, five stars, Shangri-La hotel. It is a very famous hotel and everybody was looking at their opening. I met the general manager in November and they were preparing the Christmas decoration. This western general manager couldn’t find himself in the proposal from local suppliers and was very happy to learn about us. Two days after we made a proposal which was signed immediately. This also states the need for innovation and new designs. Being involved in such a project immediately opens doors and facilitates your introduction to other projects, hereby mentioning the importance of having references. But then it often is also a question of getting into the network of suppliers. There is a lot to do about the bonds between certain parties in China. For example, in a hotel, you have a house keeping manager and he has a network of local companies, sometimes even family or friends, with which he works together and sometimes even get rewarded by these parties when he involves them in the business. In that case it is very difficult to be involved in the project and you will either need this western managers that supports you or you should have local staff that has these bonds or can make the connections. Management will make the agreements, and the people that will execute the work, the latter need to have the bonds and connections.

Do you notice an advantage of being western?

Yes, Chinese people are interested in Western products, the quality, the service. But a trend I noticed is that they become better educated and trained themselves as well. For example general managers for hotels are now also Chinese whereas in previous years the trend was to have the westerners to learn from their approach. The reason for this is because westerners are very expensive and additionally they want to invest in local people. On the one hand, we also noticed that they find it interesting that we are westerners so they can say it has been designed by western designers. Another aspect is that they like to say that they can let you work for them. We think, the Chinese will think that he is honored to work together with us, but they will see it more as I can let a westerner work for me. To give an example, I saw an advertisement where a Chinese man stepped out of a car and a Western manager opened the door for the Chinese man. Also, a friend of my who is general manager of a hotel was invited by a Chinese business partner to go to an opening with him. You could see this as they are proud that they can work together with a westerner, on the other hand this could be seen as, bringing a westerner along to show to his friends that he can bring a westerner that has to work for him.

Is it necessary to have local staff to establish these bonds?

Yes, In some discussions you are around the table but when the different parties are discussing in Chinese, I don’t know where they are talking about, so in that case it is already very useful to have local staf. But even if you could understand the language, it would still be hard to read their faces. They nearly express any feelings what makes it hard to interpret how they feel about you. Of course, this is also a matter of experience, at a certain time you start to recognize some patterns and behaviors. Another way to establish these bonds is to help each other and to share knowledge, as we did in the factory in Shenzhen. Once you help them you also notice that they appreciate it and are willing to help you out when you need their

assistance. I also noticed that they realize that you do certain things differently than they would do. For example communication. We as Dutch people are very open and direct, I noticed that they envy this. In their culture it is not done to immediately say what you think, what sometimes makes the situations more complex. For example, sometimes when you ask if something is possible they say, difficult, so I think, with a bit more effort it will be possible, while they actually mean that they cannot help you. However, there has to be some previous relationship with these people in order that they understand or accept this. If you want to sell something or make partnerships, I think it is important to have local staff who is aware of all protocols and the way of doing business.

Did you notice other cultural differences?

I think as long as you treat people with respect and you are able to empathize with the Chinese people this isn't that big an issue. What I noticed as being important is to have physical presence. Due to a tight schedule, we couldn't fit a visit to the production factory in to our agenda during a trip in China. Hence, they didn't have any priority to the production of our goods, ending in a big mess. When you don't do the effort to meet people in person, they see this as a lack of interest and hence they will not do any effort for you. Once you have seen them, it is harder for them not to meet their commitments, because they don't want to lose face for you.

Did you noticed the presence of guanxi, ganqing, renqing, mianzi and trust? In what aspect did that influence you?

Yes, these aspects are present in China and you should pay attention to it. As mentioned earlier, if you don't know someone and you've never seen them before, they will be less involved with you and when you order something from them, they will feel less need to do their best. You also notice, once you get to know them, they will do a lot of effort for you since they don't want to say no, don't want to fail and they don't want to lose face. This is very strong.

A problem we often encounter is that we make quotations but we don't come to the final act of closing the deal. We are specified by architects but contractors, distributors try to propose alternatives. One reason for this might be the price, but I believe that the cultural aspect is also related to this. The fact that they use their network to look for alternatives because they trust them more etc. Do you think this makes sense?

I think it depends on the kind of business you are in and how you deal with it cause I also realize that Chinese like it to do business with Western people, so on the other hand it can also be a door opener.

Don't you think that before getting there, you should establish a relationship with them?

