Anne Vihakara

PATIENCE AND UNDERSTANDING
A Narrative Approach to Managerial Communication in a Sino-Finnish Joint Venture

ACKNOWLEDGEMENTS

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF APPENDICES

1   INTRODUCTION

1.1   Background and Scope of the Study

The rapid and drastic economic development and the opening up of the country have made China one of the fastest growing economies in the world: The real GDP growth was 9.5% in 2004. (PRC Economics Statistics, 2005). Its share of world trade was 5% and of developing-country trade 20% (Launch of World Development Indicators 2005). The overheating has eased during the past two years: the inflation rate was 3.9% and the unemployment rate 4.3% in 2004. (PRC Economics Statistics, 2005). Regardless of the increasing inequality in income distribution and the growing unemployment, China is an attractive destination for numerous foreign enterprises and was ranked the top destination for foreign direct investments in 2003 (World Investment Report 2004, 19).

China is a promising market for Finnish companies as well, but entry requires careful planning and investigation. Successful communication between managers is strikingly important in doing business in the country. Problems arise in foreign-invested enterprises in particular, when two different cultures and management styles need to be integrated in everyday life. 'Be patient' and 'build relationships' are often given as rules of how to behave properly, but it is useless to apply these lists of 'dos' and 'don'ts' to everyday operations if deeper understanding of the underlying factors is lacking. Big cultural differences hide behind these phrases. Before starting this research I asked some managers who were operating in China about the impact of culture. They emphasised its importance, but could not give examples of its influence on daily management. After a brief look at the contemporary literature in 1997 I noticed that very few studies shed any light on the issue.

A whole industry of writing on how to succeed in China emerged during the 1990s in an attempt to help companies to perform better on this market. The authors had recognised the need for such literature, a need that was growing hand in hand with the emerging Chinese market. The books and articles could be categorised broadly in two groups: academic studies and best-seller-type guidebooks.

Many of the guidebooks told stories of disasters and difficulties that faced Western companies operating in China, listing the above-mentioned 'dos' and 'don'ts' without any reasoning behind them. The problem was that they were

collections of anecdotes lacking proper analysis - nice and easy to read, but they left the reader without interpretation. Some of them were clearly Western-biased: the Chinese voice was missing. This was probably because they were targeted to the Western audience and focused on how to overcome the Chinese.

Several academic books and articles had been written on cultural differences[1] in general (Hall, 1989; Harris and Moran, 1991; Salo-Lee et al., 1996; Terpstra and David, 1985; Terpstra and Sarathy, 1991; Holstius and Törnroos, 1990), and country-specific comparative studies had been conducted by Hofstede (1994), Trompenaars and Hampden-Turner (1998), Adler (1997) and Mole (1998), for example. I was interested in European business cultures in this context (Lewis, 1993; Randlesome et al., 1991; Stevens, 1997; Calori and de Woot, 1994). Finland has been included in many of these studies, but extensive and consistent research on Finnish management was rare. However, the work of Nurmi (1989), Lewis (1993) and Laine-Sveiby (1991) stood out as exceptions.

The emerging Chinese market caught the attention of several authors in the late 1990's. The focus might be on the Chinese culture and communication (Antoniu – Whitman 1995; Bond and Hwang 1987; Cheung 1987; De Mente 1995; Fang 1997; Leung et al. 1996; Stewart – Keown 1989), or on doing business in China or on a combination of the two (Björkman 1994; Hamilton 1994; Holstius – Salminen 1995; Huang et al. 1994; Worm 1997). The number of studies on the management of joint ventures and human resource management in Chinese-Western joint ventures also increased in the 1990s (see e.g., Björkman – Schaap, 1993; Direct Investment… 1991; Woodward – Liu, 1993; Hyder, 1988; Hoon – Halbauer, 1994). Some of these studies are reviewed in Chapter 4. Finnish researchers such as Koskiniemi (1997); Luova (1999) and Siika (1999a, 1999b) were interested in the political perspective.

Because my research interest was in managerial communication, I also turned to the literature in this field. One of the authors laying the foundations for the research on communication was Berlo in 'The Process of Communication' (1963). Several others have followed in his footsteps, including Clampitt (1991) and Stohl and Redding (1987). Organisational and managerial communication were hot topics in the 1980s and attracted[2] the interest of Krone et al. (1987), Timm (1986), Mintzberg (1980), Lewis (1987) and Level and Galle (1988), for example. Many studies were published on

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[1]   Other works in the field include Hoecklin (1996), Darlington (1996), Mead (1995) and Anthony (1994). Studies on culture shock (Craig, 1984) and expatriates in JVs in China (Björkman and Schaap, 1993-1994) are also related to the research problem. Wendy Hall (1995) and Smircich and Calás (1987) investigated corporate cultures.
[2]   See also Blair et al. (1989), Hawkins and Preston (1981)

communication with a special focus on language, including those conducted by Blair, Roberts and McKechnie (1989), Marschan-Piekkari et al. (1999), and Welch and Welch (1999).

Writers on cross–cultural communication include Gudykunst and Kim (1997), Gudykunst and Ting-Toomey (1988), Saville-Troike (2003) and Scollon and Scollon (1995). Golbro and Herbig (1996), Putnam and Holmer (1992), and Kapoor, Hansén and Davidson (1991) focused on international or cross-cultural negotiations, while Stewart and Keown (1989) and Fang (1997) conducted research in the field of negotiations with the Chinese.

These studies are only a sample of the vast amount of available literature. Many of them combined the notion of FDI with that of culture or looked at FDIs in China. Another common approach is that of cross-cultural communication. Most studies concerning operations in China are quantitative in nature.

The comments of the managers and my personal background as a teacher in international business raised a lot of questions in my mind as I was reading the literature. The main point was that culture caused problems in managerial communication, but what kind of problems and in what kind of situation? What were the reasons for the problems? Were they cultural, financial, strategic, or related to something else? How did the problematic events start? How did they unfold? What was the outcome? Why should managers act and communicate in a particular way, and what are the consequences of inappropriate behaviour? As my students asked, what was really going on there? The earlier studies did not fully answer my questions.

On the basis of the literature review, the managers' comments and my personal experience I came to the conclusion that there was a need for research focused on how cultural differences affect managerial communication on the grass-roots level. The grass-roots level in this sense refers to individual events in daily operations, not to the lowest organisational level. The outcome of the study would be several deeply analysed examples of the implications of cultural elements to be used in managerial training and international business education: 'learning by other's experiences'. Finnish managers are the main audience of this study. Naturally, a doctoral dissertation must also be of interest to an academic audience in terms of increasing understanding in the particular field. This study will have relevance to the business and academic audience in Finland and elsewhere, because some of the features clearly have a wider perspective. This was the starting point of my research.

1.2 Narrowing the Research Area

The main focus in this research is on cross-cultural communication between managers placed in the context of Sino-Western joint ventures, more specifically in a Sino-Finnish joint venture. A joint venture (JV), more specifically an equity joint venture (EJV), was selected because differences in cultural traits will most probably show due to the joint ownership and management. China was chosen because an increasing amount of foreign investment is flowing into the country and therefore business operations, communication and culture are of interest to a worldwide audience.

The study is based on three different theoretical strands: managerial communication theory, cultural theory and joint-venture theory, the emphasis being on the first two (Figure 1).

Culture

Joint Venture   Communication

Cross-cultural Managerial Communication in a Sino-Finnish Joint Venture
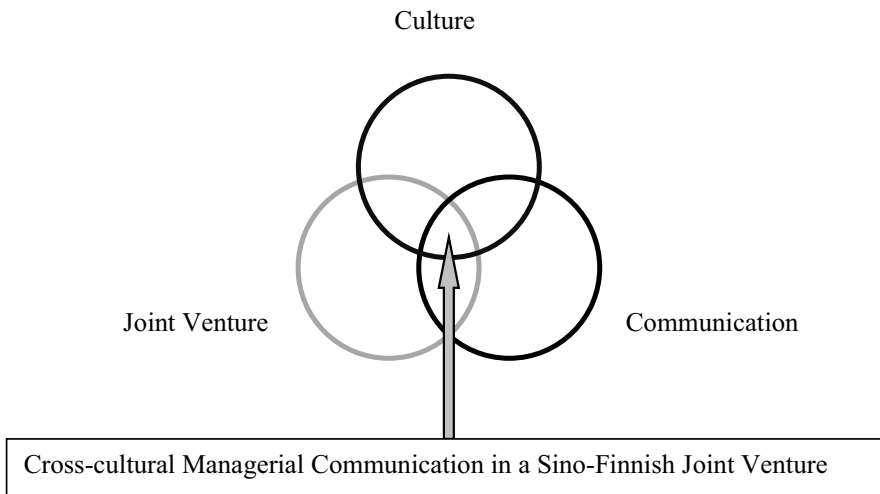
Figure 1.   The Theoretical Foundations of the Study

In order to position this study in the areas of communication research and cultural studies a brief review of the concepts and literature is presented in this chapter. The concepts of managerial communication, culture and joint ventures are discussed in depth in Chapters 2, 3 and 4, respectively. Joint-venture theory is secondary to the other two, and is used mainly in order to further understanding of the overall setting in which the managerial communication under study takes place, as well as in evaluating the results. These three theoretical foundations together form the conceptual framework.

The theoretical foundations of this dissertation lie in the research conducted especially in the 1980s and 1990s. The reason for this is that the research design was created in 1996 and the first interviews were conducted in 1997. Since then international research has moved on and focused on new areas. Some of the new developments are introduced later in the final discussion section, thus making it possible to evaluate how the results of this study are compatible with contemporary knowledge.

1.2.1   From the Viewpoint of Communication Research

Before moving on to considering the concept of managerial communication I will first define the concept of communication in general, and of organisational communication in particular.

1.2.1.1 Research Perspectives on Communication

Basically, people communicate in order to influence – with an intention to exert an affect. One of the fundamental communication models is Berlo's (1963, 12-41) *process* model. The main aspects of the process are the communication source (sender), encoder, message, channel, decoder and the communication receiver. In interpersonal communication the source and the encoder on the one hand, and the receiver and decoder on the other, can be grouped together.

Communication could also be seen as *behavioural interaction* emphasising the result of the process. In addition to conveying information, effective communication instils beliefs, induces emotions and/or elicits behaviour (Level and Galle, 1988, 10-11). Communication may be *verbal or non-verbal,* and can convey messages via action, touch or sound. Thus it is a dynamic, continual and complex process. (Berlo, 1963, 32; Lewis 1987, 7; Timm, 1986, 7-8; Lewis et al., 1990, 16-18)

There is also emphasis on understanding each other. The exchange of messages is a two-way process between a sender and a receiver, thus interpersonal relations between individuals, their attitudes and feelings, enhance or inhibit understanding. The aim of communication is the *attempt to understand* the meaning of the message in the intended way. (Lewis, 1987, 8) The words themselves have no meaning: the meaning is created in the mind of the receiver (Berlo, 1963, 175; Stohl and Redding, 1987, 453; Lewis, 1987, 8; Gudykunst and Kim, 1997, 7; see also Pace, 1983, 3). It is the message sender's task to use symbols (words or other) to trigger the responses that

create the intended meaning (Lewis, 1987, 8-9). The ultimate goal of communication is to get things done as planned, and to enhance individual, group and organisational productivity (Lewis et al., 1990, 16).

Lewis (1987, 8) combines the process perspective with the interaction perspective and emphasises the attempt to understand which is why his definition is adopted in this study.

> Communication is the exchange of messages resulting in a degree of shared meaning between a sender and a receiver.

The aim of o*rganisational communication* is to transmit information in order to reach the set goals (Lewis 1987, 11). However, the means of achieving these goals may vary from one culture to another, and people do not necessarily behave rationally. Communication could be seen as flowing *within* the organisation (Lewis et al., 1990, 37-38), and it could be said that the basic unit is a person communicating in a given position. Organisational communication systems consist of these units. (Pace, 1983, 34-35)

All organisations are a combination of two parallel systems: the formal, and the informal. The former includes *formal* systems of responsibility, the explicit delegation of duties and formal communication patterns. Delegated authority and responsibility determine the path the communication should take (upwards or downwards / vertically or horizontally). The accuracy of the information conveyed within an organisation is dependent on the trust between the superior and the subordinate (Blair et al., 1989, 59). *Informal* organisational groups, on the other hand, tend to depart from formal tasks and to create new forms of communication: messages arise from social interaction between employees, they have no official sanction and they contain a lot of gossip (Lewis, 1987, 11-13; Lewis et al., 1990, 38-39).

Managerial communication, which is defined in the following section, is one aspect of organisational communication. Managerial posts are organised hierarchically and therefore the relations between the post holders, as well as the respective job descriptions, lay the foundations for successful communication.

1.2.1.2 Managerial Communication as a Research Object

Managers hold a key position in the attainment of organisational goals and effective communication is the means by which they accomplish the task. Hawkins and Preston (1981, 41) point out that all managerial functions are dependent on communication, and that the communication patterns define the

organisation itself. Timm (1986, 22) goes even further and argues that management *is* communication: it is what managers do.

Managerial communication can be studied from various perspectives. The research may focus on the type of communication activities (meetings, negotiations and so on) the managers are involved in, or on how much time they spend engaged in these activities. It could also focus on the kind of messages the managers send/receive, the people they communicate with, where they communicate and in what role (see e.g., Mintzberg 1973 in the 1980 edition; Graves, 1979). Some studies concentrate on communication skills (see e.g., Lewis et al. 1990, Clampitt, 1991). Special emphasis may also be laid on the context and on non-verbal communication in conveying the message (see e.g., Hall, 1989; Chaney and Martin, 1995, 57-69; Mead, 1993, 143-163).

Managers are engaged in two kinds of communication: interpersonal and organisational. *Interpersonal communication* refers to a situation in which two people or a small group exchange messages. In addition to conveying information, it also defines the nature of the relationship between the persons involved, i.e. how the sender and receiver feel about each other. The parties may adopt various strategies to increase the liking or attraction in order to achieve the objectives. (Hawkins and Preston, 1981, 111-145) *Organisational communication* is the process in which managers transmit information to and receive it from large groups in and out of the organisation (Chung and Megginson, 1981, 196-197). Communication is thus both the medium and the meaning of *power*. It provides the means for exercising, developing, maintaining and enhancing power in the surface structure of the organisation, while in the deep structure it is the manifestation of power. (Frost, 1987, 507; Lewis et al., 1990, 227-235)

For the purposes of this study managerial communication is understood as *the sharing of the messages, ideas or attitudes within an organisation between or among managers and associates. The aim is to share the meanings in order to achieve a desired outcome*. The study focuses on oral face-to-face communication between managers. It is impossible to include non-verbal language in particular in research data retrospectively. Naturally occurring data (e.g., participative observation and video recording) was not used in the study. Written and non-verbal communication were taken into consideration if they were reported in the interviews.

The above definition is based on Lewis's (1987) model in that he combines the process and interaction perspectives, emphasises sharing the meanings, and includes the frames of reference of the sender and the receiver. Associates are understood as persons working in the organisation without clear

managerial status, but possessing some managerial authority. Lewis's complete communication model is discussed and elaborated in Chapter 2.

1.2.2   From the Viewpoint of Cultural Research

This section offers a definition of culture for the purposes of this research. The cross-cultural approach to communication is introduced and the possibilities of using stereotypes in anticipating the potential problem areas in cross-cultural managerial communication are also discussed.

1.2.2.1 Various Approaches to Culture

Culture is not easy to define in simple terms. Anthropological, sociological and management literature offer several alternatives. Extensive summaries of the various definitions of culture have been published by Darlington (1996), Hoecklin (1996) and Holden (2002) for example. Given the narrative approach taken in this study and the underlying presumption of the importance of language and political life, the aim in this sub-chapter is to define culture in a way that will cover these elements in the business context. The definition should be broad enough to enable the use of narrative data-collection and analysis methods. It should also include elements of culture that could be transformed into analytical tools, and should explicitly incorporate language and politics.

   The widest definition of culture is that given by Edward T. Hall (1989, 16, 91). He emphasises the overall context in terms of specific philosophical systems, religions and social organisations. He notes that culture is man's medium, and that there is no aspect of human life that remains untouched by it. It is collective, learned not inherited, and it should be distinguished from human nature and personality. The focus may be on work-related values (Hofstede, 1994, 5), on a specific area, such as Asia (Bond and Hwang 1987, 213-266) or on the corporate culture (Hall, 1995, 1-27). Culture could be seen as the human capacity to transmit coping skills and knowledge to subsequent generations (Harris and Moran, 1991, 12). It distinguishes one group from another and embodies customary understandings, obligations and patterns of expectations that need not be defended (Anthony, 1994, 28-29). Trompenaars and Hampden-Turner (1997, 3-10) see culture as the shared ways in which groups of people understand and interpret the world, solve problems and resolve dilemmas. It has also been argued that culture *is* communication. Members of organisations act symbolically, which leads to a need for patterns

of expression and shared interpretations of organisational behaviour. (Sypher et al., 1985, 17) Terpstra and David (1985, 5) suggest a similar approach:

> Culture is a learned, shared, compelling, interrelated set of symbols whose meanings provide a set of orientations for members of a society. These orientations, taken together, provide solutions to problems that all societies must solve if they are to remain viable.

Terpstra and Sarathy characterised culture as having the following features: it is a total pattern of behaviour; it is internally related and integrated; it is learned behaviour shared by a group of people. They elaborated on the components identified by Terpstra and David by distinguishing material culture, language, aesthetics, education, religion, attitudes and values, social organisation, and political life. (Terpstra and Sarathy, 1991, 96-128) Political life could be seen as distinct from the cultural environment. However, especially in the case of China, political life is so intertwined with the other aspects of the culture that affect values (Fang, 1997, 250), for example, that it is justified to include it among the components of culture in this study.

As these studies imply, certain values seem to persist regardless of the time, the sample and the research questions. Values change slowly. The use of Hofstede's study in this research was restricted by a few shortcomings, however. The original IBM study included Finland, but not Mainland China. The CVS study, which incorporated the Confucian fifth dimension, included Mainland China but did not consider Finland. Therefore these two cultures could not be compared on this dimension, which, in fact, also seemed ambiguous and contradictory given my pre-understanding of the Chinese culture. The Confucian dimension (or long-term and short-term orientation) has also been severely criticised recently for being confusing, poorly constructed and subject to philosophical flaw. The research design of the CVS study is not comparable with that of the original IBM study either. (Fang, 2003, 347-368; McSweeney, 2002, 106) For these reasons the fifth dimension is not extensively used in this research. Furthermore, Hofstede and Bond only focused on values and therefore ignored some other important cultural elements. Among these are language and the political system, which are particularly important in China. Nevertheless, some of Hofstede's findings are used in the conceptual framework to indicate certain cultural features especially if they are supported by the results of other studies. Culture, in this sense, includes systems of values, and values are among the building blocks of culture. Anthony (1994, 28-29) explicitly includes language in his definition. However, neither Harris and Moran (1991, 12) nor Anthony (1994) suggests a set of cultural elements or dimensions that could be used here.

Because the aim of this study is to analyse communication between Finnish and Chinese managers, a corporate culture model does not fit the purpose. The

joint venture was newly established when the first interviews were conducted. It could be assumed that no common corporate culture had been formed. Analysing the cultures of both partners would have required a different research approach and the reformulation of the research question. Moreover, the model does not include language and politics as explicit features. Language is embedded in artefacts and behaviours (e.g., negotiation style), but politics is not discussed at all. Hall's model would be very suitable for further studies on matching the corporate cultures of potential partners, the development of the corporate culture, as well as on the improvement of communication in a partnership.

What appears to stand out in these definitions (e.g., Terpstra - Sarathy, 1991, 96; Mead, 1995, 6; Hofstede, 1994, 5-10) is that

Culture is a learned and interrelated set of symbols and meanings. It is not biologically transmitted. It is passed from one generation to another. Furthermore, it is shared by a group of people, a society. It is particular to one group, not to another. It influences the behaviour of the group members in predictable and uniform ways.

This is used as the working definition in this study. The elements of culture defined by Terpstra, David and Sarathy are used as the basis forming the cultural frame of reference of the managers concerned. Given the above-mentioned limitations of the other definitions, and according to my preunderstanding, these elements best cover the whole area of cross-cultural communication on the managerial level in China at the time when this research was started.