Yes, that's true, but that also depends on how you deal with it. If you take them for lunch, you bring them a present, show your interest, then you automatically generate a form of trust. I do realize that we hired a Chinese assistant, which is quite clever, she promotes us and during a lunch she can tell the Chinese business partner, even in a confidential or personal atmosphere that we are stipt, confidential and good in what they do, based on the experience she have with us, which of course will help. But I didn't noticed that they prefer to do business with a Chinese instead of a Westerner.

Did you noticed a changing importance of guanxi?

I think I am too new to the Chinese market to have noticed a change in the importance. But practically seen, I don't see too many difficulties. When you are able to adapt yourself and act humble to show mutual respect I think it can be minimized. This is for me actually a general approach. For example, an American that comes into China and thinks he and his products are the best in the world will not have success in China. Additionally they also understand that you don't know. For example, I had a lunch and suddenly my business partner wanted to start a beer battle during the lunch out of nowhere. Actually they liked the fact that I didn't know how to act, this creates also some connection between both of you.

Did you noticed any form of reciprocity? Do you think this can improve trust and personal relationship?

I realized they are very keen on getting and giving gifts but I didn't really noticed the reciprocal character of it. Another example that pops into my mind is that Chinese people are very caring, for example when you cough one day, the next day they would bring a syrup for you, just because they want to take care for you, they feel obliged. Also during a lunch, someone asked me if I liked calligraphy, of course you say yes. But then he wanted to show me a museum about calligraphy which was close and he wanted to give a present. But due to our tight schedule we couldn't go there. On this occasions it was useful to have my Chinese assistant to explain the situation in order not to offend him by refusing his offer.

Do you think they accept that you don't know some of these cultural nuances?

Yes I do believe so, they also know that we Westerners have different approaches. This again is showing mutual understanding. Especially now a days, I think the Chinese are able to accept since they are more and more involved in doing business with Westerners.

Interview 3 – Bart Dauwe

Bart Dauwe, CEO Chess-China Belgium. Chess- China is a Belgian-Chinese consultancy firm that offers services, based on experience from both Chinese and Belgian side, for Western entrepreneurs that aim to invest in China or Chinese entrepreneurs that want to do business in Belgium or somewhere else in Europe. Bart Dauwe studied Sinology and Economics and has been involved in different sectors in Chinese business for 10 years.

What are the major difficulties faced by Western companies when entering the Chinese market?

China is a hyper competitive market, we come from a SME region where in several sectors, there are only few players. When looking at China, one country has already a tremendous amount of local players. These players know how to skim the market and distinguish between the concrete projects and the less concrete projects and invest a lot to adjust their work accordingly by adapting their work, doing efforts to make quotations and follow up these projects very closely. This is something we are not used to in the West and hence is a first big difficulty. When you look at other Western firms, there it is the firm that executes their work the best will be the one that will get the project or sign the contract.

An additional problem is that we are a bit less flexible to adjust our products, I mean this with regards to quality. We Westerners like to position us as premium quality or superior to made in China. Most of the time this is also the right choice, but sometimes China is satisfied with just this lower level of quality. This implies that some changes or adjustments have to be made to the original product to meet the market demand. Chinese copy-cats succeed very well in this optic to provide just this lower level and as a consequence offering the goods at a lower price. If it is not really important if the brand name is on the product but when it is more about the design and less attention goes to the finishing, it is off course a disadvantage.

Another problem can be that Chinese people expect a higher quality then we actually offer in Europe. The perception of made in Europe stands for higher quality is become less relevant since they are now a days reaching a higher level of finishing etc. This makes that the expectations towards quality are very high which makes that some western companies are not able to meet them with the consequence that they cannot motivate their higher price level. To give a concrete example, we are currently working on a match making between a French company in baby materials (prefers not to mention the name). They are producing both in France and in China, this complicates the case since they will never be able to claim that their products are 100% made in Europe. The products that are made in Europe still have some problems now and then, not in the aspect that they cannot meet the functional expectations but purely visibly. This is problematic because when you position your brand as premium and the clients pay a premium price, the smallest imperfection they will notify will be immediately result in complaints. Another difficulty for Western companies is filtering of information. On which issues are we wasting time and which issues are important? Also the access to advantages that are easily accessible for Chinese companies, for example subsidies. Currently we are working on a project in the agricultural sector, where subsidies are very important. It is about machinery and one particular region in China is has very high subsidies for machinery. So if you produce locally you already have an advantage. An additional problem is that those that are in charge of granting the subsidies are most of the time very closely related to one particular government organization, so it is that kind of relationships you should try to figure out. We are now talking with this governmental organization to create a joint venture with them in order to have easier access to these subsidies and hereby having a competitive advantage of 60%. They are now looking to set up this joint venture and to convince them by providing them with western know-how and giving them the idea that they can improve their production methods as well. We give them the respective to acquire more and more know how along the way. This gives them a long term perspective on why they should start doing business with you. This already states the importance of relationships and networks in China. Something else is the fact that foreign general manager, should be willing to listen to the local people and learn from them. If the foreign management doesn't listen to the local management it will not work. For example local management will say that it takes time to get the sales because it takes time to build the relationship, foreign management doesn't understand, they don't trust the local people, they only trust their own way. It is very important that the foreign management understands what the local management tells them and why this is so. This will give them insights about how to adapt their strategies. If you can find a loyal local people, this will be most effective for the start up since they can fully integrate in the local business. Communication with the headquarter is actually something internal. They should make sure that this communication can go smoothly. For running the business I think the local management is better.