1.2.2.2 Layers of Culture

Culture can be studied on several levels in international business: national, regional (and/or ethnic, religious, linguistic), business, organisational (or corporate) and managerial. Different genders, generations and social classes all tend to have their own cultures. The national culture normally comprises several subcultures, including the regional and the ethnic. The study of national cultures must therefore be undertaken cautiously. Regional cultural differences exist even in small countries (such as Belgium), but more often they appear in large countries such as China. National cultures are characterised by strong forces towards integration, such as having one dominant national language, a common mass media, a national education system, and a national army and political system.

All cultural layers are interrelated, and form and influence each other. (Table 1).

Table 1.   The Layers of Culture (compiled from the studies of Hofstede, 1994, Holstius and Törnroos, 1990 and Terpstra and David, 1985)

National Culture
Regional Culture
Business Culture
Industry Culture
Organisation Culture / Corporate Culture
Management Culture

The business culture defines the general rules of doing business in a particular country or region among companies, the banking and insurance industries, transportation and so on. (see e.g., Terpstra and David, 1985; Holstius and Törnroos, 1990, 3-4), and the state of commercial development in terms of the attitudes, values and norms guiding the commercial activities and shaping the business behaviour (Randlesome et al. 1991, xi). The main elements of the business culture include business ethics, negotiation style, orientation towards group work or individualistic behaviour, as well as the economic and legal systems (Holstius and Törnroos, 1990, 12).

The industrial culture includes the rules of conducting business within a particular industry. These rules may be the same across borders, in other words doing business in the paper industry is largely similar throughout the world regardless of the national culture. (Holstius and Törnroos, 1990, 14-15)

The organisational or corporate culture is influenced by the national, regional, business and industrial cultures, as well as by the management culture. Hofstede (1994, 180-188) defines organisational culture as the collective programming of the mind that distinguishes the members of one organisation from those of another. He argues further that differences exist mainly between practices, and not between values as in national cultures. The dimensions of organisational culture are: 1) process vs. result orientation, 2) employee vs. job orientation, 3) the parochial vs. the professional, 4) an open vs. a closed system, 5) loose vs. tight control, 6) the normative vs. the pragmatic. Hofstede (1994, 11) further defines levels of ethnic, religious and/or linguistic affiliation, as well as of gender, generation and social class.

The management culture is a mixture of individual managers' perceptions, values and attitudes. It is also affected by the organisational and occupational culture. Calori and De Woot (1994, 8) distinguish three levels of management culture: 1) general principles and management techniques, 2) culture-dependent management philosophies, structures and practices, and 3) business-specific and company-specific management practices. General principles of doing business appeared to be more universal, while management philosophies and practices turned out to be more diverse. This study applied

the national culture approach complemented by some business and management features.

1.2.2.3 The Cross-Cultural Approach to Communication

Culture influences the behaviour of people through the norms and rules shared by the group. It also affects communication through the individual characteristics that are learned during the socialisation process (Figure 2).
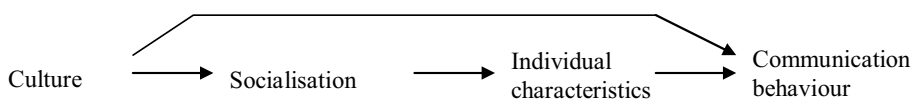
Figure 2.   Cultural Influences on Communication (adapted from Gudykunst and Kim, 1997, 18)

It is through the primary socialisation process that people learn the norms and rules prevailing in their home society, or home culture. This process incorporates the communication process (the encoding and decoding of messages) and through it a person becomes a member of a particular group, or culture. It takes place in early childhood, and it is called *enculturation.* Secondary socialisation is about learning additional cultural knowledge, of business culture for example, and it is mainly gained through education. People involved in international business are triply socialised: into their national culture, into their business culture and into their corporate culture. (Terpstra and David, 1985, 8-9; Gudykunst and Kim, 1997, 337; Scollon and Scollon, 1995, 178-181; Hofstede, 1994, 182) When a member of one culture moves to another, he or she is faced with new surroundings, messages and codes to be adapted to. This process is called *acculturation,* and normally occurs between adults who are already carrying their own cultural background. Adjusting to a new environment and a new culture requires some degree of unlearning of the old cultural traits, *deculturation.* (Gudykunst and Kim, 1997, 337)

The interplay between acculturation and deculturation sends the person concerned through a *cross-cultural adaptation process* (Figure 3). The basic values are slow to change, but some modifications are needed in order to

facilitate living in the new environment. The depth of adjustment is also dependent on the time spent in the other culture: the shorter the visit the more shallow the acculturation. The essence of cross-cultural adaptation is change. Acculturative change leads to assimilation with a high degree of acculturation to the new culture and a high degree of deculturation of one's home culture. (Gudykunst and Kim, 1997, 337-339)
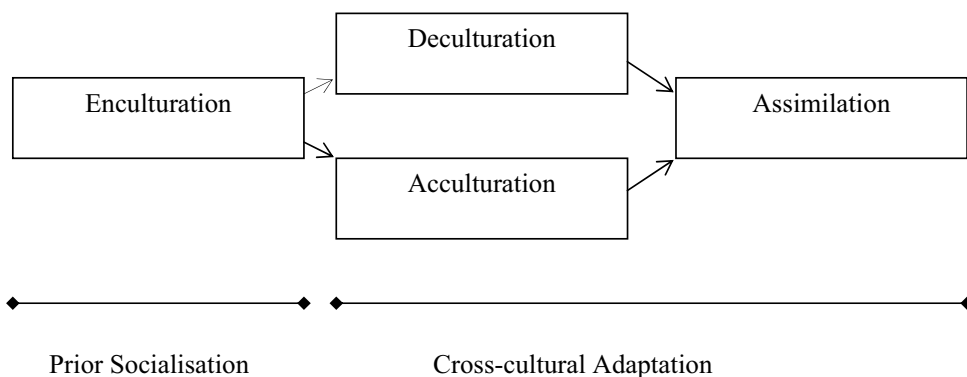
Figure 3.   Key Terms Associated with Cross-Cultural Adaptation (adapted from Gudykunst and Kim, 1997, 339)

Culture shock is always involved in the acculturation process to some degree. It could be defined (Black et al., 1999, 47) as

> the set of psychological and emotional responses people experience when they are overwhelmed by their lack of knowledge and understanding of the new, foreign culture and the negative consequences that follow.

Although the focus in this research is not on culture shock, its impact on communication should be taken into consideration in the analysis of the episodes.

Gudykunst and Kim (1997, 339) argue that adaptation to the new culture occurs in and through communication. During the communication process it is possible to learn the symbols and the practices of the host culture (cultural learning). Improved communication skills, in turn, facilitate the satisfaction of personal needs in the new environment. Efficient communication serves as a tool for controlling one's own behaviour and the host culture.

The authors divide communication into personal and social communication. In a cross-cultural setting, *personal (or intrapersonal) communication*

can be viewed as the process of organising adaptive experiences into identifiable cognitive, affective, and operational patterns that are consistent or compatible with the cultural patterns of the host environment.

Communication between individuals from different cultures is successful, if they are able to understand the categorising system (see e.g., Terpstra and David, 1985) of each other and match their cognitive activities. The cognitive processes of the host culture are often unfamiliar and thus create a feeling of anxiety and uncertainty. The authors note that these two factors are essential in explaining effective communication. The affective patterns of culture relate to aesthetics, motivation, values and attitudes. Through acculturation it is possible to learn these as well, but it is time-consuming and rather difficult. In order to ease the uncomfortable feeling foreigners tend to seek each other's company in ethnic communities, and thus experience some familiar cultural elements such as food, music and language. The operational process (behavioural capacity) enables a person to manage in a foreign culture. It includes technical skills (e.g., language and professional skills) and social skills (e.g., adjusting to different interaction patterns, forming relationships and managing conflicts). (Gudykunst and Kim, 1997, 339-342)

There are two general forms of *social communication*: interpersonal communication and mass communication. This study focuses on interpersonal communication. The level of adaptation to the host culture can be estimated from the number and intimacy of a person's relationships with local people. The more he or she is involved with the ethnic community, the lower the level of adaptation and vice versa. Having close ties with locals indicates good acculturative communicative competence. The authors also point out that a person's interpersonal network changes over time from intra-ethnic groups to local communities. (ibid, 343-345)

Gudykunst and Kim describe the broad factors influencing adaptive communication: predisposition and the environment. They understand predisposition to mean the ethnic differences between the home and the host cultures, the degree of salience of physical differences, personality (openness and strength) and preparedness for change. They also mention age and education as influencing factors. The conditions prevailing in the host culture either facilitate or hinder cultural adaptation, such as in attitudes towards strangers and the possibilities for interaction with locals. The host culture's strong striving towards conformity speeds up the adaptation process. If the newcomer's ethnic community is very strong, it discourages adaptation and participation in the local social-communication processes. (ibid., 346-351)

The concepts of *intra-cultural, intercultural and cross-cultural communication* also require clarification. Gudykunst and Kim (1997, 19) define intra-cultural communication as the communication between members

of the same culture. Intercultural communication involves sharing meaning between people from different cultures. The authors do not assume that intercultural communication is effective, in other words people engaged in it do not necessarily understand each other. Cross-cultural is often used as a synonym for intercultural, but strictly speaking it involves comparison between cultures.

Cross-cultural studies have been criticised in terms of *cultural relativism:* cultures should not be compared with each other. People's behaviour should be evaluated in their own cultural context and not according to a foreign cultural frame of reference. No culture is superior or inferior to any other. However, this does not imply the need to accept and approve of everything, merely the withholding of judgement. (Gudykunst and Kim, 1997, 121, Hofstede, 1994, 7)

Cross-cultural research on management and organisational cultures can be categorised in three groups: ethnocentric studies, polycentric studies and comparative studies. (Adler, 1997, 7-9; Smircich and Calas, 1987, 236; see also Gudykunst and Kim, 1997, 120-125) *Ethnocentric studies* are originally conducted in one culture and replicated in another in order to see whether the theories apply in another context. A one-best-way of doing things is assumed and the studies focus on similarities between countries and look for theoretical universality. *Polycentric studies* describe, explain and interpret managerial and organisational practices within foreign cultures. They aim at answering questions such as 'How do managers manage in different cultures?' It is assumed that there are many good ways of doing things. A preliminary study is often followed by an evaluative study concentrating on the efficiency of different management styles. *Comparative studies* identify similarities and differences between two or more cultures. They seek to find out what aspects of organisational theory are universal and which are culturally specific, with no presumptions that one culture is superior to another.

In this research, the pure description of managerial communication between Finns and Chinese without comparison or judgement concerns intercultural communication, while comparison of how the Finnish and Chinese communication styles differ is cross-cultural in nature. The stereotyping of Finnish and Chinese managers is cross-cultural, but the description of the unfolding of the communicative events is intercultural. Both terms could be used, but the term cross-cultural was chosen given the focus on the stereotypes of Finnish and Chinese managers. However, the aim of the study is not to evaluate the efficiency of Finnish and Chinese communication styles as such and in this it applies a *cross-cultural, polycentric approach to managerial communication.*

In a nutshell, *cross-cultural managerial communication refers to the communication between Finnish and Chinese managers and associates in a joint venture.* The study will show the basic differences between the stereotypes of managers as communicators, as well as between their communication patterns, without evaluation of their efficiency and superiority. How stereotypes facilitate cross-cultural communication on the one hand and inhibit it on the other is discussed in the following section.

1.2.2.4 Stereotyping

Gudykunst and Kim (1997) reviewed an extensive number of studies concerning the impact of stereotypes on communication with strangers. The main aspects are summarised below. The authors see stereotypes as

> cognitive representations of another group that influence our feelings toward members of that group.

Stereotypes have both a cognitive and an affective component. They are ascribed to fit most of the members of the group. Some are based on individual experiences only and some are shared by the group members (social stereotypes). Stereotyping allows people to define their orientation to other individuals, thus giving a sense of manners. It influences the way people process information and their expectations, predictions and anticipations about the behaviour and communication of others. These expectations are largely based on the norms and rules learned during the enculturation process. They also stem from personal experiences and observations, the mass media, education and other sources. Violation of expectations leads to some degree of 'mindfulness'. Mindfulness of the communication process facilitates communication, but mindfulness of the outcome leads to ineffective communication. (Gudykunst and Kim, 1997, 110-119; Saville-Troike, 2003, 193)

Scollon and Scollon (1995, 155) argue that stereotyping is another word for oversimplification, except that stereotypes occupy an ideological position. It is not only that they over-generalise the characteristics of a group to each of its members, they also carry an exaggerated positive or negative value. These values are, in turn, used to support social or political relationships regarding the members of the group. Stephan and Stephan (1996, 411-423) suggested that prejudice could be evoked by the threat an in-group feels from an out-group. The threat could be a real threat to the existence of the in-group or a symbolic threat to its way of life. In-group anxieties, in other words negative

emotions evoked during interaction with out-group members, or negative stereotypes, also cause prejudice.

Stereotyping may be useful in terms of generalisation, but it also has its shortcomings. The group members do not necessarily behave according to the stereotype, and the traits included in the stereotype might be different from those related to the self-image of the members of the group. If communicators rigidly hold on to their stereotypes and are not willing to re-evaluate or change them, communication will be biased or, in the worst case, will lead to severe problems. (Gudykunst and Kim, 1997, 110-119) Stereotypes tend to stop people from seeing equally important aspects in the person's character or behaviour. A biased or limited view could also fuel the justification of discriminatory or preferential action by those who have power over the group. (Scollon and Scollon, 1995, 156) According to Saville-Troike (2003, 194), social typing, or stereotyping, is potentially positive. If the stereotypes are negative, however, they could become the means of disaffiliation or rejection. They could also become self-fulfilling prophecies, preconceptions of how people in a particular group should talk and behave. If one person does not match the preconception it could evoke suspicion among the others.

Increasing the effectiveness of communication means increasing the complexity of the stereotypes, in other words including a larger number of traits in the stereotype as well as differentiating the subgroups within the whole group (Gudykunst and Kim, 1997, 110-119). Avoiding these problems in research on intercultural communication requires the recognition of the following aspects: 1) humans are not all the same; 2) at least some of the differences among them show culturally or socially predictable patterns; 3) at least some of those patterns are reflected in patterns of discourse; 4) some of these differences in discourse patterns lead directly to unwanted social problems, such as inter-group hostility, stereotyping, preferential treatment and discrimination. As a way of avoiding oversimplification the authors suggest that comparison between groups should always include differences as well as similarities. It should also be borne in mind that no group member possesses all of the characteristics that are common to the whole group. (Scollon and Scollon, 1995, 156-158) The recognition of stereotypes is also important in ethnographic research in the following respects: 1) stereotypes are one dimension of attitudes; 2) they are part of the framework of socio-cultural expectations within which communicative behaviour must be interpreted by participants or observers; 3) they serve as check on the reliability of data when doing research in a community other than the researcher's own (Saville-Troike, 2003, 195).

In this research the impact of culture on the *theoretical level* was studied by using *stereotypes* of Chinese and Finnish managers. This made it easier for me

to anticipate the problems in managerial communication. The stereotypes were created by me as the researcher and were based on previous studies on Chinese and Finnish national and management cultures. They do not reflect the actual expectations of the managers about each other. The managers are seen as average business representatives of their national culture, thus making it possible to anticipate potential cultural clashes in communication. However, the stereotyping did not set limits on the analysis of the interview data. Because the aim of the research was not to analyse the cognitive processes going on inside the managers' heads, the personal characteristics of the managers, such as their religious background, education, personal values and attitudes, are ignored. On the *empirical level,* the stereotypes are put aside and only the issues that came up in the interviews are taken into account. Later in this report the results of the analyses are compared with the stereotypes in order to see to what extent the stereotypes described the real situation in the joint venture. The stereotypes of Chinese and Finnish managers as communicators are introduced in Chapter 3.

If these limitations are kept in mind it is possible to use the stereotypes as reference material when anticipating potential cultural clashes, as well as when drawing conclusions about the outcomes of the communicative events. Moreover, the stereotypes had no influence on the managerial communication in the joint venture because they were created in a totally different environment. However, they could bias the analysis, which I as a researcher, have to take into account. No researcher can work without being influenced by his or her own cultural framework, as Scollon and Scollon (1995, 156) and Hofstede (1994, 160-161), among others, noted. Recognition of the problem and seeing the issues from many angles helps to minimise the effect of the bias.

1.2.3 From the Viewpoint of Joint Venture Research

This research focuses on managerial communication in a joint venture. Research on foreign direct investments (FDI), strategic alliances, and especially joint ventures (JV), was extensive already in 1980s and 1990s (Hennart, 1982; Beamish 1988; Björkman 1990; Buckley and Casson 1988; Contractor and Lorange 1986; Harrigan 1986.[3] Geringer (1988) has focused on partner selection, and Geringer and Hebert (1989) on control and performance in IJVs. Inkpen (1995) investigated IJVs from the learning

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[3]   See also Doz (1988), Kogut, B. (1988), Luo, Shenkar and Park (2002), Root (1988), Parkhe (1991), and Hyder (1988).

perspective. FDIs in China, and especially establishing[4] and managing joint ventures, have been analysed by Hoon-Halbauer (1994), Lock et al. (2003), Neunuebel and Sapte (2003), Reuvid (2003).

Given the nature of this research, JV theories are secondary in importance to theories of culture and communication but they do provide the setting for the managerial communication. The basic definitions and some aspects of managing a JV are therefore introduced in this section. The results of this study are contrasted with those of contemporary research in the final discussion.

Joint ventures mostly involve companies from different countries. Joining forces with a partner possessing different values and aims easily gives rise to problems and therefore cross-cultural understanding is essential to the success of the operations.

Joint ventures have a number of features in common. There is more than one firm involved in joint ownership (Killing, 1983, 8). The JV is a separate entity established from a long-term perspective. It pools assets and resources, both tangible and intangible and the main motivations for establishing it are economic. The JV is regulated either by corporation law or by contract law (Hoon-Halbauer, 1994, 2). In most cases the partners as well as the staff come from different countries (Killing, 1983, 10). Contractor and Lorange (1988, 7) point out that a JV need not be a separate entity, but could involve joint activities managed according to clearly defined rules. Thus it could also be a mix of direct investment, licensing and trade.

Killing (in Contractor and Lorange 1988, 56-67) distinguishes three types of joint venture based on ownership: an equity joint venture, a non-equity/contractual joint venture, and joint exploration, for offshore oil.

Ownership, risks, profits and losses are shared in an equity *joint venture* and the partners explicitly agree to manage the company together for a long period of time. EJVs are voluntary, although government regulations may give an impression of a forced venture. Operations are integrated in a new entity and management is formally independent. (Root, 1988, 71; Hellman et al., 1992, 144)

According to Killing (1994 quoted by Hoon-Halbauer, 1994), *contractual joint ventures* are different in terms of investments: one firm provides the funds and equipment, and the other the land, factory premises, labour and management. The parties share the profits at an agreed ratio. Beamish and Banks (in Hoon-Halbauer, 1994, 3) add that contractual JVs are established for a fixed period of time.

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[4]   See also Melvin (1995), Shapiro et al. (1991), Woodward and Liu (1993), Zhang and Van Den Bulcke (1996).

32

A *joint exploration JV* is set up when investments are made jointly, and when a certain proportion of the output after the operational costs is given to the host government, the rest being used for repaying the investing partners (Killing in Hoon-Halbauer, 1994, 3).

Killing (1988, 62) divided joint ventures further into the following categories according to the decision-making roles: traditional joint ventures, non-equity joint ventures and minority equity alliances.

In *traditional joint ventures*

> two or more partners join forces to create a new incorporated company in which each has an equity position and representation on the board of directors.

Non-equity alliances are agreements between partners to co-operate without forming a new corporate entity. In a *minority alliance* one parent acquires minority equity in the other, but no new company is established (Killing, 1988, 62).

Chinese law recognises only equity and contractual joint ventures. According to the law (1990, art. 4), an equity joint venture shall take the form of a limited liability company with a minimum foreign investment of 25% (generally). The parties shall share the profits, risks and losses in proportion to their contributions to the registered capital. The law applies a definition similar to Killing's definition. In establishing a contractual joint venture the parties prescribe in the contract the investment or conditions for co-operation, the distribution of earnings or products, the sharing of risks and losses, and the manner of operation and management, for example. (Law 1988, art. 2)

MOFTEC (The Chinese Ministry of Foreign Trade and Economic Cooperation)[5] applied the following typology of direct foreign investments in the official statistics before 1997: joint venture, contractual joint venture, joint exploration, and wholly foreign-owned enterprise. Since 1997 foreign direct investments have included equity joint ventures, co-operative joint ventures, wholly foreign-owned enterprises, stock enterprises with foreign investment, co-operative development and others. (MOFTEC 3.5.2000) The law on Chinese-foreign equity joint ventures was amended and revised in 2001, and the law on Chinese-foreign contractual joint ventures in 2000.

Both definitions (the Chinese law and MOFTEC, MOFCOM in 2005) are based on ownership instead of nationality or type of co-operation arrangement, for example. The definition of an equity joint venture based on sharing the ownership is therefore used in this study.

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[5] At present (2005), MOFCOM (Ministry of Commerce) is responsible for attracting foreign investments. Author's comment

1.3 The Purpose of the Study

If a joint venture is to be successful it is essential that the managers are able to communicate with each other in spite of the cultural differences. Björkman's 'Doing business in China' (1994) and other studies on China (e.g., 1993, 1999) were very useful when I was familiarising myself with Chinese business and management practices. Fang's (1997) research on the Chinese business-negotiating style, Worm's (1997) 'Vikings and Mandarins' describing Sino-Scandinavian business co-operation, and Hoon-Hallbauer's (1994) 'Management of Sino-foreign joint ventures' were closest to my research objectives in terms of methodology and the cross-cultural approach to operations in China and communication with the Chinese. They all include rich quotations from the interviews that were conducted. Fang's research on negotiation styles was particularly interesting to me due to its insights into the Chinese mentality and negotiation style, as well as into how the quotations were used in arriving at the final conclusions. Moreover, the research was Nordic-based. Worm compared Nordic and Chinese management which is relevant to the Finnish managers. He first used open-ended interviews in his data collection, and then developed further questions based on the responses. Hoon-Hallbauer interviewed employees and managers on all levels in three case joint ventures. The informants were asked direct background questions, and also described the course of events involving the people working for the JVs.

However, none of these studies used a narrative approach in both the data collection and the analysis. None of them was a longitudinal study of a single joint venture and of managerial communication in it. They were all conducted in the 1990s which was when I started my research. A longitudinal study brings the experiences of the managers closer to the present day. It also reflects the change that has been going on in China since the opening up of the country. This research aims at filling this gap in the literature. However, I fully understand that the gap may have become smaller during the process, which is always a risk in longitudinal studies. In order to minimise this risk, the results are contrasted to those reported in the contemporary literature in the final discussion.

The purpose of this study is to give insights into cross-cultural communication between Finnish and Chinese managers in a joint venture. The final formulation of the research questions was based on the initial questions which I posed earlier in this Chapter. However, focusing solely on the communication problems is not enough. The study examines managerial communication in general from both the Chinese and Finnish points of view. An equity joint venture was chosen because it requires the integration of

Chinese and Finnish management cultures into the daily operations. The research covers the whole life cycle of the joint venture as well as the beginning of the new wholly foreign-owned enterprise. Finally, the results are placed in a wider, Sino-Western, setting. The study thus focuses on the following research question:

How does culture relate to managerial communication in a Sino-Finnish joint venture?

In order to answer this research question the following subsidiary questions also need to be addressed. 1) How did the communicative events between managers unfold? 2) What are alternative interpretations of the events? 3) Can any consistent patterns be identified? 4) Was there any change in communication during the life cycle of the JV?

At this stage of the research, communicative events, i.e. types of interaction, are defined generally as motivation, negotiation and dispute (Mead, 1995, 200-276) between managers. Communicative event, episode and situation are used as synonyms to refer to all kinds of verbal communication between the managers. The terms are used as neutral concepts that do not carry any negative connotations. The episodes are seen from both the Finnish and the Chinese sides within the same company in order to see whether the same issues arose. Unfolding refers to various phases in the communication process: how the events started and how the participants came to a resolution. The concept of a pattern is further elaborated in Chapter 2.

The problem setting raised a difficult question: what method should be used in order to satisfy the needs posed by the research question as well as the need of the author to produce relevant and practical material for managerial training? There were two main approaches available: the quantitative and the qualitative. Both have their strengths and weaknesses, but it was a question of which one would be more suitable in this study, or whether both could be used.

Given the research question, quantitative analysis would appear to be difficult to apply. There are studies that do apply quantitative methods (see e.g., Björkman – Lu, 1999), which would be feasible if the questions could be formulated so that the managers merely ticked the appropriate answers. If they were asked to write long descriptions of what had happened in their managerial communication the response percentage would probably be very low.

Interviewing managers in several companies in China would have been time-consuming and subject to cultural and business-line differences. Accessing Chinese companies is not very easy either and officially, the

government's permission is needed (Fang, 1997, 170). Moreover, given the aim to look at the research problem from both the Finnish and the Chinese points of view the number of interviews and interviewees would have increased significantly. The other alternative would have been only to interview the top management, but it would have been too narrow an approach because top management sees things differently from middle management. Middle management is closer to the daily operations, where the cultural differences more likely affect the interaction.

Qualitative methods seemed to offer new ways to 'solve the riddle'. A multi-case study, participative observation, conversation, discourse, rhetoric and ethnographic analysis are examples of the variety of methods available. They all consider the problem from different perspectives, requiring different data-collection methods and thus ending up with different answers to the research question.

However, none of the above-mentioned methods provides the answer to the question of how the communicative events unfold. Participative observation would have been an interesting choice, but my full-time work outside of the academic world as well as family commitments ruled out this alternative. In any case, the findings would have to have been complemented by interviews in order to cover past communicative events. Observation also distorts communication, because an outsider is involved. A narrative approach seemed to be the best alternative. Asking several managers to tell stories about what had happened and then analysing the narratives, the plots, in the stories might reveal the connection between the cultural factors and the managerial communication. The units of analysis are the sequences (stories, reports, arguments and descriptions) in the transcribed text narrated by the managers.

According to Alasuutari (1995, 134) respondents are not necessarily 'experts in their own case', thus different questions should be asked of the respondents and of the data. Interpretation of the stories is up to the researcher, not the respondent, although their arguments and interpretations are taken into consideration. Furthermore, studying one company and interviewing all of the Chinese and Finnish managers would probably bring up differing stories and opinions about the events and their implications. A deep study of one company would also benefit this company and its managers by pointing out things that may not have come up earlier. As a result, several examples of communicative events would become available to the managers. The events described here are the type that managers face in reality. Being able to recognise and interpret the *weak signals* in communication facilitates understanding and the attainment of the organisational goals.

The narrative method is quite rare in business studies in China. I therefore decided to carry out a pilot study, mainly in order to test the 'story-telling

method', the narrative interview, in the data collection. If the pilot study were unsuccessful, other methods would have to be considered. The pilot study and the final methodological decisions are discussed in Chapter 5.

1.4   The Structure of the Study

This research report consists of eight chapters. Chapter 1 introduces the research area to the reader. It describes some of the basic concepts used, as well as the purpose of the study, the research questions and the positioning. There is also a brief discussion of the methodological alternatives.

Because the theoretical foundations of this study are in communication theories and cultural theories, former studies in these areas, as well as the theoretical foundations forming the conceptual framework, are presented in Chapters 2 and 3. Chapter 2 discusses the literature related to organisational and managerial communication. The characteristics of the Finnish and the Chinese cultures, including the stereotypes of managers as communicators, are introduced in Chapter 3.

Previous studies on joint ventures are reviewed in Chapter 4, i.e. motives, partners selection, negotiations, control and conflict issues, performance assessment and termination. The aim is to introduce the reader to the environment in which the joint venture under study operated. The research methods are discussed and further elaborated in Chapter 5. The pilot study is described, the results of which formed the basis of the research design. Details of the data-analysis methods are also presented.

The ZB Sino-Finnish joint venture is the focus of Chapters 6 and 7. The company is analysed from two perspectives: the historical perspective as well as the cultural. The content of these chapters is derived from the analysis of the narratives given by the informants. In both chapters interpretation of the communicative events is sought from the narratives (comments on the event in which the informants were involved in or on other events) and the literature.

The history of ZB is presented in Chapter 6. Its path is followed from the first negotiations until its termination and the establishment of a wholly foreign-owned enterprise. The study reveals the motives behind the establishment, the partner-selection criteria and process, control and conflict issues, the performance criteria, and the reasons for termination, concluding with the present state and future visions. The results also show in what aspects ZB is similar to other Sino-Western JVs and in what aspects it is not. If the characteristics of the joint venture under study turn out to correspond with those of joint ventures in China generally, it could be inductively reasoned that the specific features of the company studied here could also apply more

generally to the Sino-Western joint ventures. Deviating decisions and results could offer new alternatives to other JVs.

Chapter 7 examines the stories, reports and arguments narrated by the informants. Interpretations of the individual sequences (text segments) are presented, and rich citations from the interview text are given. The main interest is in the cultural factors affecting communication, and in whether any communication patterns can be identified. Chapter 8 draws conclusions in terms of the impact of culture on managerial communication. The theoretical and managerial implications are discussed in relation to the conceptual framework and to contemporary research.

2 MANAGERIAL COMMUNICATION IN A CROSS-CULTURAL CONTEXT

This chapter examines organisational and managerial communication and the concept of communication patterns in a cross-cultural context. The focus is on systems of organisational communication and the barriers that hinder it because they lay the foundations for managerial communication.

2.1 Organisational Communication

Several features of organisational communication affect managerial communication: the systems and communication flows of the former form the context for the latter, i.e. how managers interact with each other. Barriers to organisational communication also hinder managerial communication, thus affecting the sharing of meanings between members of the organisation.

2.1.1 Objectives and Levels in Organisational Communication

Organisational communication is a complex, open system. It incorporates the goals of management and the processes of change, innovation and growth. It involves people's attitudes, feelings, relationships and skills. Communication flows upwards, downwards and horizontally, and also like a grapevine within the organisation. The communicators have their own frames of reference that encompass their background, attitudes, prior knowledge and experience and it is within this frame of reference, or 'field of experience', that the communicators must devise a sensible meaning for the received message. (Lewis, 1987, 35; Lewis et al.,1990, 17-19; see also Gudykunst and Kim, 1997, 7; Timm, 1986, 9)

Lewis (1987, 5-7) identifies three *levels of communication*: 1) intrapersonal, 2) interpersonal and 3) the group level. Intrapersonal communication occurs when a person communicates with himself or herself and it precedes the transmission and interpretation of messages. The sender needs to consider the aims of the communication, the appropriate message, and the channels, for example. Berlo (1963, 101) notes that the process of intrapersonal communication is equivalent to the human learning process. Interpersonal

communication refers to two-way communication with another person. Group communication may be group-to-individual or group-to-group communication (Lewis 1987, 5-7; see also Timm, 1986, 8-9 and Lewis et al. 1990, 18, 30-31). Group-to-individual communication, in turn, may occur as one-to-many, e.g., a Finnish manager teaching the Chinese, or many-to-one, e.g., Chinese managers or workers approaching their superior. An example of group-to-group communication is when various departments send messages to each other.

Gudykunst and Kim (1997, 216-217) note that people sometimes switch their communication code in order to show belonging and warmth towards the group they are addressing. By code switching they can also check whether they belong to the ingroup. Switches re-enforce bonds between speakers, but may also evoke problems. The code refers to the system of meanings that is common to a person or a group of people (Berlo, 1963, 57; Fiske, 1994, 37). Codes include visual symbols, gestures, hand signals, speech, and writing (Berlo, 1963, 169). Communicative style and register are also used to refer to interpersonal relationships, politeness and power (Scollon and Scollon, 1995, 34).

However, there are always problems involved in communication. One person hardly ever completely comprehends what another person is saying because of differences in their frames of reference, semantic nets and communication skills[6]. (Lewis, 1987, 8) Meanings are unique to each individual (Timm, 1986, 9-29), and misunderstandings occur because people do not know the state of mind of the other person. Messages are ambiguous and people use their own coding system, which is incomprehensible to anyone else (Gudykunst and Kim, 1997, 7-8). Language is always ambiguous and leads to the need to draw inferences about the meaning which are drawn quickly and tend to be fixed unless contradicting messages are received and new inferences are drawn (Scollon and Scollon, 1995, 10-11).

Language is crucial in communication, and especially in cross-cultural communication in which there is not necessarily a common language. English is a widely-used language in international business. At present there are more non-native speakers than native speakers of English, and business communication mostly takes place between non-native speakers. Scollon and Scollon (1995, 4) argue that Western patterns of discourse are conveyed

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[6]   A semantic net refers to the hierarchically organised network of meanings and word associations available for recall. It allows the receiver to interpret and relate the message obtained to large patterns. Communication skills (reading, writing, speaking, listening, reasoning) can either strengthen or weaken understanding. (Berlo, 1963, 41) Both of these are brain functions related to the memory (Lewis, 1987, 8). They function 'inside the head' of the person and are therefore beyond the scope of this study.

through English language and that this causes problems and misinterpretations in intercultural discourse. Bloch and Starks (1999, 80-88) tackle the problem from the perspective of intra-language variation. They consider how English varies in different countries, especially where it is not the first language, and how it affects business. Their findings are discussed in more depth in Chapter 3.

Marschan et al. (1999) have studied the impact of language on structure, power and communication in an MNC. Scollon and Scollon (1995, 4-11) and Gudykunst and Kim (1997, 195) also examined the communication gap that opens up when people do not share a common language or are not native speakers. Even if the communicators are native speakers, problems may arise due to differences in their frames of reference. These studies are also reviewed in Chapter 3. One of the basic assumptions in this research is that the use of several languages is a problem in joint ventures, and the consequences are a particular focus of the investigation. In spite of its importance, competence in speaking different languages is seldom mentioned as a conflict issue in research on joint ventures.

2.1.2   Organisational Communication Systems

The organisational structure largely determines what kind of communication flows emerge. Formal organisations often have a clear structure and predefined job descriptions. The chain of command, personal responsibilities and tasks, as well as reporting duties, are either explicitly or implicitly determined. The informal organisation, a voluntary network of relationships, runs in parallel and conveys messages through the enterprise. In order to transmit accurate information, each group has to understand the flows. There are four types of communication flow: downward, upward, horizontal and grapevine. (Timm, 1986, 97-98; Lewis, 1987, 41-50; Lewis et al., 1990, 37) The merging of two communication systems in international joint ventures may lead to problems in the chain of command and in sharing responsibilities.

2.1.2.1 Communication Flows

Downward communication is the traditional way of transmitting orders, directives, goals, policies and memorandums to employees at lower levels of the organisation. The reasons for communicating downwards include the need to spell out objectives and give instructions, to change attitudes and mould opinions, to diminish the fear and suspicion that arise from misinformation, to

prevent misunderstandings due to a lack of information, and to prepare for and adjust to change. It is oral, written, visual, or combined communication and is distorted by withholding, screening and manipulating information. Distortion causes mistrust and suspicion in the organisation. Downward communication can be improved by developing management training (in new methods, effective listening), and by holding face-to-face discussions with employees at the front-line and regular supervisor-employee developmental discussions. Special attention should be paid to developing sensitivity to the expectations of subordinates in order to ensure shared meaning. (Lewis, 1987, 42-43; Timm, 1986, 10; Lewis et al. 1990, 38)

Upward communication, in turn, provides feedback for managers. It normally improves the morale and attitudes of the employees, who are treated as respected partners in the search for better ways of achieving goals. It takes several forms, such as inquiries and discussions with employees and first-level supervisors concerning the performance and work development. Feedback on employee attitudes and complaints is also collected through meetings, suggestion systems and talks with union representatives. (Lewis, 1987, 43-44; Lewis et al., 1990, 38; Timm, 1986, 83)

However, managers sometimes fail to encourage upward communication and find themselves isolated from the happenings on the lower levels of the organisation. Upward communication can be distorted in several ways. Employees may screen and filter information that could damage their careers (Timm, 1986, 83-84). Moreover, if there is a lack of trust, subordinates tend to withhold relevant but unfavourable information (Blair et al., 1989, 59-60). An arbitrary and inflexible authority structure increases distortion. Vague and conflicting rules and excessive secrecy create feelings of anxiety, thus leading to feelings of insecurity, which in turn leads to further distortion. Upward communication may be improved by ensuring a continuous upward information flow. Reaction is essential in this context: if the subordinates do not get any feedback, communication stops because it is considered unnecessary and without influence. (Lewis, 1987, 43-45)

According to Lewis (1987, 45-46), *horizontal communication* serves as a bridge between departments and peers connecting people on the same level. Short-cutting the organisational lines allows information to flow more quickly. The contents of the messages are often directed towards task co-ordination and joint problem solving. This type of communication also has its problems, however. Too many unscreened messages might circulate in the organisation, and in some cases horizontal communication may weaken the authority structure. Defining who has the ultimate responsibility is difficult if horizontal orders are also followed. (see also Lewis et al., 1990, 38)

Upward, downward and horizontal types of communication are defined by the formal organisation. The informal communication flow is not prescribed by the formal organisation, however, and it winds like a *grapevine* between the organisational levels. (Timm, 1986, 110-111; Lewis et al., 1990, 39) Almost five in six messages are carried by the grapevine rather than through the formal organisation (Lewis, 1987, 46-47).

The existence of the grapevine is not a symbol of an organisation's sickness or health. Although often characterised as a 'rumour mill', it may also be constructive. Rumours can be prevented if clarifying details circulate through the grapevine which typically carries large amounts of information at speed. The information is normally of good quality. Even 80% of information is correct (excluding information on strikes and disasters, for example). (Timm, 1986, 111) Men and women are equally active in sending messages through the grapevine and informal leaders serve as message centres. The grapevine also conveys information that would be inappropriate in the formal network. (Lewis, 1987, 47-48; Timm, 1986, 111; Stohl and Redding, 1987, 481; Lewis et al., 1990, 39) Nevertheless, it may also distort the communication flow and sometimes tends to convey incomplete information, to ignore the details and to simplify the issues. The data may be manipulated to make it more entertaining, or adjusted to fit the needs of the listener. Non-verbal communication is significant in interpreting verbal grapevine communication. (Lewis, 1987, 46-48)

The grapevine sometimes provides feedback to management about the sentiments or emotionally charged feelings of subordinates, which might otherwise provoke hostility. It can also be used for translating management's instructions into a 'common language'. (Timm, 1986, 111; Lewis, 1987, 47; Stohl and Redding, 1987, 481; Lewis et al., 1990, 39) Managers are eager to obtain and use the most up-to-date information that flows frequently and informally and which has little to do with formal reports. They listen to gossip, hearsay and speculation, and are willing to accept a higher degree of uncertainty in order to gain access to this information quickly. (Mintzberg, 1980, 36) The grapevine cannot be directly suppressed or controlled, but it can be influenced. Managers need to adapt to it and feed it with useful and correct information (Lewis, 1987, 46-48; Timm, 1986, 112). This is particularly important in international JVs: as two or more companies are involved, getting to know each other and the new management styles might evoke a lot of tensions. There may be resistance and suspicion between the partners and in terms of communication, this might distort the messages. As a consequence, managers and employees may seek additional information through the grapevine in order to reduce the amount of uncertainty concerning the future operations.

Communication flows and links between members of the organisation could also be seen in terms of *networks*. Networks are sets of relatively stable contacts among people (Blair et al., 1989, 60). They emerge when communication events are repeated between members of an organisation (Lewis et al., 1990; 33, Timm, 1986, 99). They could be viewed as managed systems of information flow that identify problems, co-ordinate messages and evaluate results. They could also be seen as functional communication channels: regulative, innovative, integrative and informative-instructive networks. (Lewis, 1987, 48) They are often considered the same as organisation charts, but they tend to shortcut formal channels. Actual communication flows are unpredictable and resemble a grapevine. (Timm, 1986, 100)

According to Kapoor et al. (1991, 18-20), networks are relationships between people characterised by mutual understanding, trust and reciprocity. They may be horizontal or vertical, and link people regardless of their rank or position. For a manager, networking is an efficient way of acquiring information and staying in touch with subordinates and with what is actually going on in the organisation. It is not limited to the organisation, and includes people in other bodies such as associations and chambers of commerce.