Did you noticed an evolution in the importance of guanxi?

Yes and no. There is more and more distance in the way how sales is generated, just think at the increasing interest for online sales channels. For this I would say, yes there is a difference remarkable. Specifically for your sector, there are some western companies that sold some products online by TaoBao, I am aware of one Belgian supplier for lighting that used this approach. However, this was a one-time deal without any further effect or actions. So this is completely without any type of guanxi. For describing guanxi, I would like to refer to the circles of guanxi, you are either in or out. The closer you are to the person you want to relate to, the closer the circle is in which you are located. You have a second and third level but then you are considered outside the circle and hence they don't see you as having anything to do with it. If you look at it in the organizational optic, more specifically for western firms in China, I think you will always be outside the circles. The simple fact to refer to the Chinese word for foreigner, Lǎowài. Wai means outside, which, per definition already states that you are not inside the circle, so you will have to do a lot of effort to achieve the same as a Chinese firm. Except when you are Apple or something, then they want you absolutely. The closest you can get is family but it is impossible to get in this circle if you are not part of the family. The people they went to school with I would also describe as inner circle, for the simple reason that you didn't choose to be with them in a class but you play together etc. This is completely different then when you built something in a professional context. To get into someones circle, what I usually try to do is to get him out of his work environment and do something more relaxed with them. For them it is often karaoke, but I am not such a fan. Just going for dinner, speaking about topics unrelated to work, spontaneously making offers, for example sending them articles about topics you know they are interested in. I see guanxi as a normal personal relation in which you have to invest a lot. You also have to see it in the long run because in China, you have many functional relationships. You will notice periods were people are very friendly to you, this is the period were they need something from you. It also has to be clear that it is an engagement in two directions.

Do think that guanxi can improve sales?

Of course it will influence your sales but it is impossible built these good relationships with everybody within a sector. Something I regularly do, which is from a buyers point of view, since I don't have time and I don't want to build the good relationships with everybody within that firm, I tell them they should give me their best price, I will ask a commission which I will split with them. This will result in a competitive offer and you will have their attentions since you offer them part of the commission, which is very common to ask for in China. Form a sellers perspective, I personally would recommend to focus on the personal advantage they can have when buying from you. For example, 5% of the sales price CFR Shanghai can be foreseen as commission for you, personally. Like this you already have their attention, plus this is an advantage over local firms. These local firms use this approach for sure, it is not limited to going for diners only, they also foresee commissions, especially for people in key positions. It is also recommended to do something with this person outside the business environment, first, because these issues are hard to discuss in the office but also to build the personal relationships. After 2 or 3 meetings you could come up with this kind of suggestions.

What are according to you the cultural differences between China and the West regarding doing business?

I have to say that we as Belgians are quite good in adjusting ourselves to the Chinese mentality. When I look back to the 10 years I am working in China, it are mainly the Belgians who are good in adjusting themselves according to their business partners. The fact that we are surrounded by different nationalities is probably an explaining factor for that. Surprisingly also the Italians are doing very well in adapting themselves to the Chinese culture, which is my personal opinion. The Italian way of business is very similar to that of the Chinese. Almost unlimited flexibility and being prepared to listen to the market, make changes and completely change business strategies. I only have one example in mind, again in the baby sector, OK baby, they work together with a firm where we also work with and we can clearly see the difference in how the French act and work together with the Chinese and how the Italians deal with it. In the very beginning, the Italians brought their production facilities to China with the idea to produce made in China and also produce in China to supply the global market. Chinese contacts saw potential in the product of the Italians but suggested to keep production in Italy, and claim a 100% made in Europe, selling on higher prices. This decision has led to do better as the French and reaching the leadership position in the export market. This again to state that when you have the control over your product, when you can sell at reasonable prices, premium quality and the right partner in China, you can succeed to make a success export story. This is only speaking about consumer brands, which is different is from your case since you don't see or nearly see the product name in your products.

What is your idea about Ganqing, Renging, Mianzi and trust related to Guanxi?

For me this is more a theoretical approach. The most important according to me is Mianzi, the face you give or don't give someone and the main idea is that you are not allowed to let someone loose its face. In the west we are quite straight forward and have direct communication whereas in China they will make a long detour in order to say what they mean, hence having an indirect communication style. They try to avoid confrontation, what actually is a nice character. They will avoid to say no, instead of saying no you can say 'it is a bit difficult' what, most likely, will be appreciated more than a no.

If you really want to be involved and invest in guanxi, you should also try to do what they ask you or to help them when they ask you something, hence not saying no. Guanxi is a double-edged sword, either you participate in it or you don't. If you do participate, you are really stuck in the net of all advantages and disadvantages related to it. So you should feel obliged to help them when they ask for help. It is also the principle of I gave because I hope you will give back and it is very much possible that they will help you once and then you don't hear them for a long period. After several years they send you an email to ask you to help them when they need something and if you say no you will definitely not improve your relationship.

So actually you say that it is not necessary to participate in guanxi?

Maybe I expressed myself too strong in that aspect, sometimes you don't have choice and you are part of it. But there are also people that are really hunting to build these relationships etc. which to me looks quite artificial.

How did you experienced guanxi?

When I think about it there is actually quite a lot that has been started with guanxi. For example the cooperation with the producer of baby products actually was initiated by someone he knew in a period he was dealing with some difficulties. He just lost a distribution contract due to guanxi related reasons out of his scope of control. So he founded his organization but he had no longer a product to market. It is these moments, when someone asks you something, and you only show your willingness to listening to them to see if there are opportunities there could be, that are things they won't forget. In exchange of that you can ask something back. However, it doesn't always have to be one on one but you know that he owes you something and that you can ask something back in the future with a bit more comfort. When I think of another example, the set-up of a firm we did in Belgium also came after there was already an established friendship. We did a set-up for a company that is doing purchasing for boat parts. I met this person on a fair and had a very superficial contact with him. By keeping investing in these inter-personal relationships, and every time I am in China I ask him to go for a drink or have lunch, you create something. For example, she needed a structure in Europe and had some connections with Chinese people that were in Europe but they were too busy. Eventually she asked us to have their purchase firm under our legal entity and to do some jobs for them when they occurred where they give us the complete control over the accounts, which are quite strong commitments she gives us, this mentioning their trust in us. Very recently, there was someone that is linked to the governmental organization for which we are discussing the joint venture. This person had a friend that was related to a Chinese university and now she is asking me if I have contacts to bring him in contact with some European universities since he wanted to do an exchange program. So I said ok, that is interesting for me, first of all because I have these contacts so it is a very small effort for me. I also know that she won't forget this, so actually she will improve her relationship towards her friend and since I helped her, I also got connected with someone in her inner circle and it is like that that it works. So it really is something that is used by Chinese people and I wouldn't say that the importance of it is diminishing. But within China there are also regional differences when it comes to guanxi. As you are located in Shanghai, this might be less important. I think that the level of importance in Beijing is much higher than in Shanghai. The more you will move to the Nord, the more traditional they are. So where we are, in the Nord, with the agricultural machines, you can imagine it is extremely important to connect with everybody they introduce you to.

What are the problems with expatriate managers?

It is important to understand that need local management and foreign management. If the foreign management doesn't listen to the local management it will not work. For example local management will say that it takes time to get the sales because it takes time to build the relationship, foreign management doesn't understand, they don't trust the local people, they only trust their own way. It is very important that the foreign management understands what the local management tells them and why this is so.

A problem we often encounter is that we make quotations but we don't come to the final act of closing the deal. We are specified by architects but contractors, distributors try to propose alternatives. One reason for this might be the price, but I believe that the

cultural aspect is also related to this. The fact that they use their network to look for alternatives because they trust the m more etc. Do you think this makes sense?

Yes, for sure a Western company will have more difficulties to sell than a Chinese company. Additionally, the decision makers are most of the time older people, which implies that they 9/10 have the disadvantage not to speak English. So every information that gets to them is already influenced by people working for them. You should take into account, because you are dealing with this inside outside culture, you are initially considered as being outside. It is as such that they will have an initial degree of distrust among unknown people. You don't start on zero but below zero. So you will have to build a lot of credibility before they even might consider to buy from you. I think the big advantage for Kreon could be that you show your realizations, some nice references of global brands that worked together with Kreon in China. In these long chains of decision making it is also very important to know who will make the final decision.