Network analysis reveals communication flows as well as communication patterns. It can help the manager by identifying cliques and certain specified roles of the members, such as gatekeeper, liaison and isolate. A liaison links two or more cliques and is located at the crossroads of the information flow, i.e. the network is centralised. This person is able to make quick decisions but may also turn into an inefficient bottleneck. Members of decentralised networks have direct access to each other. The gatekeeper controls the message flow by exercising the power of blocking or forwarding the information. He or she may be efficient in reducing the amount of incoming information on one hand, but may cause inefficiency on the other by keeping group members 'in the dark' without sufficient information for completing a task. An isolate is a person who has dropped out of the communication flow and receives no information from others. Network analysis is a challenge to management in terms of determining who does and who does not get enough information, of providing the liaison with sufficient information and of avoiding excessive gate-keeping tendencies. (Hawkins and Preston, 1981, 168; Lewis, 1987, 48-54; Lewis et al., 1990, 33)

Communication rules define the communication process used by the members of a group and are defined for various communicative purposes. For example, decentralised consensus group communication should be used in complex questions, whereas if the problem is short-ranged, clearly defined or relatively easy to solve, a centralised process is probably the most effective.

Generally speaking, group members prefer the decentralised system with equal access to information. (Lewis et al., 1990, 34-35; Hawkins and Preston, 1981, 167)

This research reported here focuses on intra-organisational oral communication between managers. Communication flowed in all directions: upwards, downwards, horizontally and through the grapevine. No network analysis as such was conducted: networks were studied in as far as they were described or otherwise present in the interviews.

2.1.2.2 Organisational Structure and Communication

The structure and shape of the organisation influence the communication flows. Several forms and types of organisation have been identified in comparative studies of management cultures. Trompenaars and Hampden-Turner (1998, 157-181) and Hofstede (1994, 140-141, 152) define four types of organisation and also provide country-specific information about Finland and China. It is for this reason that I chose these studies to describe organisational structures.

A *pyramid*[7] is characterised by a strict chain of command, inequality and vertical communication and an emphasis on tasks and roles. A *family*-type organisation is more person- and power-oriented and typically has a strong leader, a father figure. The chain of command is strict and top-down in this model, too. Both pyramid and family- type organisations are founded on hierarchical principles.

Equality and fewer hierarchical levels apply in organisations that expect employees to be independent and to work without constant supervision. Communication is quite free, and suggestions from employees on all levels are expected, accepted and discussed. Both vertical and horizontal communication takes place. If the tasks and roles are clearly defined, the organisation functions like a *machine* (Hofstede, 1994) or a guided missile (Trompenaars and Hampden-Turner, 1998). The focus is on completing the tasks. An *incubator* (Trompenaars and Hampden-Turner, 1998) or village-market (Hofstede, 1994) type of organisation seeks to fulfil the objectives of its employees and allows them to work relatively freely. These organisations comprise individualistic experts and the roles and tasks overlap more than in the machine-type organisations.

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[7] Pyramid of people according to Hofstede (1994), and Eiffel Tower according to Trompenaars and Hampden-Turner (1998).

Chinese organisations rank very highly on the hierarchy axis suggesting the pyramid type, but the exact placing along the person- and task-orientation continuum is not clear. Therefore it is difficult to say whether organisations in China are of the family or pyramid type. Finnish companies represent the median on the egalitarian-hierarchical axis and are more task-oriented than person-oriented. Other Nordic countries such as Denmark and Sweden rank higher on this axis. (Trompenaars and Hampden-Turner, 1998, 163-179) Finland also shows small power distance and medium uncertainty avoidance which coincides with the findings of Trompenaars and Hampden-Turner. China (more precisely Hong Kong) scores highly on power distance and low on uncertainty avoidance, according to Hofstede which indicates that a typical organisation in China resembles a family with a strong leader. (Hofstede, 1994, 140-141, 152)

For the purposes of this study it could be assumed that Chinese organisations are more hierarchical than Finnish ones and that Finnish organisations are more hierarchical than those in other Nordic countries. Hierarchy, in turn, implies that communication flow is top-down. Horizontal communication is more common in Finnish than in Chinese organisations.

2.1.3   Barriers to Communication

As briefly discussed above, communication is easily distorted for various reasons. Barriers to communication are discussed in more depth in this section. According to Berlo (1963, 40-71), efficiency of communication is reduced by noise in each of its ingredients, i.e. source, encoder, message, channel, decoder and receiver. Lewis (1987, 108-110) distinguishes perceptual, semantic and organisational barriers to organisational communication. I adopted this division because, according to my preunderstanding, it captures the main difficulties in Sino-Finnish communication. The discussion is complemented with the findings of other authors.

2.1.3.1 Perceptual Barriers

Perception affects people's ability to share the meaning of a message in the same way. People form their reality from small pieces of information, and this reality is not necessarily real to other people. The reception and interpretation of information is unique and individual. Perception is a process of observing, selecting and organising stimuli and making interpretations. A person will

always interpret a communication interaction between himself/herself and the organisation in terms of his/her frame of reference: background, culture, experiences and expectations. Differences in perception can often be attributed to the differences in conceptions of what is real, sensory reality and normative reality. Sensory reality is observed by the senses and described in words (e.g., desk, chair) and differences in experiences lead to differences in perception. Few communication problems occur when people speak about physical things: the meaning of the words is normally clear. Normative reality, or interpretative reality, is based on values, personal experiences and opinions and misunderstandings in this area are much more frequent. (Lewis, 1987, 108-110) However, if people speak different languages, use an interpreter and/or they have different cultural backgrounds, even understanding the sensory reality in a similar way may be difficult. Different values, habits and traditions form an even wider basis for perceptual barriers in cross-cultural communication.

As discussed earlier, stereotyping activity allows people (prejudiced people) to classify other people quickly and easily, and to have ready-made compartments in which to place them. People see what they expect to see and usually interpret a message differently when it is attributed to different types of people (Lewis, 1987, 110; Mead, 1994, 170; see also Scollon and Scollon, 1995, 155; Gudykunst and Kim, 1997, 110-119; Saville-Troike, 2003, 113) On the other hand, stereotypes also help people to anticipate potential sensitivities and problems in order to avoid or smoothen the difficulties that may arise given different values and attitudes, for example.

Age, sex, education, economic status, regional or national origin, religion, personality and departmental or organisational interests lead to perceptual problems. Moreover, the halo-effect distorts communication: if a person is considered to be good at something the 'goodness' is easily transferred to everything he/she does (Timm, 1986, 32-34). The same applies to a person's perception of him/herself: believing in one's own skills normally brings success. Perceptual gaps develop as a result of differences in hierarchical position, or of operating on the same level but in different functional areas (e.g., marketing and accounting). People also have perceptions of desired behaviour and they tend to comply with those desires. Selective perception is evident when managers narrow their selective attention to focus only on items that are essential to the organisation, for example (Lewis, 1987, 111-112).

The manner in which people perceive is always organised in some pattern, and has meaning to the perceiver. The meaning that one interprets is derived from 'the phenomenal self', which is based on the self-image. This determines the way we behave, the things we see, our ideas and the objects we accept or reject. It also affects our communicative exchanges with other people.

(Hawkins and Preston, 1981, 112-113) Analysing the self-image is important: if it equates to skills it facilitates job performance. Even if an employee has the required skills but has a negative self-image, he/she may not perform well, or at least may do less than he/she is capable of. (Lewis, 1987, 113-115; Timm, 1986, 8).

2.1.3.2 Semantic Barriers

Semantics is the study of word meanings and focuses on the relationship between symbols (i.e. words) and their effects on people. It does not refer to dictionary definitions, but concerns the interrelationships between messages and people in the production of meanings. Symbols derive their meaning from their use in a specific culture, and social interaction makes an individual part of a culture. (Fiske, 1994, 14-15; Lewis, 1987, 119; Hawkins and Preston, 1981, 70; see also Hofstede, 1994, 4-8).

   Major semantic barriers include 'allness', bypassing, evaluation tendencies, snap judgements and the misuse of language. *Allness* refers to a situation in which people believe that what they know or say about a particular subject is *all there is to say* or know about it. It occurs as a result of abstraction: selecting, separating, summarising, and deduction. Abstracting reduces the mass of information being received into smaller, more easily understandable units. The closed-mind syndrome (ear and eye blindness) results from allness: managers suffering from close-mind syndrome fail to explain instructions in a way that is understandable to their employees, and communicate only what they think is important regardless of what the workers ought to know in order to perform as intended. This easily leads to uneasiness and an unhealthy working climate. Employees, in turn, may reject, neglect or distort all the instructions they receive from their manager. (Hawkins and Preston, 1981, 72-74; Lewis, 1987, 119-123).

   Bypassing as a semantic barrier ignores the fact that words can be understood in several ways, and there may be several words for the same phenomenon. As noted previously, words themselves do not have meanings: meanings reside in people. There are two basic changes that occur in language: 1) word coinage, when proper names become generic words, and 2) usage coinage. Usage coinage occurs because of etymological shifts (new usage for older words), regional variations (different words meaning the same in different regions), and technical common usage (specialist jargon). Words may also have different emotional connotations, which create positive or negative associations in people. They may also carry hidden meanings or conceal the real meaning in order to soften the message, especially in high-

context cultures. Managers should look for meanings, not words, and be more sensitive to how words are actually used among employees. (Berlo, 1963, 175; Timm, 1986, 29, 35-36; Lewis, 1987, 123-124).

One of the major barriers to communication is the natural *tendency to judge and evaluate*, to approve or disapprove of the statement of another person or group (Rogers and Roethlisberger, 1979, 170). Many evaluations are the results of 'allness', of closed minds: facts are confused with personal opinions, which may breed rumour and inaccurate communication. However, managers use informal channels in collecting information and making decisions, and thus problems arise if facts and inferences are confused. (Hawkins and Preston, 1981, 75) Judging people and events in terms of black and white (polarisation) easily distorts communication. Furthermore, people are often biased and classify other people in stereotypes, disregarding individual differences. Stereotyping and making 'frozen judgements' also imply a disregard for change in people: someone may be evaluated for his/her performance years previously. (Hawkins and Preston, 1981, 76; Lewis, 1987, 124-127). Evaluations tend to be stronger in situations in which feelings and emotions are deeply involved (Rogers and Roethlisberger, 1979, 171).

A *snap judgement* is defined as a direct, uncontrolled, immediate response to a circumstance. It implies reacting without thinking, an emergency reaction. Misuse of language refers to situations in which, for example, small talk is taken as serious discussion, or too far-reaching conclusions or narrow classifications are made based on what has been said. (Lewis, 1987, 128-129; Scollon and Scollon, 1995, 5)

Schema theory deals with perceptions and understanding and with the meaning of words and how they are recalled from memory. People observe, select, and organise stimuli, and then make interpretations which relies on memory (recall, reconstruction, phrasing what we want to communicate). During interaction people are affected by what other people say, think or do, and new learning is attached to the old schema: they may change their schemata as they achieve deeper understanding of particular concepts. With their new improved understanding they should be able to confront and surmount semantic communication barriers (Lewis, 1987, 129-132).

2.1.3.3 Organisational Barriers

According to Lewis (1987, 136-145), *organisational barriers* arise for reasons connected with the hierarchy, the faulty transmission of information, bypassing, blinkeredness, defensiveness and a lack of managerial concern.

The *hierarchy* reflects the prestige relationships. There may be considerable lack of understanding of the objectives, responsibilities, needs and problems in the organisation and in its various departments. Physical distance between members and task specialisation make communication between experts difficult and often result in the erection of semantic barriers - experts speaking different jargon. Some members of the organisation may think they 'own' the information and that they are entitled to distribute it, or not, to anyone they choose and whenever they wish. This reflects the idea that 'who possesses information possesses power'. Ownership of information is often found in organisations in which great emphasis is laid on achievement by position or knowledge rather than by co-operation (Lewis, 1987, 136-139). People are also reluctant to convey bad news to their superiors and may also conceal information that could harm their own position or reputation (Timm, 1986, 105).

The *faulty transmission of information* occurs when the message changes during its journey through the organisational hierarchy. This is normally due to the careless use of words, reliance on inappropriate words to convey the meaning, and receiver-sender deficiencies. The more links there are in the communication chain, the more likelihood there is that the message will be misunderstood. This is referred to as the filtering process (Lewis, 1987, 139-140). Timm (1986, 100-101), as well as Stohl and Redding (1987, 479), refer to the same phenomenon as the serial transmission effect, while Hawkins and Preston (1981, 81) call it serial distortion. The Opinion Research Corporation conducted a study in which the integrity of a message was measured as it passed through four organisational levels: 91% of top management understood the message but only five per cent of the first-line supervisors did so. This phenomenon resembles the distortion in a grapevine: details are dropped, added, modified or highlighted, they are adapted to make an entire message or adjusted to reflect the accepted style of expression. All these changes increase the degree of misunderstanding. (Timm, 1986, 101)

Bypassing was referred to earlier as a semantic barrier. In the organisational context it refers to dropping someone out of the communication chain. *Blinkeredness,* in turn, is characteristic of a person who looks straight ahead, sees only one way of doing things, is unable to think innovatively or is reluctant to consider other alternatives (Lewis, 1987, 140-142).

Defensiveness is evoked by insecurity among organisational members; it distorts questions into accusations and replies into justifications. It arises from the need to protect the self-concept. *Defensive climates* that tend to be fostered through evaluation (blaming or praising someone), control, strategic behaviour (manipulation), neutrality (lack of concern for others), superiority

(assumptions of inadequacy in the other), and certainty (regarding oneself as a teacher, not as a co-worker) (Lewis, 1987, 142).

Supportive climates are characterised by the following features: genuine questions are asked, problem-orientation (collaboration in defining a mutual problem and in seeking a solution), spontaneity (naturalness, honesty, straightforwardness), empathy (respecting the worth of the listener), equality (participative planning involving mutual trust and respect), and provisionalism (investigating issues rather than taking sides, to solving a problem rather than debating around it) (Lewis, 1987, 143-144).

Communication overload, which is related to the frequency and duration of messages, distorts or prevents communication flow. People's capacity to handle vast amounts of information is limited and in order to cope they tend to ignore incoming messages. Overload can lead to mistakes in piling up the messages to be dealt with later, and in people acting as their own gatekeeper in an attempt at prioritisation. Lowering the precision level, being satisfied with summaries or hiring an assistant may help in coping with overload. In the extreme, a person may isolate him/herself completely from the communication network, which results in communication underload. (Hawkins and Preston, 1981, 91-98; Timm, 1986, 107; Stohl and Redding, 1987, 475) Underload may thus be a consequence of voluntary isolation as a way of coping with too much information, or involuntary isolation, i.e. dropping out of the communication network. Neither is a good situation in the long run.

Managerial unconcern is based on the assumption that 'everybody knows'. Thus the selection of messages is essentially selection from nothing. No substantial two-way communication occurs in the organisation (orders go down, reports come up). Managers isolate themselves and lose contact with what is happening in the organisation. They are preoccupied: they do not effectively listen to others. Their minds wander – they do not focus on the topic at hand – and they have a short attention span. This is not only a managerial problem, however. (Lewis, 1987, 144 – 145; Timm, 1986, 108)

2.2   Sino-Finnish Managerial Communication

One of the manager's tasks is to get things done through other people. Managerial communication was defined in Chapter 1 *as the sharing of the messages, ideas or attitudes within an organisation between or among managers and associates. The aim is to share the meanings in order to achieve a desired outcome.* From a strict process perspective, communication is the transfer of messages and it fails if the message is not understood in the same way by the sender and the receiver. As mentioned earlier, this research adopts

a more semantic approach (see e.g., Fiske, 1994, 14), according to which it is assumed that communication is about producing and sharing meanings. Individuals interact with each other through messages in order to produce meanings. Accordingly, misunderstandings do not necessarily signal failure in communication, but are more to do with cultural differences between the sender and the receiver.

The best way of communicating is based on appropriateness, i.e. on planning and selecting from among the following alternatives: *who* will communicate, *who* needs to know, *what* they need to know and *when* they need to know it, *how* the message is mediated and *where* the appropriate location is to do that (Mead, 1995, 172). These questions are important in all communication. In intra-cultural communication they are inherent and thus normally cause fewer problems.

In the cross-cultural context, however, these issues require more intensive study. It is not insignificant who will communicate with whom: it relates to power, status, the hierarchy and the communication systems in the organisation. Communication flows may be mainly top-down, and feedback from subordinates may not be encouraged. Organisations also vary in terms of horizontal communication, i.e. in how much direct communication between peers and cross-sections of ranks is tolerated. The openness of the organisation determines how much and what information is shared with subordinates. Indirect and direct ways of speaking also influence how messages are expressed: conveying negative messages and solving problems in particular require careful consideration. Timing is also essential: at what stage of the planning process do subordinates need to be involved, and to what extent. Location, i.e. where the message is transmitted, depends on the nature of the message as well as on what kind of impression it is intended to give. In face-conscious cultures such as China, communication may take place behind closed doors, in private.

Managerial communication is described in a Sino-Finnish context in the following. The communication process is based on Berlo's (1963) model in order to keep the framework as wide as possible and to account for the variety. For the purposes of this study the model is further elaborated to include types of managerial interaction as well as the frames of reference of the communicators and to incorporate the potential communicators involved in the joint venture under study. Later, in Chapter 7, the findings from the interviews are contrasted with the results of more recent studies, such as Holden's model of cross-cultural management and knowledge transfer (Holden, 2002, 274).

2.2.1   The Managerial Communication Process in a Joint Venture

In this context, the communication process involves a manager or an employee sending a message to another manager or employee through some mode - written, oral or non-verbal (Figure 4). The receiver interprets the message and then transmits verbal and/or non-verbal feedback, which requires a switch in roles as sender and receiver. Noise refers to any interference in the communication process that distorts effective understanding (Lewis, 1987, 35-36; Timm, 1986, 98-115; Lewis et al. 1990, 18-19).

The main objective of managerial communication should be to convey information (e.g., instructions, policies, procedures, orders, feedback) so that the listener will hear, understand what is said, agree and accept the message and react as intended. The communicator usually wants to influence the receiver in a way that will help to maintain favourable relationships. (Lewis 1987, 8-9) Setting and communicating clear organisational goals lays the foundations for engendering motivation and the commitment to strive towards them. The top management distributes information to the workers through the middle management, but, as mentioned earlier, there is an increased risk of distortion at each level. (Timm, 1986, 77-79, 99-101)

It has also been mentioned that communicators have their own frames of reference that encompass their background, attitudes, prior knowledge and experience and it is from this background that they must devise a sensible meaning for the received message (Lewis, 1987, 35). Even if people speak the same language, different levels of education and occupational experience are reflected in the specific terminology they use, for example. Communication with people from different backgrounds may provoke misunderstandings and upbringing influences one's communication style, in terms of directness and indirectness, politeness and so on.