Interview 4 – Hans Yeh

Hans Yeh was born in the Netherlands, grew up in Belgium but his parents are both Chinese. Five years ago, after finishing his studies as commercial engineering in Belgium and one year of consultancy experience with Deloitte, he moved to China to become general manager of Lamette Design in China. This is a Belgian manufacturer of wooden floors.

How did you experience Ganqing, Renging, Mianzi and trust related to Guanxi?

Ganqing I would say, is an emotional bond, connection with someone. Of course, if this emotional attachment has a positive influence on your sales. If you have a good bond with someone, he will be more willing to buy from you. But I see it wider as that. For example also for after sales service, if there is a problem after the purchase. In China actually, not everything is stated in contracts. When a problem might occur, it is possible you should go on site to see what you can do. You don't do that only do this because this might be part of your contract but especially to develop a better relationship with this client. This has also to do with reciprocity and so they will get connected to you and in the future, when they want to purchase again they will not forget what you did for them and eventually place more and more orders.

Face is, without any doubt, something very important in Chinese culture. I think the first distinction has to be made in use of language and communication. In the West, we are very direct. If you get a request for which you cannot meet the requirements you say, sorry I cannot offer you this for that price. You can never say to a Chinese that you can't supply that good or that you can't offer it for that price, you say I will check it for you, or maybe. But when they say maybe, it means they can't.

Will there be given a consequence after you said, maybe?

Normally Chinese people are very sensitive to this subtle, indirect use of language so they will understand what you mean. In the West, you say what you mean. An example is that when you will have a meeting with a client in which more parties are involved, you try to make clear upfront that you cannot meet the requirement if this is the case. This, in order to

make sure that this person will not lose face towards his colleagues or partners. The meetings in China are actually more ceremonial, no real conclusions will be made during the meeting since this is arranged before or after, but outside the scope of others. This is also true for example when it comes to giving comments on your staff. It is very disrespectful to do this in public. They are very sensitive, even for constructive feedback since they perceive this as negative and losing face.

Do you think trust is important?

Absolutely, the major challenge in Chinese society is the enormous lack of trust. This is partly cultural, but the major reason is institutional. In the west we have well established legal frameworks and institutions that protect us in doing business and even with regard to our personal relationships. In China there is a huge lack of legal framework and institutions to be protected. Therefore, in China you have to build a xinyong or xinren with the people. So it is extremely important. In order to establish guanxi, xingyong or trust is one of the basic elements.

An example, in the West when we look for a supplier, we ask for three to four quotation and we select the best offer. In China, usually you work with one supplier. The reason is that trust is a time demanding concept. You have to work extensively with this supplier, have a lot of contact with him, in order to build guanxi. The opportunity cost to change can therefore be considerably high.

A problem we often encounter is that we make quotations but we don't come to the final act of closing the deal. We are specified by architects but contractors, distributors try to propose alternatives. One reason for this might be the price, but I believe that the cultural aspect is also related to this. The fact that they use their network to look for alternatives because they trust the m more etc. Do you think this makes sense?

It's a combination of factors. Price can be one of them but as you are in a high-end sector there will also be a market for that products, it's a matter of finding the right channel. This immediately will be your biggest challenge, to find the right channel and second to establish the right guanxi, trust and ganqing in that channel. A misleading thought is that many people might think that the Chinese are looking for the cheapest solution. This is not always true. In many cases we work with designers, architects and they just want to work with top products, a famous western product, because they will also get a commission on the products they specify. The workload for specifying products for 2000 RMB or 20000RMB will be the same. But of course, it is important to establish the trust and guanxi beforehand. So price is only one dimension. These commission systems depend on the sector but also on the region. For example Shanghai and Beijing are the most international exposed cities. In these cities it will be different then in 2nd, 3rd or 4th tier cities such as Nanjing, Suzhou etc. the more local you go, the more important the role of guanxi and such the commissions. The benchmark for commissions to designers in our sector will be between 5-10% in Shanghai, whereas in local markets it is very common that a designer will ask for 40% based on the net sales value.

How do you see the evolution in the importance of guanxi?

I think, on one hand, guanxi is the consequence of the lack of institutions. But in cities like Beijing and Shanghai this lack is already less relevant because these cities are more international exposed and such, they have better rules and a better established legal

framework in which they can work. People are moving away from personal guanxi towards the legal framework. Which I expect to happen similarly in the 2nd and 3rd tier cities in the future. But I really don't believe that guanxi will disappear. It is inherent to Chinese culture for over 1000 years, so this will not disappear in a few 100 years. I do believe that the role guanxi plays, will take on less importance in the future. You should also take into account that everything is quite new in China, since they opened-up their market to the international market only in 1990. Many foreign products are hence not known yet by the Chinese. They don't know which products are the best, they know which established first and those that did the most advertisement. So because they lack this information and the trust, guanxi is so important. If they have a good relationship and trust in a designer, that is most probably more aware of international products, they will believe him when he proposes a product. So reputation, trust, guanxi is very important and don't think this will disappear. The importance may decrease very slightly because the increased exposure to the world and the Chinese will be more aware of different options they might have, through traveling for example they will discover new things.

How do you see the role of the designer in this channel?

This really depends on the complexity of the project, normally you have the supplier on one hand and the designer that specifies the product on the other hand, usually there is a project management team in between that handles the actual purchasing and then you also have the final client. So it depends on the mutual relationships, also, how well informed the end customer is. He might have a very strong brand preference or completely trust on his designer and do whatever the designers tells him to do which is completely different then when the end customer gave a budget to the project team and as long as they come up with a proposal within the budget, the client will be ok with it. In the latter case, the project team will chose for a product they are either used to work with or where they can get a bigger commission.

I see the aspects, ganqing, renqing, mianzi and trust as coherent aspects leading to guanxi. Reputation is another aspect that can be related to guanxi. Something else, for example, Chinese like to go to a karaoke, why is this, to build an emotional relationship, more a personal relationship.

Interview 5 – Jennifer Lu

What are the key cultural values of Chinese society?

Personal relationship is the biggest difference between Chinese and European. In Europe everything is based on following the rules. In China, yes, we also try to make up some rules but I think, above that, the key is the relationship. So you need to really make a personal relationship first to make yourself successful in this market. So I think that is due to the culture. More and more the companies here are also working with some rules but still, even in macro environment you have some rules to overrule the business but for micro contents it is still important. I think, when the foreign company come here, because normally, Western society they just have some rules, and people are really work for the company and not for their personal interest, but here it is more like, if I feel happy here I will work here. Also, when you sell some products, if the buyer has a really good feeling for you, it will make more chance for you to get the business. Even sometimes you will lose the business, the next time

they will give you the opportunity to get the business if you have this personal relationship, so it is very important. And if you try to build up this personal relationship, you really need to read the Chinese mind, because Chinese are not as open as foreigners. You really need to understand what they are thinking, what they like,... Most of Chinese people are very kind, but still you need to find the right topic to communicate with them. And it works. When you look at foreigners, you can easily become friends, or at least find a lot of common topics to talk about. But that doesn't mean that friend will help you. In China, it is not easy to make relationship with Chinese people, but once you get it, it will be a very stable relationship and you will really get their help. When you have some foreign friends, you can have a drink and a talk together really easily, but when you really have a business or a problem, it is a question mark if they will help you. With Chinese relationships, you can be sure that he will really help you.

What is the reason that it is hard to build a relationship with a Chinese person?

Because they are not open, they are not sociable. Once they have a relationship it will be very valuable. It is not a wide networking, but once they have someone they will really appreciate and value that. Also, in our old culture, we have something like if we are friends, we are brothers, we need to make sacrifices for each other, so it goes deep back in the culture.

What is the role of trust in Chinese society?

I think corruption is everywhere, that is a topic you cannot avoid in China. But actually I think this happens everywhere. We just don't exaggerate the effect of the corruption. Sometimes I think it works because of the conflicts China experienced because we are coming from being very poor. It is not like in your society, where most people are middle class. Here some people are still poor, they have no housing, so there is a very high pressure on them, it will push somebody in that respect. I think for the young generation, my sons generation, or already in between my generation and their generation, they start to change. Now everybody has got the better condition, they have houses, they are becoming more middle class. Those children, like my son, actually they don't care about money anymore. Of course, they don't worry about money because their parents now can take care of them. But on the other hand, they build some principles for themselves. They will say, if it is not my money, I don't want it. I see some young generation, especially Shanghainese. For example, teachers, if you want to give them some gift cards, they will really reject. They say it is my duty to help your son. Even when I talk to my son, when we tell him that he has to work hard, he says, why do I need so much money, I don't need it, I just want a simple life. So it is another direction. Ok we have made a great progress in the last 20 years, but a lot of people are also in a mess, I mean in a mental way, they don't know what is right what is wrong. They lose the principle, they just survive for the living. Now, I think, gradually, for the next generation, because their parents already made a good environment for them. They now start to think what they want, what they want to do and what they don't want to do. I think that, because, now most of the families are more or less the same as in Europe, they can support their children. Of course, they don't have the pressure, they don't feel that their parents are struggling for money. So yes, they don't need to work hard. But on the other hand, they can think about what they want. For our generation, we cannot afford to think about it, you just work hard, you have to buy your house, you have to make money for your family. This generation no longer has that pressure. On the other hand they also say, they can choose the life they want. No they maybe