The semantic net allows the receiver to interpret and relate the message obtained to larger patterns (Lewis, 1987, 36), and communication skills can either strengthen or weaken understanding. Because the semantic nets and communication skills of the managers are mainly brain functions and 'inside their head', they do not fall within the problem definition of this research. Nevertheless, they are included in the model as a reminder of their influence in the background and their effect on the sending, receiving and interpreting of messages. For example, inadequate language skills weaken the process, while experience of dealing with managers from other cultures can be assumed to enhance communication. Frames of references are discussed as stereotypes of the cultural traits of Finnish and Chinese managers. The discussion on stereotypes is based on the prevailing notions at the time when this research

was started. In the final discussion the results are considered in the light of more recent lines of research.
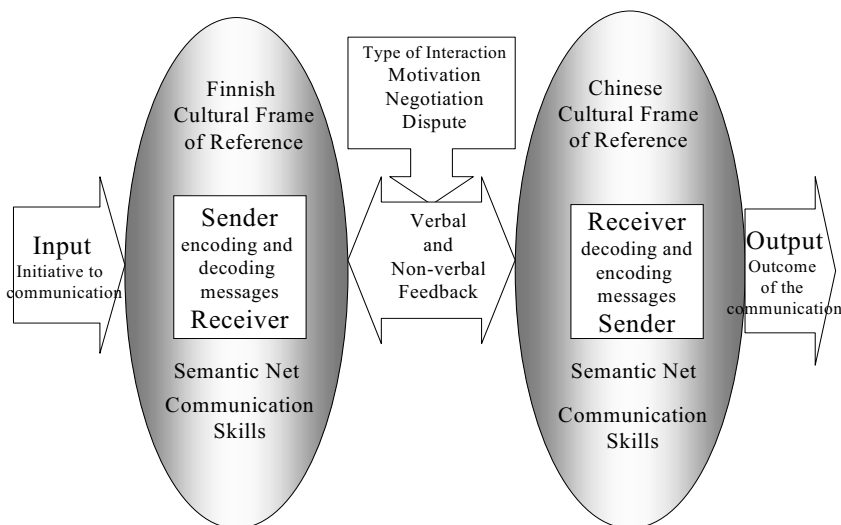
Figure 4.   The Managerial Communication Process (adapted from Berlo, 1963 and Lewis, 1987, 35)

   As defined earlier, an international joint venture involves at least two companies across borders. Both (all) partners of a traditional equity joint venture actively participate in the strategic and/or daily operations and hold a share of the equity, thus entitling them to seats on the board of directors (see e.g., Killing, 1988, 62; Contractor and Lorange,1988, 7).

   Home-country nationals refer to the managers, other staff members, government officials, and financial advisors who co-operate with the foreign partner and/or the joint venture. In this case they are Finnish nationals and may be located in Finland or elsewhere outside of the host country. Expatriates are home-country or third-country nationals appointed by the foreign partner (Finnish in this case), whose interests they represent. They work in the joint venture in the host country, China in this case. They assume various roles and tasks in the JV, be they managerial, training-related, construction-related or supervisory. Host-country nationals refer to the Chinese managers in the JV or the Chinese partner company, and to government officials and the like who co-operate with the JV. Third-country nationals refer to people working for the JV whose nationality is other than Finnish or Chinese.

As previously mentioned, all these people bring their frames of reference into the communicative situations. If their backgrounds differ significantly, misunderstandings and problems arise more easily. Experience of the respective cultural traits on the managerial level may help to avoid clashes to some degree, although personality, semantic nets, personal communication skills and pure differences in business objectives are still potential destabilising factors.

2.2.2   Communication Patterns

One aim of this research is to establish whether there are any patterns in communication between Finnish and Chinese managers. As stated above, the aim of communication is to share meanings and to understand what the other person is saying. Furthermore, the aim of managerial communication is to get things done through other people: the outcome is important. (Lewis, 1987, 8-9) However, even if the meaning of the message is understood correctly, it is not necessarily approved and it does not necessarily lead to the intended behaviour. In this case, communication may continue in order to convince the other party of a better solution. It may even take the form of forcing and overruling the other party, or of otherwise getting one's point through.

Various kinds of communicative events are in focus in this research. These may involve misunderstandings, conflicts, or the solving of normal business problems in the process of every-day management. By analysing the plots in the stories in depth, i.e. by breaking down the episodes into phases, it is possible to reveal the reasons and consequences in each event, and to evaluate whether the reasons were cultural or related to something else.

However, defining whether the outcome of a communicative event was successful is problematic. The outcome is successful if the manager forces a subordinate to take the required actions by threatening punishment, for example. However, this creates feelings of dissatisfaction on the subordinate's side, which in turn may lead to worse difficulties later on. Therefore, the terms successful and unsuccessful outcome are avoided in this research, and desired and undesired outcome are used instead. It is also difficult to define whether the outcome is desired or not, of course, and it depends on from whose perspective the communicative episode is seen. A desired outcome for one participant may be undesired and negative for another. Moreover, desirability needs to be distinguished from efficiency and from effectiveness of communication (Berlo, 1963, 40-71; Gudykunst and Kim, 1997, 110-119), which was discussed earlier. In this research desirability is seen from the

narrator's point of view in each communicative event, in terms of how he/she evaluates the episode.