have 3 or 4 houses already from both families. Now they can choose if they work hard for the money or they can do something what they like. When corruption happens they can evaluate whether is right or not. They now will also say that they don't want it, they just refuse. I think that is something which maybe took 20 years for China to catch up with Europe material wise, money wise. Now you cannot see the difference between Shanghai and European countries. But I think for mentality, for spirit, for people, the next generation will be more closer to people in Europe. I think that now already is the third generation. Next generation will be more open-minded. My son chooses whatever he wants, in our generation, we didn't have a choice. We had to go to university, study hard. And you can see this in China, everything grew very fast. So we were forced by the pressure and we could not do what we wanted. Now, we say, we lost this opportunity, so we don't want this to happen to our kids. We also had to suffer, we more or less finished the whole process. Finally, we also found what is the most important in your life. Before, what we received in our education is that only success makes sense. Now we think, actually, life is really short, so happiness is the most important. It is not necessary to be the most successful. If you are happy for yourself, that is the most important. There are still families that push their kids really hard, but I think the more high level, the more relax they are. I think it depends, if they really want to work hard, they want to have the success, it is their own choice. But if they say, I just want to have a simple life, why not, as long as you can make a living, if you are happy, it is ok. Now we try to be tolerant for differences, it is accepted if you don't want to persuade success.

What is the role of harmony?

This is arising from the relationships because we take this as the most important. If you are in a company you have the boss and the subordinates. From old traditional China, if you are subordinate in the company or in the family, then you have to follow. In our culture, women don't have rights, they have to follow their husbands, sons have to follow their father, you have to obey. This is also reflected in a company, subordinates are low level, boss is high level. Low level always follow. And why in harmony, because they don't want to break up the relationship. They try to keep the relationship as good as it was. Chinese people, also due to their personality, we are not straightforward, we are not open. Harmony is just from the outside, in the inside they are not in harmony. Maybe, internally they also disagree. Because of the culture, the mentality. They will think, if they would say it in another way they will be angry and they don't want to make you angry. But they don't know this can make it even worse for foreigners. Foreign people say, why don't you just tell me. Chinese people are not that brave, they are very scared. They always try to secure themselves, too much self-protection. For example in a big company, everybody just shut up, nobody has the big heart to take it up for the group, they try to protect themselves.

Do you see China as a collectivist society?

This is from before the communist party. I don't think it is the case anymore. People now have their diversity, this is more for state owned companies.

How are people dealing with uncertainty?

Chinese also don't take risk, no adventure, they try to keep the things like it is. That is why we don't have the innovation, no creation. That is what we are lacking in China. We are too

much in a rush. We close the door for so many years, then suddenly we open the door and then so many good things. We didn't calm down to evaluate or to do some research by ourselves, we just copy. This is also the culture. We try to jump over. But this is creating a negative impact for the whole society. For example, there is Apple in the US. If the Chinese want to get in the business they don't take time to build up their R&D team, they cannot wait for that, they just buy the company. Do you have the principle or do you have the rules. If there is no bottom line everything happens without coordination. If you have the rules you can build on that and I believe that is what is going on now.

How are Chinese dealing with controlling their desires?

I see it as they are not brave enough. There is only one way, no diversity. When the whole society says this is not right, then people will not do it. But it is not just wrong or right.

Making sacrifices is also inherent to Chinese culture. Especially families towards kids, there really is a big responsibility. Parents lose their own life. They really take care of their kids, even after marriage. The contribution here is different, really close and sacrificing a lot.

Staff turnover.

I think, when you recruit people, you should check their family background, what is their living condition. If he is just single in Shanghai, renting a house, they still struggle for living so they will be very eager to change job for a minor increase in salary. But if you find a good Shanghainese, who has good living standards, for him, it will be more important whether he is happy with the job. The high turnover is mainly because of people coming from outside Shanghai that are trying to improve their living standards. I think there three types. The ones with a too high pressure, they will change very easily because of the money. The ones that have no living pressure because their parents take care of them, they will leave because they don't like it or don't like to work hard and finally the ones with a stable living condition.

Motivation, responsibility

When it comes to initiative and responsibility, I think that Chinese will not take the initiative, not because they don't want to, but because they cannot express their selves, they are shy. They will not argue for something, they don't express what they want. For example, when there was a company looking for a CEO, I will not go there and present myself, I will wait until someone tells me, ah Jennifer, this is something for you, you should go there. But if you give them the responsibility, they will feel honored. When in a big company, the outcome of a task is no longer only in your control, you try to avoid the responsibility by eventually trying to do less in order to be safe.

Issues with foreigners.

In the relationship between Chinese and foreigners, you have to understand that we Chinese always have seen the foreigners as superior. It were always the general managers that came here. Now this is already changing, also because there are many different kind of foreigners coming now, like students and young people. But before Chinese people were almost afraid of foreigners because we thought they are better than us. But still, foreigners are generally seen as being at the strong side.

Indirect communication, is because of self-protection, they are hesitating, they will not speak out about what they think. But even, when I was young, my boss told me, Jennifer, you can think fast, but you can speak so fast, you cannot say what you think. You should follow the opinion of the right person and follow the rules you cannot just mention your own opinion.

This indirect communication is also a main root of troubles caused in the interaction between foreigners and Chinese people. They don't say what they think so it is very hard to understand them. Foreigners will be irritated, frustrated by this. Sometimes, in business meetings they don't find a way to communicate and the meeting is over after 5 minutes.

I think the first problem is that you have your rules, your way of doing things. The biggest bottle neck is in sticking to these rules when you come to China. Foreigners should realize that you are in China and you have to adapt to the rules here. Some of my friends, some of them really high level, have been in China for 20 years, but to really adapt themselves to the Chinese environment is difficult. If people come to China, first of all you have to respect Chinese people. Foreigners are judging already about the corruption, the indirect communication, different thinking, but that is what they are, so if you don't like it, you don't come, if you come you should like it and respect them first and then you can make friends. So first of all the principle whether you come based on your rules in Europe or the rules in China. Many foreigners come here after being successful in their country, and they think they can apply their way because this has been successful in Europe, they don't listen. But in China it is different and it will not necessarily work like you are used to. First of all you need to respect the people and you need to be patient with the people, you need to make friends with local people. If you don't respect the people or you neglect the relationship, you will fail. Also the relationship with the government is really important. I know in your society this is not important, so some foreign managers will not make time to build a relationship with them, they consider it as not important. Here it is not purely commercial environment. Another thing is that people are evaluated on their language level. If English is not good they don't stand a chance, but sometimes they can be very talented people so the talent might get lost because of that. Of course the communication will create problem. But you should be patient to learn and don't make your judgment too fast. But the foreigners should also find their way of communication. They should learn Chinese or you should be patient to understand the people that cannot speak English.

Another problem is that foreigners most of the time come to China with prejudices about the Chinese people based on the image that is created around China in the media. Then, later, when they are here and there is something they don't understand, they will connect all the problems to this wrongly stated image about China. They should be open to learn about the culture, the people.

Market entry with expat or local.

For the foreign company that want to start up in China, they can send an expat but they need a local senior level together with that expat. Always should be combined it doesn't matter how smart the expat is, he will always have problems to really penetrate in the market. So it is very important to have a mixed team. I don't see any problems with a local management, but then

the HQ should really have a deep understanding of the local culture, otherwise, sooner or later, they will have the problem. Because of a lack of trust. If it is impossible to have local management, then the best solution is to have an expat with a local one. Then the next problem is, how will these two people will work together? You cannot have the same level. One should be higher level, but should be open to listen to the local. In terms of roles the CEO could be an expatriate but then sales and marketing should be local.

I don't think an expat is really necessary, as long as the headquarters has the understanding of the local environment. The biggest problem arising here is that the headquarters should trust the local team. The expat will act as a bridge between headquarters and local. Because the headquarters will get impatient or will not understand the local practices or will not believe or trust the local team. Foreign companies always try to have some links with other foreigners because this gives them a degree of certainty. But China now has so many talents that can do the same job as an expat, the need for an expatriate depends on the headquarters, if they can really fully understand the local market and accept the practices, there is no need for an expat.

Sometimes, foreign companies hire managers that have been in China for many years. Foreign companies will think that this kind of guy know the Chinese market. I really don't recommend that. I would prefer a young foreigner, because he at least has the European spirit. The expat that has been in China probably switched from company many times, so for me this is also a sign of not being loyal or devoted to the company. First of all, they are not the purely European anymore but took over some bad Chinese habits. On top of that, they will never become real Chinese, they will never be able to fully integrate in the local market. Everyone can know the rules, but how to make it happen is something different. The only way to fully integrate would be to speak fluently Chinese, but still it will be difficult to level with the Chinese, just because they will always have a feeling of superiority with regards to local people.