Cultural Frames of Reference

Feedback

```
         Input    ┌──────────┐  Patterns  ┌──────────┐  Outcome   ┌──────────┐
        ────────▶ │  Sender  │ ─────────▶ │ Receiver │ ─────────▶ │ Desired  │
                  │ Receiver │ ◀────────▶ │  Sender  │            └──────────┘
                  └──────────┘            └──────────┘            ┌──────────┐
                                                                  │Undesired │
                                                                  └──────────┘
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Feedback
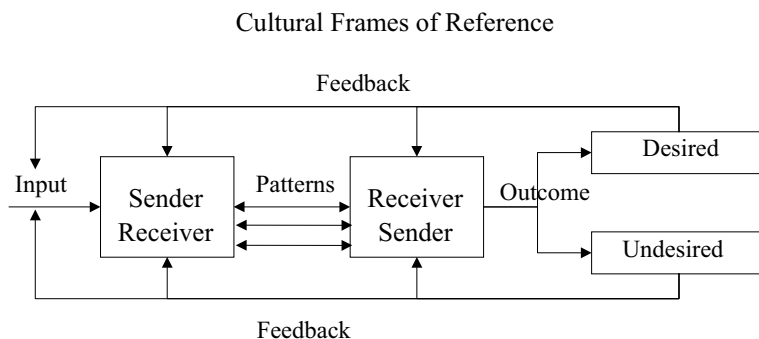
Figure 5.   Communication Patterns in a Cultural Context

Communication *pattern is defined in this research as a consistent way of communicating that leads to either a desired or an undesired outcome.* This is illustrated in Figure 5. Patterns are combinations of similar plots in the stories told by the managers. They include a consistent way of reacting to various communicative events which may involve reacting to a difficult situation, a dispute, or negotiating a contract. Motivating other managers and/or employees may also take a consistent form. Differences in Finnish and Chinese communication patterns are also explored.

2.3   Types of Managerial Communication in the Sino-Finnish Context

Mead (1995, 200-276) distinguishes between three types of managerial communication: motivational, negotiative and disputative. Motivating employees and other managers is a key issue in securing good company performance and the ability to resolve disputes is a quality required from a successful manager. Negotiations are also an inseparable part of the manager's work. As a matter of fact, it could be argued that most of communication is negotiating. Managers negotiate working conditions that motivate others. They negotiate business deals with customers, work conditions with trade unions, and strategic and operational issues with other managers. They also negotiate with other managers to solve disputes related to these issues.

However, for the purposes of this research it is necessary to differentiate between the contexts in which communication occurs, as well as in its aims.

Disputes are often more difficult to handle than motivating employees, for example, and therefore the patterns and possibly also the cultural elements may be different. For the purposes of this study, interaction is taken as motivational, negotiative or disputative. Furthermore, the study focuses on communication between managers who are actively participating in the management of the JV under study and communication with outsiders, e.g., government officials and customers, is beyond its scope.

2.3.1   Motivational Communication

Motivating managers in an international JV requires sensitivity towards cultural differences. Superiors need to be aware of the motivational factors in a given culture, in this case China. Applying home-country motivators is not necessarily effective in the host culture, and could even damage the performance. Motivators should therefore reflect cultural values, which gives rise to another problem: should all managers, expatriates and locals, be motivated similarly? The use of different motivators may create feelings of inequality.

   Motivation predisposes people to pursue or avoid certain activities. It is based on the identification of needs, and on the desire, energy and possibilities to fulfil them. Managers sometimes fail in assessing the needs of their subordinates, whether managers or workers. Needs are influenced by factors such as the environment, sex and age, education and experience, economic status, and the organisational, industrial and national culture. (Mead, 1995, 206; Lewis et al., 1990, 53-54) Both energy and direction are needed in order to create motivation. Salary is not the only motivator, and interesting work, appreciation of achievements, working conditions and job security are also important. All these generate energy, but without goals and guidelines they do not turn into motivation in terms of good job performance. Of course, motivation and performance are not the same thing: effective performance requires ability and motivation, and is affected by situational characteristics. (Lewis et al., 1990, 53-54) Motivation and the ability to complete the task are not sufficient if there is not enough machinery or raw material, for example.

   Cultural studies on values offer some guidelines for anticipating need preferences. Individualistic cultures such as Finland value individual achievements and promotion. Personal responsibility, autonomy and independence in decision-making are also appreciated which makes pay-for-performance and individual assessment suitable incentives for managers. Challenging superiors, high mobility and high job turnover are also to be expected. Collectivist cultures emphasise group support and orientation more

than individual performance. Decision-making is collective and assumes joint responsibility, background and seniority are the basis for promotion, and titles are in extensive use. China is characterised as a collectivist culture. (Hofstede, (1994, 73; Trompenaars and Hampden-Turner, 1998, 55-68, 118-119)

Hard work and job security are emphasised in cultures in which uncertainty avoidance is strong. Finland shows stronger uncertainty avoidance than Singapore and Hong Kong, and a similar level as in Taiwan. (Hofstede, 1994, 120-125) The variety among these three Chinese regions/states is wide. Mainland China was not included in the original Hofstede's study. Furthermore, the uncertainty-avoidance dimension disappeared in the later study, which included China and excluded Finland (Hofstede, 1994, 164), and a fifth dimension, Confucian dynamism, was introduced. This dimension has been criticised for being confusing and poorly reasoned (see e.g., Fang, 2003; McSweeney, 2002) and it is impossible to estimate the motivational base of Chinese managers from Hofstede's dimensions.

In high-power-distance cultures, skills, wealth, power and status should be invested in the same person. Personal loyalty and appreciation shown by superiors (benevolent autocracy), privileges and status symbols are all valued. Low power distance encourages co-operation with peers and narrow salary ranges between the higher and lower levels of the organisation. Shorter working hours and equality in promotion are appreciated by feminist cultures and work is not the main thing in life. (Hofstede, 1994, 26-37) Singapore, Hong Kong and Taiwan all score more highly on power distance than Finland and it could be assumed that the distance between superiors and subordinates is also high in Mainland China.

As stated earlier, a higher salary may not be the only incentive for working harder. Offering better benefits to the whole group might turn out to be more effective in collectivist cultures. Alternatives to pay rises could be considered: encouraging promotion and giving titles, offering communicative rewards showing appreciation of work done, sharing intra-company information widely within the organisation, improving the working conditions, showing personal loyalty to employees, and increasing variety and autonomy in work. (Mead, 1995, 212-220; Timm, 1986, 134)

The aim of motivating is to influence behaviour. It begins with giving instructions: rather than practising one-way downward communication stating what should be done, managers should aim at explaining and justifying the task in order to ensure full understanding of its importance. The 'who', 'what', 'why', 'how', 'where' and 'when' mentioned previously also apply to giving instructions. Sufficiency of detail and frequent repetition minimise misunderstandings. (Timm, 1986, 138-139)

Managers use three kinds of responses to employee behaviour: positive reinforcement, negative reinforcement and no observable response at all. Positive reinforcement strengthens the desired behaviour. Negative reinforcement also strengthens the desired behaviour, but in the opposite direction: e.g., if constant reprimanding is stopped the present behaviour tends to continue. Negative reinforcement is different from punishment, which aims at reducing the occurrence of the behaviour. No response tends to have a weakening effect. (Timm, 1986, 134-136; Lewis et al., 1990, 70-71)

Reinforcement may be continuous or intermittent. Continuous reinforcement is especially effective during the training phase, but it often takes too much time and suffers from inflation if repeated too long. Stopping it can be interpreted as disapproval, and may lead to ceasing the behaviour. Intermittent reinforcement may overcome these problems: approval and disapproval could be expressed at intervals or at random times, although if the time span between the behaviour and the reinforcement (especially appraisal) is too long, subordinates tend to return to their old patterns. In most organisations a combination of both continuous and intermittent reinforcement, as well as of appraisal and criticism, is used. (Timm, 1986, 134-136; Lewis et al., 1990, 70-72) It is a crucial managerial skill to determine what drives subordinates more, praise for good performance or fear of being punished.

The greater the cultural differences between the home and the host country, the more sensitive managers need to be in terms of motivating and promoting lower-ranking managers. False incentives and promotional grounds may lead to disputes and anxiety among staff members.

2.3.2   Negotiative Communication

Negotiation is a mixture of co-operation and conflict as negotiating parties aim to achieve their goals which may be similar or conflicting. In most cases the parties find a mutual ground to build on and strive at settling their conflicting interests. Negotiations involve two dimensions, the substance and the process. In international negotiations the process may become a barrier to the substance due to cultural differences. (Gulbro and Herbig, 1996, 236)

According to Kapoor et al. (1991, 18-29), negotiation is a process of interaction between people in order to create lasting relationships. The key element is networking, i.e. the possibility of acquiring information through various networks of people. Negotiation and networking happen by people with people through people. Building networks requires a considerable amount of time and relationships need to be renewed continuously. As previously

stated, networking is based on mutual understanding, trust and reciprocity, i.e. information gained through networks is assumed to be reliable. The access to privileged information within a legal and ethical framework turns into the competitive edge that is needed in order to negotiate successfully. Networks may be vertical or horizontal within the company or outside it. This study concentrates on intra-company networking and negotiation.

International negotiations require extensive preparation which includes collecting information, deciding on the contributions to the negotiation, forming and training the team and its backup, and simulating the actual negotiation (Kapoor et al., 1991, 47). The '*who, why, what, how, where,* and *when'* questions mentioned above should be carefully considered in order to evaluate the appropriateness of the negotiation (Mead, 1995, 254).

Background information about the negotiating party (the *who* question) is needed: its visions and values; its financial, marketing and organisational profile; its history as a partner; international experience; the location; the political and legal environment. Knowing the people personally is also important, especially in high-context cultures such as Latin America, the Arab countries, and many Asian countries such as China. The main negotiator is not necessarily the one who speaks most: he/she may not necessarily be in the negotiation team. Relationships are based on mutual reliability and trust built up at the beginning. Trust is about believing in the truthfulness of the other party's words, as well as in their good intentions. Getting to know each other takes time, but shortens the time used for actual negotiations. This applies particularly in countries with a weak legal system. Mutual trust is more important than a signed contract in relationship-oriented countries such as China. (Kapoor et al, 1991, 18, 22, 143; Mead, 1993, 171-176, 261-262; De Mente, 1995, 110-111; Gesteland, 2003, 172-177)

Just as important as knowing the counterpart is selecting an appropriate negotiator or negotiators on one's own side. Internal networking and negotiation are needed in order to establish a reliable and skilled team that shares a clear understanding of the objectives and flexibilities of its own organisation. Because negotiation is a person-to-person process, each member of the team must develop sufficient understanding of the culture, especially in the countries and industries in which they are negotiating. Team members need to be able to network with each other before during and after the negotiation. An effective team has an appropriate balance of functional skills and clearly defined roles and responsibilities. The members should know each other and be experienced in working together. They should also have adequate language skills and at least one of them should be fluent in the language of negotiation. Preferably a host-country national should be included in the team. (Kapoor et al., 1991, 28-31, 46, 52-59) The number and rank of the people

sent at various stages of the negotiations depend on the culture: the basic rule is to send people of a similar status, background and personality as the counterpart has (in terms of numbers and functions, sex, age, and rank). Especially with the Chinese, an older person should be nominated as leader even though a younger person might possess more professional expertise. The inclusion of technical experts and lawyers in the team requires careful consideration. (Mead, 1993, 176)

Individualistic cultures assign a lot of decision-making power to individual persons. Sending someone to negotiate alone with the right to conclude a binding contract without consulting the headquarters is a sign of respect, while it could be interpreted as an underestimation of the importance of the negotiation in communitarianist (collectivist) cultures that favour a big, high-level delegation. The bigger the delegation, the more important the main negotiator is. Lower ranking staff should handle the preliminary and the initial negotiations, however. The authority of the negotiators should also be clear: in collectivist cultures it is often linked with age while in individualistic cultures it is invested in the position the person holds as well as in his or her personal competence. (Trompenaars and Hampden-Turner, 1998, 67; Hofstede, 1994, 37-67; Mead, 1993, 176)

Answers to the '*why*' questions reveal the objectives of the negotiating parties. These can be broadly categorised in three priority groups: what must be achieved, what is hoped to achieve and what would be nice to achieve. The negotiation strategy also includes bargaining range, i.e. what can be conceded (compromise). An experienced negotiator will try to identify common and conflicting interests (potential areas of agreement and disagreement), and will set the criteria for success. He/she should also design a contingency plan to keep the negotiations alive if problems arise. The intentions of the other party are very difficult to determine. Getting to know the other party before the actual negotiations start may help in revealing the most important objectives as well as intentions to cheat. Different objectives do not necessarily lead to conflict if both parties understand each other's needs and are able and willing to satisfy them. (Kapoor et al., 1991, 36-40, 95-101; Mead, 1995, 260-261)

What is negotiated includes the actual negotiation topic, e.g., the establishment of an alliance, the possibility of a merger or acquisition, plans for future investments, and changes in strategies or their implementation in the daily operations. The contents of the negotiations are based on the objectives and include various alternatives. Negotiators should also think about the supportive material they need in order to introduce their proposals. (Mead, 1995, 253-256) Differences in the physical environment may cause unexpected problems: if electricity or computers are not available, multimedia presentations are useless, for example. This could arise in developing

countries, although modern enterprises tend to have all the necessary facilities. Some cultures prefer lots of numerical and technical details (China, Finland) (De Mente, 1995, 112; Mole, 1998, 125), while some others pay a lot of attention to fluent communication in face-to-face negotiations and study the reports and other documents extensively 'behind the scene' (France) (Mole, 1998, 21-22). Gift giving is an important aspect of many negotiations, although there may be legal restrictions (Finland, Sweden, China) or deep-rooted traditions in terms of nature and value (e.g., Japan) (Luoto, 1998, 48, 98, 218; De Mente, 1995, 89; Mole, 1998, 165). Preliminary investigation is needed in planning and collecting the material, too. The services of an agent or consultant may be useful at this stage, as well as later in the actual negotiations (see e.g., Kapoor et al., 1991, 78-122).

How to negotiate refers to negotiation style as well as the medium through which the messages are transmitted (Mead, 1995, 271-272). Extensive negotiations are often face-to-face in order to ensure full understanding of difficult issues and to gain immediate feedback. Supportive material can be delivered electronically or in paper format. Simple daily negotiations are normally conducted face-to-face.

High- and low-context cultures have different approaches to negotiation. The low-context negotiator aims at explicit and compact presentation of arguments while the high-context negotiator assumes that understanding is based on hints: full understanding depends on the ability to read these hints (see e.g., Hall, 1989). If the language of negotiation is not the native language of any of the participants, misunderstandings are likely to occur due to the perceptual, semantic and organisational barriers described earlier. If more than one language is used, communication is slow and translation mistakes are more frequent. (Kapoor et. al, 1991, 52-63) Serial transmission also distorts communication (Timm, 1986, 100-101)

The choice of location ('*where*') is significant. Negotiations may be conducted in one of the party's premises or in a neutral environment, such as a government office. The host may exploit home-ground advantage by inviting the other party to his or her own headquarters. The location and size of the office would have an impact on the visiting negotiator, who in turn has the possibility to expand and complement his or her knowledge of the other party. However, long distances increase the cost of negotiations: if a developing country is involved, the other party might volunteer to travel and thus save the host's expenses. There are also cultural differences in terms of whether business talk is limited to the office or whether it can continue over lunch or in the evening. The CEO may share his office with several people in collectivist cultures such as Japan, in which case private discussions are not possible. (Mead, 1995, 177-178, 254-255) Special reception rooms are often used in

China, for example. If the negotiation is about solving a problem in a face-conscious culture, it should be conducted privately and not in the presence of others.

Timing ('*when*') is also essential. First of all, enough time should be allocated in order to reach a solution. What is enough is culture-specific. There are differences in how much time is given to completing the whole task, to discussion, to making acquaintance and to actual appointments. Seasons as well as religious holy days and other holidays affect the negotiation schedule and different perceptions of time have a strong influence in this respect. Western negotiators tend to aim at quick results, and Asian negotiators in particular build up long-lasting relationships. (Mead, 1995, 176-177, 255-268; Kapoor et al., 1991, 160-161) Monochronic and polychronic approaches to time also affect the negotiation schedule. Monochronic (sequential) cultures follow strict schedules and prefer to conclude one item before continuing to the next one while polychronic (synchronic) cultures do several things simultaneously and schedules are approximate. (see e.g., Hall, 1989, 17; Trompenaars and Hampden-Turner, 1998, 123-124; Lewis, 1993, 50)

Careful planning, rehearsing and networking are fundamental to successful negotiation. According to Kapoor et al. (1991, 145):

> Negotiating without knowing who is involved or what their objectives or motives are is like trying to read in total darkness.

The end of one negotiation forms the basis of the next one. Analysis of the previous meeting(s) complemented by a follow-up plan facilitates the smooth execution of decisions (Kapoor et al. 1991, 168-170; Timm, 1986, 196). Gulbro and Herbig (1996, 239-241) also point out that time and effort spent on preparations and building a relationship with the other party, as well as the use of cultural experts, significantly improve the chances of successful negotiation. They argue further that larger firms tend to be more successful than smaller due to their larger capacity to devote time and personnel (their own staff as well as translators, cultural briefers and other experts) to the preparation of the negotiations.

Internal negotiations in a joint venture may take place between members of the top management, such as in the board of directors. Issues handled in board meetings normally concern strategy while negotiations concerning daily operations may involve the operating management, expatriates or departmental managers, as well as lower-ranking managers or supervisors. The negotiation styles of Finnish and Chinese managers are discussed in Chapter 3. In all of these situations at least two cultures influenced the outcome. Cultural differences affect who the negotiators are, as well as where and when they negotiate and the issues that can and should be discussed also

vary. Special attention should be paid to how topics are introduced and explained to the other party.

2.3.3 Disputative Communication

The perception of what is considered to be a dispute or a conflict varies among cultures. A mild expression of criticism might be interpreted as an insult or a dispute in another culture. Dispute or conflict could be seen as incompatibility in the activities of persons, which prevents them from accomplishing their goals. Communication creates conflict, but also solves them. If the dispute is to be discussed and resolved it should be seen as a mutual problem, and not only as the other party's problem. (Gudykunst and Kim, 1997, 278-279, 294-297)

There are also differences in the extent to which dispute is tolerated. Tolerance is based on industrial and occupational factors, the urgency of the issue under discussion, proximity, individual psychology, and culture. (Mead, 1995, 225-227) When emotions are strongest it is most difficult to understand the frame of reference of the other person or group. At this stage an open and understanding attitude is needed in order to see the situation from the other person's point of view. Fostering a feeling of being understood lowers mental defences and lays the foundations for good communication. (Rogers and Roethlisberger, 1979, 173)

The reasons for disputes lie in administrative processes, contracts, promotion and other incentives, goals and objectives, concealed agendas, clashes of loyalty, and personality differences, for example. They arise between interdependent parties, but are not always negative in nature. A certain degree of conflict increases creativity and provides opportunities for growth and self-expression. In cases of conflicting interests, the persons involved present arguments supporting their own views and in the best circumstances the disagreement is resolved through negotiation. Resources are scarce and they are allocated to various targets through competition. In the positive sense, competition stimulates activities, channels energy and screens the best alternatives while in the negative sense it may become uncontrolled and unethical and lead to conflict. In a conflict situation participants may refuse to collaborate and/or the superior may refuse to arbitrate. There may be unwillingness to accept the proposed solution, the rules for dispute resolution may be inadequate or non-existent, and participants may be unable to communicate their ideas and suggestions properly. (Mead, 1995, 233-235; Lewis et al., 1990, 92-93; Gudykunst and Kim, 1997, 279)

Cultures with large power distance (PD) assume that latent conflicts between ranks are normal and that peers are reluctant to trust each other whereas in short PD cultures emotional distance between superiors and subordinates is short and subordinates are ready to approach and confront their superiors (Hofstede, 1994, 27-28; Mead, 1995, 228). Cultures showing weak uncertainty avoidance (UA) tend to solve problems without the need for formal rules, and are also more open to new ideas than strong UA cultures: aggression and emotions should not be shown and stress is internalised (Hofstede, 1994, 115-125). Weak UA cultures resemble neutral cultures, according to Trompenaars and Hampden-Turner (1998, 79). People from neutral cultures, do not express their feelings openly, but if tensions accumulate they may occasionally explode. Cool behaviour is admired. Affective cultures with strong UA are characterised by outbursts of emotions, the raising of the voice, talking with the hands or pounding the table, i.e. they are more expressive and touching, gesturing and strong facial expressions are common. Statements are fluent and sometimes dramatic. (Hofstede, 1994, 115-125; Trompenaars and Hampden-Turner, 1998, 79)

Individualistic cultures speak openly about the problems and direct talk is considered to be a sign of honesty. There may be an angry reaction to a dispute and there is a tendency to separate the issue from the person, unlike in collectivist cultures: 'I'm not angry with you, I'm angry about this issue'. Collectivist cultures, such as China, favour harmony in relationships, and open confrontations should be avoided: criticism is taken personally. Mutual trust and friendships are prerequisites for business relations. Bad news or the appraisal of performance as poor should be communicated indirectly, e.g., by the withdrawal of normal favours or verbally via an intermediary. (Hofstede, 1994, 65-67; Trompenaars and Hampden-Turner, 1998, 67; Gudykunst and Kim, 1997, 280-294) However, open confrontation may be acceptable in collectivist cultures if it does not jeopardise face, group conformity and harmony, i.e. if it is targeted to outsiders (Bond and Hwang, 1987, 247-248).

Universalist cultures tend to avoid conflict in advance by imposing strict rules and legal sanctions that apply to everybody. Particularist cultures keep their promises because they have a special relationship with the person they hold in particular regard. Cultural clashes occur when these two cultures meet: introducing legal sanctions may be interpreted as indicating that the other party is unreliable and untrustworthy. Ascription-oriented cultures respect seniority and status and disagreement with superiors is seldom expressed. Decisions are challenged on technical or functional grounds in achievement-oriented cultures. (Trompenaars and Hampden-Turner, 1998, 39-40, 118-119)

Differences in dispute procedures are evident in cross-cultural settings. An expatriate manager may overlook the expressions of disagreement of local

managers, and may send messages he intends to be neutral but which the locals interpret as confrontational. If the negative reactions of the locals remain latent, difficulties tend to accumulate and lead to more severe reactions later on. A low-context manager looks for verbal cues. Silence is often assumed to indicate acceptance, such as in Finland but it could also be interpreted as not listening or as withdrawal from the situation. (Mead, 1995, 237-239)

If conflicts cannot be resolved they must be managed (Lewis et al., 1990, 93; Gudykunst and Kim, 1997, 294-301). There are basically two approaches to coping with conflict: collaboration and assertion. One party might try to dominate and force the other to adjust to their solution. Assertiveness may lead to unregulated confrontation, open warfare, or a win-lose situation. Confrontations tend to deviate from task-oriented conflicts of interest and to develop into a more personal dispute. These kinds of disputes are often resolved by eliminating some group members. Collaboration requires efforts from both parties in order to find a solution of mutual interest and benefit. Opposing views may 'polish' the final resolution and the parties may give up some of their demands and make compromises. It is also possible to try to change the conditions that led to the dispute. One party may avoid conflict totally or accommodate to the situation, especially if the issue is not important. Accommodation is highly collaborative. (Ruble and Thomas, 1976, in Lewis et al. 1990, 95-97; Mead, 1995, 240; Timm, 1986, 197; Gudykunst and Kim, 1997, 296) At the extreme, avoiding conflicts may even include withholding non-verbal feedback, which would indicate disagreement. Conflict avoidance occurs mainly in less important disputes, or if the party wants some leverage in bargaining on other issues or to avoid being rejected by others. (Timm, 1986, 197)

There are several alternative ways in which managers can interfere in disputes between subordinates. They can avoid it if it is insignificant and/or the disputants are able to reach a solution, or if their own interests are jeopardised if intervention is unsuccessful. In urgent cases or if the dispute is in danger of escalating, they can impose a solution. They could also give some time for the parties to cool off, and then suggest the resumption of negotiations: they could act as independent, neutral mediators, separate the disputants, or give them individual counselling and advice for solving the problem on their own. (Mead, 1995, 241-242) Although the manager or chairman in a meeting is in a key role in resolving a dispute successfully, he/she is not the only one responsible for the outcome. All participants need to do their share in establishing a balance between the different views. (Timm, 1986, 200)

In sum, disputes could be seen as disturbing and constructive events in managerial communication. They should be avoided as far as possible, and managed before they become too big to be resolved by mutual consent. There are cultural differences in what is perceived to be a dispute especially between individualistic and collectivist cultures. Special attention should be paid to the weak signals, such as silence, which indicate the existence of a dispute. Active listening and responding to feelings are crucial in facilitating understanding and solving the problems.

2.4   Conclusions

The organisational structure defines the communication flow between the members of the organisation. Managers communicate not only with each other but also with their subordinates in the company. Passing messages upwards, downwards and horizontally is susceptible to perceptual, semantic and organisational barriers, which in turn distort the transfer of messages and understanding.

The managerial-communication process used in this study is based on Berlo's (1963) process model of communication, complemented by Lewis's (1987) model as well as the earlier mentioned types of managerial communication (motivational, negotiative and disputative). Lewis's model is of particular interest because it emphasises the frame of reference and is very suitable for cross-cultural analysis. The impact of cultural frames of reference is analysed in terms of interpreting the communicative events between managers. A shortcoming of Lewis's model is that it implicitly assumes communication to occur in a low-context culture. He argues that information transmission needs to be accurate, complete, unbiased and properly transmitted (Lewis, 1987, 41). A short and ambiguous high-context message is perfectly understandable in its own cultural context but when transmitted to a person from a low-context culture it may sound inaccurate and incomplete and be totally misunderstood, and vice versa (Hall, 1989, 91; see also Holden, 2002, 46; Gudykunst and Kim, 1997, 65). This shortcoming will be borne in mind in the following chapters.

Managerial communication is understood in this study in terms of motivating, negotiating and communicating disputes among managers. The setting is a Sino-Finnish joint venture. The focus is on the communication between the Finnish and the Chinese managers who were actively involved in managing the JV. The aim is to describe how the communicative events unfolded, and also to identify potential patterns in handling various events. The study is based on stories about managerial communication told by the

managers. Non-verbal communication cannot be reliably studied by this method and non-verbal language is therefore beyond the scope of this research.

Negotiating is one of the most important and challenging tasks of a manager. International negotiations require specific skills in order to achieve a result that satisfies all parties. Cultural sensitivity is one such skill. It could also be said that motivating and solving disputes include negotiation. Given the problem definition involving negotiations about the establishment of the JV, strategic negotiations as well as negotiations concerning daily operations are included in this study. In turn, sales and purchase negotiations are excluded because outsiders are involved. Due to the cross-cultural nature of the study negotiations among Chinese managers and purely Finnish negotiations are not included. JV negotiations are discussed in more depth in Chapter 4. Strategic negotiations among top managers focus on company-management guidelines. Cultural differences are important in any alliance, and even more significant on the international level. These differences often clash in strategic negotiations, as they do in daily operations.

3   ELEMENTS OF THE FINNISH AND CHINESE CULTURES

This chapter begins with a general description of the elements of culture, and those suggested by Terpstra and Sarathy (1991) are further elaborated and complemented by other studies. They are all summarised in a table, which is also used in creating stereotypes of Finnish and Chinese managers as communicators. As a conclusion, potential cultural clashes in communication are introduced. The summarising table is also used later in identifying the cultural elements in the interview text.

3.1   Elements of Culture

The following subchapters are named after Terpstra's and Sarathy's (1991) elements of culture: material culture and technology, language, religions and philosophies, aesthetics, values and attitudes, education, social organisation and political life. The main reason for choosing this model is that the authors explicitly introduce language and political life as parts of culture. One of the fundamental assumptions in this research is that their impact on managerial communication in the Sino-Finnish joint venture under investigation is remarkable.

3.1.1   Material Culture and Technology

Terpstra and David (1985, 143-145) name various cultural systems that organise human behaviour: technological, demographic, kinship, economic, political and legal. Material culture includes the material or physical objects in a society that are man-made, and managers need to understand how the material culture affects their operations abroad. The differences are naturally greater in developing countries such as China. The company should investigate the prerequisites for setting up a factory, e.g., access to and the quality of raw materials, the quality of the labour force, energy and water supply, transportation, communications and financing. The manufacturing process may also require different technology because of more labour-intensive manufacturing processes, for example. Even electrical voltages and

the use of an alternative to the metric system may cause changes in production. The material culture also affects how people work in the target country. (Terpstra and Sarathy, 1991, 96-100)

Technology is a cultural system involving the classification, coding, prioritising and justification of the relationships between human beings and their natural environment. It is a system of ideas, which distinguishes it from the material culture: it includes science, research, and development and innovations. It defines how natural resources are to be used and is closely interrelated with the language of the culture, the value and education systems (the need for skilled labour), and the political and religious systems. The attitudes of local governments towards technology may also differ. On the one hand, they can facilitate the importing of new technologies and on the other they may restrict and control them. Technology owners are not necessarily interested in sharing technologies on which they have spent large amounts of money. As a solution, some developing countries have agreed to invest in usable but older forms of technology. Another reason why they do this relates to the need to employ people, and highly automated technology may thus not necessarily be appreciated. The term technology gap refers to differences between two societies in the ability to create, design and use things. The way of working, and the effectiveness of working and understanding processes are largely defined by the technology and the material culture (Terpstra and David, 1985, 148-169). Severe problems in technology transfer might occur if local management and employees are not familiar with the new materials and equipment. They might need extensive training before they are able to understand the processes (Terpstra - Sarathy, 1991, 96-100).

In more recent studies the problem of transferring technology has been tackled in terms of knowledge transfer. New technology and knowledge need to be transferred to the managers and workers of the receiving company in order to achieve success in production. Cross-cultural management facilitates the participative competence that is needed in interactive translation and knowledge sharing. Continuous learning through experience of running the project, or the factory, further strengthens and facilitates cross-cultural management and knowledge sharing. (Holden, 2002, 274)

Holden developed his model of cross-cultural management and knowledge transfer several years after the framework and interviews for this research were drawn up. The model is therefore not used in the theoretical framework, but it is introduced in the final discussion in order to assess how well the results of this study coincide with more recent findings.

3.1.2   Language

This subchapter discusses the problems faced by an international company in terms of language diversity and different communication styles. As stated earlier, it is assumed that language has a larger impact on managerial communication than merely engendering the need for translation or interpretation. The Finnish and Chinese communication styles are introduced later in Chapter 3.2.

3.1.2.1 Functions and Hierarchies of Language

Language is the means by which messages are transferred from the sender to the receiver, both verbally and non-verbally. It is a means of cultural socialisation by which information about the past, the present and the future, or cultural understanding, is communicated from one generation to another. (Gudykunst and Kim, 1997, 194; Terpstra and David, 1985, 17-43) Hall (1989, 57) sees language as a system for organising information and for releasing thoughts and responses in other organisms rather than as merely a system for transferring messages. Scollon and Scollon (1995, 159) define the functions of language as conveying information and maintaining relationships. Hall (1989, 87) argues further that the spoken language is an abstraction of an event, and written language is an abstraction of spoken language, a sort of reminder system. Language reflects the nature and values of the culture. Commercial and technological vocabulary is richer in developed countries than in the less developed countries, which is one reason why English is often used in commercial negotiations. (Terpstra and Sarathy, 1991, 101; Scollon and Scollon, 1995, 4-5)

The number of languages in the world is roughly estimated to be about 6,800: 4,500 of those have a minimum of 1,000 speakers, and 2,200 exist in both written and spoken form. Over 2,000 languages are spoken in both Africa and Asia, and 1,028 million people speak Chinese (Mandarin + Wu + Yue Chinese). (Ethnologue, 2005; Tilastokeskus. Kielet, 2005)

The degree of linguistic heterogeneity varies a lot among countries. Linguistic diversity normally also indicates cultural and political differences, and the majority of multilingual countries are developing countries. Many countries have several official languages. Even though some countries may share the same official language, such as English or French, this does not mean that their culture is the same: the official language is often a consequence of colonialism. Apart from the official language there may be several other languages that are spoken within the country. Spoken language

influences the culture most because it changes more quickly than the written language. (Terpstra and David, 1985, 20-23)

In order to manage the linguistic diversity, some countries have developed a lingua franca, which is spoken by wider groups and is often the language of education and lower levels of government. It is not necessarily the official language used by higher officials of government, however. (Terpstra and David, 1985, 20-23; Terpstra and Sarathy, 1991, 103; see also Gudykunst and Kim, 1997, 212-214)

3.1.2.2 Coping with Language Diversity

The multiplicity of languages is a barrier to communication in international business, when language borders are crossed (Terpstra and David, 1985, 17-43). Reaching a shared meaning in communication between members of different linguistic or cultural groups tends to be minimal, especially if the differences are considerable (Gudykunst and Kim, 1997, 195). Communication with workers in a factory abroad is normally conducted in the local language, for example, because the foreign-language skills of the workers are often limited. If there is no common language, a bi-lingual local manager normally mediates. Furthermore, the workers may speak several languages, or dialects that could be understood as separate languages, and the local language does not necessarily have equivalents for complicated industrial, commercial or technological terms. (Terpstra and David, 1985, 35-36)

There are three main constraints in translating from one language to another: ambiguity, interference and lack of equivalence. *Ambiguity* refers to the problem that a word has several meanings and there is some confusion in the original text. *Interference* refers to transferring usage from one language to another: similar words have a different meaning or the translation is affected by the grammatical structure of the original language. (Holden, 2002, 264-271)

According to Holden (2002, 68-70, 250-251), transferring knowledge, be it tacit or explicit, is difficult because of the *stickiness* of language. Stickiness refers to

> … the problems of detaching knowledge from its context and transferring it so that it does not lose its essential properties. Stickiness is equivalent to what gets lost in the translation.

Stickiness slows down the transfer of knowledge. Its absorptive capacity affects the ability of the recipient to understand the message. It is not only

about the lack of a direct equivalent, a common language or frame of reference: lack of trust towards the other partner, resistance to new knowledge, the 'not-invented-here' syndrome and lack of time and meeting place also constrain transfer. The perception that headquarters is not interested in or does not understand the ideas emerging in the subsidiaries may also have a negative impact on knowledge transfer. (Holden, 2002, 68-70, 250-251)

Sometimes it is very difficult to find an exact match to words in another language. The aim is to achieve the closest possible equivalent. Some words are totally untranslatable, however (Holden, 2002, 264-271). For example, the Finnish words 'sauna' and 'sisu' have been transferred to other languages in their original format: 'steam room' is different from the Finnish sauna, and 'guts' (power, strength) does not capture the whole meaning of 'sisu', the word that describes the Finnish spirit.

The problems relate not only to missing equivalents, stickiness and ambiguity, as complete parts of the message may also be missing. The receiver has to 'read between the lines', to reflect on the message against the context, in order to interpret it in the intended way. *Contexting* (Hall, 1989, 85-103) is a means for handling information overload, i.e. choosing what one pays attention to and what one ignores. The events influencing a person's perception include the subject or activity in question, the situation, one's status in the social system, past experience and culture. The cultural background determines the understanding of the context, in other words the members of the culture interpret messages in terms of the context. Contexting involves two different but interrelated processes: internal contexting takes place in the brain as a function of past experience (programmed contexting) and/or the structure of the nervous system (innate contexting) while external contexting is based on the situation in which an event occurs (situational contexting).

Hall (1989, 90) distinguishes cultures along a continuum from high-context to low-context. In high-context cultures the environment, body language and the situation are essential in terms of interpreting communication: the meaning is communicated implicitly by giving clues, and the core information is either in the physical environment or the setting, or is internalised in the person and there is minimal information in the message itself. The environment, the situation and non-verbal communication are less important in low-context cultures, as most of the information is explicit.

As a consequence of contexting, cultures differ in terms of using *direct and indirect forms* of verbal communication. In Asian languages in particular, courtesy is often preferred to truthfulness, and good relationships are maintained even at the expense of not giving adequate information. In situations demanding expressions of anger, disagreement, embarrassment or strong personal affection, Asians prefer indirectness and hesitancy. Silence is

also understood differently in various cultures. Furthermore, North American and most European cultures appreciate exact, direct, fluent and explicit expressions of events, and evasive and dubious expression is understood as unreliable, possibly even dishonest. (Gudykunst and Kim, 1997, 201-207; Scollon and Scollon 1995, 159)

Cultures that value *silence* use understatement instead of exaggeration, pausing and silence instead of constantly flowing conversation. There are also differences in turn-taking in conversations. Normally people speak one at a time, and if they talk at the same time it does not last long. The length of the pause in taking turns varies, however. Direct and indirect forms of communication are linked with using a third party in the discourse, and this person could be an interpreter or other intermediary. (Gudykunst and Kim, 1997, 201-207; Scollon and Scollon 1995, 159)

Means of managing language problems in international operations include the use of translators or interpreters, delegating communication activities to outsiders such as advertising companies or distribution channels, arranging language courses for employees, and recruiting bi-lingual managers. (Terpstra and David, 1985, 39-43)

The accuracy of the translation is influenced by the *translator's / interpreter's* knowledge of the subject area, his or her personal skills and competence, as well as the transferability of meaning according to grammatical and stylistic considerations. The interpreter's / translator's role differs in various cultures. In Northern Europe and North America an interpreter is seen as a person who gives an accurate and unbiased translation of what has been said: his/her role is to transmit the messages between the participants. In Asia, however, the role may be much more active: the interpreter may take a lot of time translating a short sentence because the meaning, context and gestures are also mediated. Translation may also include discussion with the receivers. The interpreter is thus a supporter of his/her team, not a neutral mediator. (Gudykunst and Kim, 1997, 201-207; Scollon and Scollon 1995, 159)

The language barrier is at its highest between the parent company and the subsidiary. There is disagreement on the necessity for expatriates to speak the local language, although the desirability is high. Gaining full language competence is time-consuming and expensive, and that language cannot necessarily be used in the next assignment in another country. However, bi-lingual managers, both host-country and expatriate, are in a key position in terms of facilitating communication in international operations. (Terpstra and David, 1985, 39-43)

3.1.3   Religions and Philosophies

Religions could be considered to form the foundations of a culture. They have a great impact on values and attitudes, as well as on the educational system, and the political and social organisation. (Terpstra and David, 1985, 79) Religion is

> a socially shared set of beliefs, ideas, and actions which relate to a reality that cannot be verified empirically yet is believed to affect the course of natural and human events. Because such belief conditions people's motivations and priorities, it affects their actions.

Religions[8] can be classified as literate and non-literate. Christianity, Hinduism, Judaism and Islam are examples of literate religions: the teachings are transferred from one generation to another in a literary form. Traditions are transferred orally in non-literate religions (e.g., folk religions, shamanism and tribalism) , and the transcendental power is assumed to reside in observable, natural phenomena, in spirits or other kinds of forces, and it will either help or hurt human beings. (Terpstra and David, 1985, 77-110)

All religions deal with problems of meaning (e.g., suffering, injustice), of motivation (personal desires versus the needs of society), of social conflict (e.g., the unequal distribution of wealth, power), and of scepticism (support for faith in the unverifiable reality, e.g., the existence of God) (Terpstra and David, 1985, 79-81). They also help people to tolerate and accept uncertainty in situations in which they cannot cope alone. The foundations of Western religions (Judaism, Christianity and Islam) rest in divine revelation. They also share an assumption of the absolute truth, which overcomes all other truths and can be possessed by man. Eastern religions and philosophies are not so concerned about truth. Instead they look for insights through meditation (Buddhism) (Hofstede, 1994, 130-132), or harmony and tranquillity, by cultivating virtue (Confucianism) (The Great Learning, 1999). Thus people in the East easily adopt features from other religions and philosophies and follow them simultaneously (Hofstede, 1994, 132). The concept of truth is discussed later in relation to values and attitudes.

There are differences between the Great Tradition and the Little Tradition in religions. The former mainly influences the behaviour of monks, ascetics and the like, while the latter embodies local beliefs that affect ordinary peoples' lives. An international manager should be aware of both. (Terpstra and David, 1985, 79-81)

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[8]   The three largest religions are Christianity (over 2 milliard followers), Islam (1.2 milliard followers) and Hinduism (over 800 million followers). (Tilastokeskus, 2005, uskonnot)

Hofstede (1994, 16) argues that religions are less culturally relevant than normally assumed. A religion prevailing in a particular country is just as much a result of previous cultural value patterns as the cause of cultural differences. He takes the Reformation movement in the Roman Catholic Church as an example: as a result, northern parts of Europe are mainly Protestant and most of southern Europe is still Roman Catholic. He points out that the Reformation was successful only in the areas that have not been influenced by the legacy of the Roman Empire.

Companies operating internationally should know how religion could affect their business operations. Religious heterogeneity, the existence of fundamentalist movements, religious festivals and taboos all affect the political, economic and social life of a given country (Ireland, Egypt and the USA are just three examples). Religion may provoke instability in a society, and affects holidays (holy days) and consumption patterns. (Terpstra and David, 1985, 77-116)

Some religions have a strict code of proper and improper behaviour. Barnett et al. (1996, 1161-1170) studied the relationship between religiosity, ethical ideology and the tendency of judging and reporting peer wrongdoing. They found that the ethical ideologies of relativism and non-relativism were closely linked with perceptions of the appropriateness of behaviour. Some religions, such as Christianity and Judaism, assume the existence of universal standards of morality. People who are committed to a religious belief tend to be more ideological and non-relativist concerning proper behaviour. Relativists, in turn, believe that judging a particular action depends on the circumstances, and that universal rules do not apply to individual cases. Highly non-relativistic (idealistic) people see reporting peer wrongdoing as more of an ethical issue than more relativistic people, which is connected with the universalist / particularist view on relationships between people demonstrated by Trompenaars and Hampden-Turner (1998), as discussed earlier.

Furthermore, especially in countries such as China, different philosophies and other perceptions, sometimes called superstitions or folk religion, affect values and attitudes. Buddhism, Confucianism and Taoism are not religions in the accepted sense because they lack the concept of a god. They are understood as philosophies in this research.

3.1.4   Aesthetics

Aesthetics deals with perceptions of what is considered to be beautiful and ugly in a given culture, and various religions and philosophies have always had a major impact in this regard. Aesthetic characteristics are expressed in

the fine arts – music, drama, art and dancing – as well as in the appreciation of certain colours and forms. (Terpstra and Sarathy, 1991, 105) Fine arts represent a broad area of culture, but it could be assumed that they do not have a significant influence on managerial communication. Chinese and Finnish fine arts are thus not described here, but are discussed more deeply in Chapter 7 to the extent that they were covered in the interviews.

Some aspects of aesthetics are worth mentioning here. A company operating abroad should seriously consider the design of its products, packages and plants (architecture), and adapt it to the local taste. The architecture of office buildings and factories should fit in with the environment. (Terpstra and Sarathy, 1991, 105) This is extremely important in Hong Kong, for example, and is discussed in more depth in the context of Chinese culture in Chapter 3.2.2.2. The joint venture under study manufactures garments, and it is to be assumed that colours, patterns and design, not to mention the advertising, might be a source of conflict in managerial communication.

Colours, shapes, symbols and numbers often have a religious origin. The colour red refers to love in many countries, it represents happiness and good luck in China, for example, and on the international level it symbolises communism, danger (Stop!), prostitution, even Christmas. Green is known in Islamic countries as the favourite colour of the Prophet Mohammed, and is either favoured or prohibited for that reason. In Christianity it symbolises hope. Some numbers are considered lucky (e.g., eight in China), and some are unlucky: four also means death in Japan. Thirteen is internationally associated with bad luck: very seldom is there a 13th floor in a multi-storey building. Religious shapes and signs are often prohibited for commercial use. The swastika is not approved of in many countries due to its association with the Nazi Party in Germany, although it has different meanings in different cultures (Germany, Greece and the Scandinavian countries, for example). It originated in India (2000 B.C.), and was called wantsu in ancient China where it symbolised the four orientations and where it has symbolised the number 10,000 (which means longevity) since 700 B.C. It is also a Buddhist symbol, the seal of Buddha's heart. (Biedermann, 1993, 63-64)

Animals also often have a symbolic meaning, which should be taken into account in planning and advertising, for example. A stork in Western countries brings a new baby to the mother, symbolising happiness, while in China it portends the death of the mother. An imaginary animal, the dragon, is considered in Western mythology to represent evil and it should be killed, whereas in China it is the symbol of the East, the sun, the bounty of the land and the Chinese nation. It is fierce but not mean. (Dragons, 1995, Biedermann, 1993, 62-64; Zhang, 1999, 37-42; Idän uskonnot, 1997, 99)

In sum, different perceptions about aesthetics could cause problems, and in the worst case jeopardise marketing and other operations. Managers should therefore investigate the background and meanings of the symbols, and use local consultants if necessary.

3.1.5   Values and Attitudes

Values represent the core of a culture (Hofstede, 1994, 8). They are emotionally-charged priorities, or preferences, which help individuals to choose an appropriate alternative in a given culture. They are based on religion to a great extent, and are learned through the socialisation process together with the cultural classifications. They direct people in deciding the priority of their goals not only in their personal lives but also in the business world. (Terpstra and David, 1985, 117-118)

Values and attitudes define what is good and what is evil, right or wrong, acceptable and non-acceptable, normal and abnormal in a society, and affect notions of work, equality, individualism, truth, time, achievement, wealth, gender and change (see e.g., Hofstede, 1994; Terpstra and David, 1985, 117-142; Terpstra and Sarathy, 1991, 118; Trompenaars and Hampden-Turner, 1998). Hofstede also distinguishes between what is desirable and what is desired. What is desirable refers to what people think the world ought to be, and basically they are in favour of virtue and against sin. However, they do not necessarily behave in a desirable way. What is desired reflects what people want for themselves. Norms are the standards used for values. They are absolute and ideological in terms of what is desirable and what is ethically right. In terms of what is desired, the norm is statistical and practical: what people actually do and how they behave. (Hofstede, 1994, 8-10)

There are a great number of studies on values. For the purposes of this study they are reviewed from and combined into three aspects: equality among people, self- and group-orientation, and orientation towards time and change.

3.1.5.1 Equality among People

One of the fundamental cultural issues concerns equality among people. Inequality is manifest in different social classes and in how people are treated, for example. Hofstede's (1994, 23-38) *power distance* (PD) refers to the extent to which the less powerful members in organisations expect and accept that power is distributed in-equally. The roots of PD lie in the family. Children in countries with large power distance are expected to obey their parents and

older brothers and sisters, for example. This inequality is extended to the teacher-student relationship at school, where teachers are respected and not confronted: where the PD is small teachers are expected to treat students as equals. In the work context, where there is a large PD the hierarchical organisation is based on inequality in the superior-subordinate relationship. Power is centralised in a few hands, the workers expect to be told what to do, and superiors are entitled to privileges. Even further, countries differ in terms of using power distance between authorities and citizens: countries with large PD seem to be more susceptible to political violence and one-party systems than countries with small PD.

Trompenaars and Hampden-Turner (1998, 29-43) also consider the question of equality in society. *Universalism and particularism* describe whether people emphasise rules or relationships. Universalist, rule-based cultures tend to be abstract, and rules are obeyed no matter what the situation is. Everybody is treated equally. Particularists focus on the exceptional nature of the circumstances: family and friends have to be treated preferentially even if this requires bending the rules. In business terms this means adopting different attitudes towards the legal validity of a contract, towards obedience to superiors and head office, as well as towards rewarding and punishing employees.

Equality of men and women and gender roles often evoke heated discussion. Hofstede (1994, 79-107) studied *masculinity and femininity* among nations, and found that men were often seen as assertive and achievement-oriented and women as adopting more tender and caring roles. Masculinity characterises cultures in which gender roles are distinct, and femininity those in which gender roles overlap. Attitudes towards masculinity and femininity are fostered in early childhood at home, and are further developed at school. In feminist cultures children are socialised towards modesty, solidarity and equality, while masculine cultures emphasise one's career, and children are encouraged to be assertive, ambitious and competitive. Masculine cultures emphasise the value of a good academic record for both students and teachers, while feminine cultures lay more stress on social skills, social adaptation and friendliness. The selection of subjects also differs among male and female students. Formal education forms the basis for occupational choice, but there is a tendency towards 'male' jobs and 'female' jobs. Views on the overall importance of working versus personal life also differ: masculine cultures give preference to work at the expense of family life. Feminist cultures tend to solve workplace problems through compromise and negotiation. Masculine managers are perceived as assertive, decisive, lonely decision-makers who are focused on facts, while the feminine manager is more intuitive and looks for consensus.

As discussed earlier, cultures vary according to perceptions of *truth and honesty*. Western religions share an assumption of ultimate truth, unlike Eastern religions and philosophies, which seek harmony and peace through meditation and the cultivation of virtue. According to Western religions, the truth is the only way to salvation and is the most important thing in a person's life. Belief in the possession of the ultimate truth, indicating that everyone else is wrong, is strongest in countries with strong uncertainty avoidance. Those weaker in uncertainty avoidance also believe in truth, but not necessarily that they possess it. The people are looking for it, but admit that other people are also looking for truth but not necessarily in the same direction.

As stated above, Eastern religions are more concerned about virtue and tranquillity than about absolute truth (Hofstede, 1994, 131-132). Thus communication also differs: Eastern cultures are more focused on maintaining good relationships than on telling the truth. This leads to ambiguous expressions and excuses, and the receiver of the message needs to be culturally aware in order to decode it correctly. The same rules apply to everyone in universalist cultures, i.e. equality is respected. Truth is not modified even if it might harm a friend. Particularist cultures tend to behave in the opposite way: people do their utmost to maintain good relationships with friends and relatives even though this might mean neglecting the rules of deviation from the truth. (see e.g., Trompenaars and Hampden-Turner, 1998, 29-48; Gudykunst and Kim, 1997, 201-203)

3.1.5.2 Self-orientation and Group-orientation

Hofstede (1994, 49-78) Trompenaars and Hampden-Turner (1998, 50-80) identify the dimensions of individualism and collectivism (communitarianism according to Trompenaars and Hampden-Turner). The two concepts reflect orientation towards *oneself* on the one hand and towards the *group* on the other.

Gudykunst and Kim (1997, 88-89) argue that social identity is an important component of the self-concept, and that it derives from the knowledge of a person's membership in a group and the emotional value attached to such membership. It is based on features such as membership of demographic groups (nationality, age) or formal or informal organisations (political party), the role in the group (teacher, parent) or vocation (scientist, sales person). People evaluate themselves according to the groups they belong to as well as to its characteristics. The effect of membership on social identity may be positive or negative: it is positive if membership of the group (in-group) is favourable when compared with other groups (out-groups). Positive identities

are seen as desirable and negative ones as undesirable. Identity may be voluntary, i.e. if a person chooses it (hobbies), or involuntary, such as when the person is born into it or the categorisation has been made by others (race, unemployment). This evokes the need to be similar to (inclusion) or different from (differentiation) the group. Individualistic cultures tend to differentiate while collectivist cultures favour inclusion. Collectivist cultures also have a greater tendency to emphasise identities than individualistic cultures.

Scollon and Scollon (1995, 36) argue that the Western concept of the 'self' is highly individualistic, self-motivated and open to ongoing negotiation. Asians, in turn, see themselves as part of a group - the family and/or working group - and are thus strongly influenced by 'face'. The concept of face is discussed in Chapter 3.2.5.3 in the context of the Chinese culture.

All of the above-mentioned dimensions affect negotiations, decision-making and motivation. Collectivist cultures use restrictive codes (high-context) in communication, while individualist cultures rely more on explicit verbal messages (low-context), and they also express their feelings more openly. Showing negative emotions threatens group solidarity and the interpersonal social structure in collectivist cultures. The Protestant West seems to be highly individualist compared with the Catholic West and Asian countries. (Trompenaars and Hampden-Turner, 1998, 50-53; Hofstede, 1994; Gudykunst and Kim, 1997, 198-199, 229)

3.1.5.3 Orientation towards Time, the Future and Change

How people manage time is an important cultural dimension. Several researchers have tackled the concept of time and orientation towards it, and have identified two extremes. At one end of the continuum are people who are concerned about making and following schedules. They buy, save, waste and lose time, which is assumed to be a scarce asset that will run out at some point. Time orientation also deals with perceptions of how the past, present and future are related.

Hall (1989) introduces the concept of M-time to describe time that is perceived as a ribbon or road. The people in question are seen as *monochronic* (Hall, 1989, 16-17), *linear-active* (Lewis, 2004, 53-55) or *sequential* (Trompenaars and Hampden-Turner, 1998, 120-124,139). Monochronic people prefer doing one thing at a time. They emphasise schedules, segmentation and promptness, seeing life as a series of events and the past as gone forever. Lewis (2004, 53-54) argues that the American [United States] culture is at the extreme in terms of their perception that time is money. Daily schedules are carefully planned and each working hour means earning a

certain amount of money. If one appointment is not realised it is considered to be a waste of time and thus a loss of money. Lewis further claims that Anglo-Saxon, Germanic and Scandinavian people are linear-active, time-dominated and monochronic. He refers to people in Southern Europe as multi-actives rather than linear actives: they are most satisfied when they can deal with several issues at the same time. All these authors share the perception that cultures in North America and in Central and Northern Europe are most concerned about time as money, i.e. they are monochronic.

At the other extreme, relationships and the completion of tasks are considered more important than the strict following of schedules. In this sense people are seen as *polychronic* (Hall, 1989, 17), *multi-active* (Lewis, 2004, 55) and *synchronic* (Trompenaars and Hampden-Turner, 1998, 124). Polychronic people do several things at the same time: according to Hall (1989), P-time can be considered a point rather than a ribbon, and that point is sacred. Synchronically oriented people believe that the past and the future are interrelated, thus forming present actions. Appointments are thus approximate and allow time for other important issues.

Hofstede and Bond also discuss time orientation in their studies. The fifth cultural dimension is referred to as *long-term and short-term orientation*. They widen the concept of time towards the Asian perception and also call it *Confucian dynamism*. Those with a short-term orientation are concerned with possessing the truth and with matters of 'face'. They respect traditions as well as social and status obligations, and expect quick results. The long-term oriented, in turn, seek virtue, adapt traditions to the modern context, and are willing to accept slow results. (Hofstede, 1991, 164-170) However, as stated earlier, Hofstede and Bond have attracted severe criticism (Fang, 2003, 354-355) due to the unambiguous nature of the dimension. The long-term and short-term orientations are not extreme ends of the continuum, but are closely interrelated and therefore they do not differentiate cultures. Fang suggests that China in particular is both past- and future-oriented.

Lewis (2004, 57-58) also takes the 'Eastern' view by distinguishing a *cyclic time* that characterises Eastern cultures in particular. Time is not a scarce commodity. Although people grow old and die, children will reconstitute the process. Time never ends. This also has an impact on decision-making: because former actions influence the present situation people need to think carefully about the consequences of their decisions. Negotiations may therefore take a long time. Those with a synchronic orientation to time also assume that past, present and future actions lay the foundations for the present action (Trompenaars and Hampden-Turner, 1998, 120).

Cultures and individuals also differ in the degree to which they can tolerate uncertain situations, new ideas, change and the unknown future. Hofstede's

(1994, 113-125) *uncertainty avoidance* (UA) describes the extent to which people feel threatened by uncertain or unknown situations. This feeling is expressed through nervous stress/anxiety and also in the need for strict rules in order to predict what is to come and how to deal with it. Cultures that are expressive in their communication, in which people talk with their hands or raise their voices, for example, tend to rank high in uncertainty avoidance: there is a fear of uncertain situations and motivation is based on security. Uncertainty is considered a normal feature of life in cultures with weak uncertainty avoidance, thus it does not attract special attention. There should be as few rules as possible, aggression and emotions are not shown, and communication is less expressive. People are adaptive to new ideas and behaviour.

3.1.6   Education

Education is an essential part of cultural learning, part of the socialisation process. It is through education that skills, ideas, attitudes and training in particular disciplines are transmitted. Its affiliative function relates to the social learning of shared expectations for human behaviour, while its instrumental function is both economic and political. Informal education is common in cultures in which kinship relations are important, for example, and formal education is appreciated in cultures in which relationships are based on contracts. The figurative function is linked with the passing on of values and attitudes. The kind of education that is arranged for the children as well as the adults of a particular culture is highly dependent on the development stage of the country as well as on its political system, and industrialised and developing countries differ in this respect. Differences in education (in both quantity and quality) may cause problems for international companies in staff recruitment, for example. In-house training in the use of new technology is often needed. (Terpstra and David, 1985, 49-75; Terpstra and Sarathy, 1991, 107-109)

3.1.7   Social Organisation

Social organization refers to the way people relate to other people. It comprises a set of constructs including the division of tasks as well as the subsequent rights and responsibilities, i.e. the roles and norms guiding behaviour. It is based on family and kinship, and social stratification, i.e. the hierarchy of classes, defines where the relative power and privileges fit in the

society. The foundations of social stratification are in the concept of equality and in-equality, and the hierarchy may be based on family background or the caste system, for example (Terpstra and David, 1985, 176-197). Another form of social grouping is common territory - the neighbourhood, the suburb, the city or the village, or as in many Asian countries the tribe. Special interest groups, which may be religious, occupational, educational or political in nature, represent a third kind of social grouping. These groups also apply in analyses of cultural differences. (Terpstra and Sarathy, 1991, 120)

In order to achieve socially defined and approved goals societies construct a system of social contexts within which certain behaviours are appropriate and others are not. Both verbal and nonverbal cues distinguish what is appropriate. Social position (status, or social identities as discussed earlier) is achieved either by fitting (being born) into it or by moving into it. Each position has a role relationship towards other positions (e.g., superior – subordinate), and each person in a particular position is assumed to behave according to his/her role in relation to others. For each role relationship there is a set of social norms, the rights and obligations that guide behaviour. The norms enable behaviour to be predicted and evaluated in a given society. (Terpstra and David, 1985, 143-146) The social norms governing business behaviour are known as business ethics and etiquette.

Different cultures accord *status* to people in different ways. If status is conferred according to achievements, the culture is called *achievement-oriented,* according to Trompenaars and Hampden-Turner (1997, 102-106). Everybody has equal chances of promotion and the outcomes are based on personal effort. If status is based more on background factors such as age, class and education, the culture is called *ascription-oriented*. Young professionals might face particular problems negotiating in ascription-oriented cultures, which also tend to emphasise training and in-house education more than achievement-oriented cultures. Protestant cultures are more achievement oriented than Catholic, Buddhists and Hindu cultures.

Specific and diffuse cultures differ in the degree to which public life and private life are mixed, and in how much people need to know about each other in order to do business. The 'public space' that others are allowed to enter in specific cultural contexts is wide, for example, but it is divided into smaller segments. It is relatively easy to access one segment, but this does not give access to another. In other words, colleagues working in the same company do not necessarily meet in their free time, and people playing golf together do not necessarily ask one another for professional advice. It is difficult to get to know people in diffuse cultures, but once access is allowed it covers almost all parts of life. Specific cultures tend to go directly to the point, and diffuse cultures to skirt around the topic in order to get to know the other party first.

Another aspect of this dimension concerns how much a manager can interfere in the private life of his/her subordinates. Specific and diffuse cultures are sometimes called low- and high-context cultures (Trompenaars and Hampden-Turner, 1997, 81-100; see also Hall, 1989, 89).

Cultures also differ from each other in terms of the extent to which it is appropriate to express one's feelings openly in a group. Trompenaars and Hampden-Turner (1998, 69-79) identified an *affective – neutral* dimension in their study. Affective cultures show emotions openly, and neutral cultures keep tight control over feelings. People from neutral cultures are sometimes considered cold and without feelings, which is misleading: even soft signals are registered, whereas in affective countries a lot of noise is needed before anything is registered at all. The authors include language in this dimension: verbal (rhythm, tone and pace) and non-verbal. Feminist cultures are also assumed to show their emotions more openly than masculine cultures (Hofstede, 1994, 96).

3.1.8   Political Life

Politics have an impact on international business on the global level, between nations and on the country level. Politics also influence the prevailing values in the country, and party membership might give some privileges to individual persons. Persons or groups in a society have unequal control over material and human resources, information and administration. Power is defined as control over the environment of others, which could lead to opposition, conflict and change. The political system is designed to manage these processes. Non-legitimised power, or power gained by coercion, usually causes opposition, while legitimised power is based on authority (formal organisations) or sovereignty (legitimacy embodied in a person or a land). The attitude of government towards foreign companies can either facilitate or hinder foreign investments in the country: it might be involved in the negotiations and impose restrictions and liabilities. Politics affect the home-country relationships as well as the autonomy and control of an FDI. (Terpstra and David, 1985, 206-240) There tend to be many laws and precise regulations in cultures/countries in which uncertainty avoidance is strong. People in weak UA countries are less conservative and more ready to protest against the government and other leaders of the country than people in strong UA countries. Intolerant political ideologies are more often found in strong UA countries. (Hofstede, 1994, 126-133)

Hofstede's feminine and masculine dimensions have an impact on political life as well. He gives an example concerning the dispute over the governance

of the Åland Islands between Finland and Sweden in the 1920s on the one hand, and the dispute between the United Kingdom and Argentina over the Falkland Islands in the 1980s on the other. Finland and Sweden are feminist countries, while Argentina and the UK are masculine. The dispute over the Falkland Islands was resolved by force and control remained with the UK: the islands have suffered since in terms of economic development due to severed trade connections with Argentina. (Hofstede, 1994, 100-101) The Finnish-Swedish dispute was finally resolved by The League of Nations (Meinander, 1999, 49-51). In spite of the opposition of the inhabitants, the Åland Islands remained part of Finland but gained a position of considerable autonomy (Hofstede, 1994, 100-101). Hofstede gives too positive an impression of the friendliness between the negotiating parties and the consensus reached after the negotiations, but the example shows the basic attitude towards resolving difficult issues. The loss of face involved in losing the debate is not as important in feminine cultures as it is in masculine cultures.[9]

3.1.9   Summary

There are several ways of categorising the elements of culture. As mentioned in Chapter 1, the assumptions in this study were that language and political life play a significant role in interpreting managerial communication in a Sino-Finnish joint venture. The elements of culture suggested by Terpstra and David (1985), and further elaborated by Terpstra and Sarathy (1991), were thus adopted as the basic framework of this study. Other studies in the field were reviewed and combined in a deeper investigation of the individual elements. The basic elements are understood as the material culture, language, religions and philosophies, aesthetics, values and attitudes, education, social organisation, and political life. The vast area of values and attitudes was considered from three angles: equality among people, self- and group-orientation, and orientation towards time, the future and change. The stereotypes of Finnish and Chinese managers were created according to this framework. Table 2 summarises the elements of culture thus identified.

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[9]   At present, the Åland Islands hold a special position in the European Union as a tax haven, thus benefiting from its location between these two countries. They are part of the customs territory of the EU, but outside of its tax territory. (Suomen tulli, 2005)

Table 2.   Elements of Culture

Cultural Element	Description
Material culture and technology	Industries, production, employment in industries, amount and quality of labour force, access to and quality of natural resources, energy and water supply, transportation, communication infrastructure, level and quality of technology
Language	Languages spoken, language groups, language hierarchies, language as a message carrier, native speaker / non-native speaker, bilingual speakers, role of interpreters, verbal and non-verbal language, direct and indirect communication, high-context and low-context cultures
Education	Education system, literacy rate, elite schools and universities, education policy, higher education, vocational education
Aesthetics	Perceptions of beautiful and ugly, design, symbols, colours, shapes, numbers, architecture, fine arts
Religions and Philosophies	Prevalent religions and philosophies and their foundations, religious events, taboos, fundamentalist movements
Values and attitudes 1) equality 2) self and group orientation 3) orientation towards time, the future and change	1) power distance, universalism / particularism, achievement / ascription orientation, femininity / masculinity, the concept of truth 2) the concept of the self, social identity, individualism / collectivism 3) orientation towards time, uncertainty avoidance, sequential / synchronic, long-term / short-term orientation
Social organisation	Family and kinship, the class system, the business system, according status, specific / diffuse, achievement / ascription orientation, affective-neutral
Political life	Political parties, central and local government, form of government, government ownership in companies, general influence of politics on business

3.2   The Chinese and Finnish Cultures and Respective Stereotypes

The main features of the Finnish and Chinese cultures are introduced in this section. The structure follows that of the cultural elements described in the previous section, except that material culture, technology and aesthetics are discussed in the empirical part only if the respondents mentioned them.

3.2.1   Language

Both Chinese and Finnish have been generally characterised as difficult languages for foreigners to learn. This subchapter compares these languages and discusses the consequences of dealing with the language barrier.

   Almost the whole population of *Finland* (92.1%[10]) speaks Finnish, which is the first official language, with a small minority speaking Swedish (the second official language) and Sami (which has a special status). Sixteen other languages are spoken to some extent. The literacy rate is 100%. (Ethnologue report for Finland, 2005; Tilastokeskus, 2005; Torikka, 2004) Finnish is not widely spoken outside of Finland, and English is the most common second language of Finns. Given the small number of speakers and the education system, Finns also learn other languages.

   The language variety is much wider in *China*, and about 200 different languages are spoken. There are eight major Chinese dialect groups: Putonghua (Mandarin), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan, (Taiwanese), Xiang, Gan and Hakka, and many sub-dialects. The major dialects are not mutually understandable, and could therefore be considered separate languages, like Spanish and Italian. There are also minority languages such as Zhuang, Manchu and Uygur. The official language is Putonghua, which means 'common language', and it is based on the Beijing dialect. Over 70% of Chinese people speak Putonghua as their native language, and the rest often also speak their own dialects, such as Shanghainese and Cantonese. (Ethnologue report for China, 2005; Tilastokeskus. Kielet. 2005; CIA Factbook 2005; China Travel Tips, 2005; De Mente, 1995, 7) In 2002 the literacy rate in China was 90.9%, i.e. about 120 million people are illiterate. (CIA World Factbook, 2005)

   The Finnish language belongs to the Finno-Ugric group of the Uralian *language family*. There are diverse perceptions among researchers of the origin of this language family, the most common placing it between the Ural Mountains or the River Volga and the Baltic Sea. According to the most far-

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[10]   All figures refer to native speakers in 2003.

reaching estimates, the Finno-Ugric people inhabited Central Europe all the way to the British Isles, and started to withdraw to the present regions in about 5500 B.C. Nowadays it is believed that Finno-Ugric speakers have lived in present-day Finland at least since 3000 B.C., i.e. for over 5,000 years. (Mikkola et al., 1999, 66; Branch, 2000; Stevens, 1997, 15) The closest relatives to the Finnish language are Estonian and Karelian and its more distant relatives include Sami (in Lapland) and Hungarian (Mikkola et al., 1999, 61-69). The Hungarian and Finnish languages separated about 6,000 years ago (Branch, 2000; Korpela, 2004). Swedish and the other Scandinavian languages belong to the Indo-European language family and are not relatives of Finnish (Mikkola et al., 1999, 63).

The Chinese languages belong to the Indo-Chinese or Sino-Tibetan language family, together with Siam, Tibetan and Burmese (ibid., 62) The main difference between the Chinese language family and the Uralian and Roman language group is that written Chinese is the same everywhere, only the words are pronounced differently. Therefore Chinese people are able to understand the written language in various parts of the country as well as abroad without being able to speak the particular variety. Written Chinese is about 3,500 years old. It was unified by Emperor Qin in the third century B.C. and has changed very little since: it has held the Chinese people together all over the world up to the present. (De Mente, 1995, 7; Hall, 1989, 91; Practical, 1995, 9)

Finnish is said to be difficult to learn because of the long words, the inflections, the suffixes and the fifteen grammatical cases. On the other hand, there are no gender markers or articles, and it is pronounced almost as it is written. (Branch, 2000) Chinese is grammatically quite straightforward: it lacks verb tenses, moods, conjugations, declensions, inflections and gender. Chinese words are formed of two or more 'syllables', each of which requires a character (ideogram) in the written form. There are more than 400 syllables in the common speech of the Chinese. Each syllable consists of an initial and a final, there being 21 initials and 38 finals altogether. (De Mente, 1995, 7; Practical, 1995, 5-6) The pronunciation of Chinese and distinguishing between words with almost similar pronunciation is quite difficult for foreigners. Forming the consonants and vowels requires using the lips and tongue in a totally different way than Westerners in particular are used to. Furthermore, there are four tones in Mandarin Chinese: high level - , rising / , falling \ as well as rising and falling ˇ. A change of tone changes the meaning and the same word can have several totally different meanings. Yue Chinese (Cantonese) is even more complex: it has nine tones. (De Mente, 1995, 9;

Practical, 1995, 7-16, 65) It has been said that people in Guangdong do not speak, they sing[11].

In order to be able to use a Chinese dictionary one has to know 214 radicals (there are no equivalents in Indo-European languages). For example, the word 'star' is found under the radical 'sun'. One also has to be familiar with Chinese history. It is estimated that there are about 50,000 characters, of which about 5,000 – 8,000 are in common use, and about 3,000 are used for every-day purposes. (Hall, 1989, 91; Practical, 1995, 18) A phonetic transcription system, *pinyin,* was introduced in 1979 in order to facilitate learning Chinese and to bring the written format closer to the actual pronunciation. All vowels are pronounced as they are in Latin, but many consonants are pronounced totally differently. (De Mente, 1995, 10): for example, Canton is written Guangdong, Peking is Beijing, and Tientsin is Tianjin. However, the old transcription systems are also used as well as the English versions. The mixed use of these systems causes many misunderstandings, especially concerning the names of places.

Hall (1989, 91) characterises Scandinavian cultures as low-context cultures. As stated above, the Finnish language belongs to another language family, but it must be remembered that Finland was under Swedish rule for 700 years, and Swedish is still the second official language (CIA World Factbook, 2004). The Swedish influence has probably pushed the Finnish communication style towards the low-context end of the continuum, but there is no clear scientific evidence of this.

The language barrier causes problems in communication between the Chinese and foreigners. Very few Westerners speak Chinese, and if they do, it is mostly Mandarin Chinese. Most Western managers are actually illiterate in China: they are not able to speak the language or to read it. Many of them use only English in communication, mainly because of the diversity of languages and the fact that learning Chinese is difficult and time-consuming. Many Chinese managers have been trained in Western countries and they speak good English, but the language skills of operative managers are weaker. Moreover, many of the employees in companies in the coastal area come from the middle, northern and western parts of China and thus use their own dialects.

Even when the Chinese do speak English or any other foreign language there are difficulties in understanding. The Chinese culture is high-context (Hall, 1989, 91): the Chinese use a restricted code, which does not convey everything in detail, but offers hints to the receiver (see e.g., Hall, 1989, 92; Gudykunst and Kim, 1997). Interpreting the restricted code is difficult without an understanding of the Chinese culture in general. For example, if something

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[11]   One meaning of Yue is music.

is 'inconvenient' it most likely means that either nothing is going to happen or it is impossible. The Chinese also have a tendency of speaking in exaggerated terms, which can be misleading. They use ambiguous and vague terms and 'polite escapes', thus avoiding responsibility and commitment. It is also a way of protecting the face. (De Mente, 1995, 8-9) 'Polite escapes' are known as white lies in the West.

The use of two different and difficult languages will most probably cause problems in managerial communication in a joint venture. The lack of a common language easily leads to the use of English or another 'common' language. Coping with language differences is of special interest in this study and is discussed in Chapter 7.

3.2.2   Religion and Philosophies

Religion gives the best insight into the internal and mental behaviour that gives rise to external manifestations. Management's task is made easier by knowing why people behave in a certain way, and not only how they behave. Religious thinking has a major impact on economic affairs in that religious holidays vary greatly among countries, and the economic consumption and economic role of women vary from culture to culture. Religious institutions may also play a significant role in the economy (Terpstra - Sarathy, 1991, 110-117)

3.2.2.1 The Legacy of the Reformation in Finland

In Finland, as in all the other Nordic countries, the dominating religion is Christianity, and more precisely Lutheran Protestantism (Worm, 1997, 74-75). Finland has had complete freedom of worship since 1923. Evangelical Lutheran and Finnish Orthodox are both state religions. (Fact Sheet Finland, 2004) In 2003 about 84% of Finns belonged to the Evangelical Lutheran Church, while the rest of the population subscribed to miscellaneous other religions, or were non-affiliates (Evangelical… 2004).

The Lutheran faith came to Finland in the 1520s. Michael Agricola promoted the Reformation in the country, recording the ancient traditions and religious rites and changing the religious practices. (Stevens, 1997, 125) Agricola is also considered to be the father of the Finnish language. The Christian religion is characterised by a belief in one God and the absolute Truth, as described earlier (Hofstede, 1994, 131-134). As a consequence, Scandinavian thinking is analytical and abstract compared with Chinese

thinking, for example, which is more synthetic and associative. Protestantism is characterised by a high degree of internalisation in religious matters. There is a direct connection between the individual and God, and faith is the only way to salvation. Spiritual and secular powers are separated. (Worm, 1997, 75; see also Trompenaars and Hampden-Turner, 1998, 51-52)

Finns readily argue that religion has no impact on business activities. However, it is the Christian legacy to emphasise equality and individualism, which drive competitive behaviour and personal achievement. It is interesting that Christianity was originally a collective religion promoting modesty: if you have two shirts, give one to the poor. Another force for individualism and equality is, as discussed earlier, the Greek democratic heritage, further strengthened by the French Revolution: liberty, fraternity and equality.

Finns use the Swedish calendar, which is based on the Gregorian calendar, and most holidays have a religious background. Holy days are not attached to certain days but move according to the religious schedule. The calendar is a mixture of religious events and traditional celebrations, such as Christmas and Easter. The names of the months and the days of the week date back to the Swedish and even the Viking era. (Vilkuna, 1985; Yliopiston Almanakka, 2005) There was an attempt to move holidays that fell during the working week to the weekend in order not to disturb business life, but this was not successful and the Christian holidays were restored to their old places in the calendar.

3.2.2.2 Religions and Philosophies in China

China is officially an atheistic country but allows religious worship if it does not threaten national safety or weaken the government's position. Chinese folk religions were practised by a fifth of the population in 2001, and Buddhism, Christianity, Islam and atheism play a minor role. (Tilastokeskus. Uskonnot, 2005)

Buddhism is the major philosophy in Tibet, and Islam in Xinjiang. Various forms of religion and philosophy, even some superstitious features, have become more and more popular among the Han-Chinese, and religions are more dominant in the southern parts of China. Confucianism and Taoism are of great interest all over the country (Huotari, 1995, 13-14)

There are certain features in Chinese philosophy that warrant more precise examination. According to ancient Chinese cosmogony, there are two complementary powers in the universe holding it together: *yin* and *yang*. These fundamental principles came from infinite space (The Supreme Ultimate) and they govern everything. Yin represents matter, creation and

night: it is female, dark, soft and solid. Yang, in turn, represents spirit, heaven and day: it is light, active, male and hard. (Markert, 1987, 34, Craze, 1997, 18-19; Idän uskonnot, 1997, 121-122)

Every aspect of nature is influenced by these forces. The balance between yin and yang (the principle of duality) is the basis of the world order, and together they form a yin/yang symbol known as 'tai qi', the perfect circle. Yin and yang are constantly changing. Neither of them is pure: both contain a small part of the other and they cannot exist without each other. This is why the symbol includes small dots of the opposite principle. The balance between these two forces determines the health of people, the success of companies and the functioning of governments. Qi is the universal energy of life that flows between the yin and yang polarities and all around us. Together they form Tao, which means the right way. (Craze, 1997, 18-19; Markert, 1987, 66; Idän uskonnot, 1997, 121-122; De Mente, 1995, 16-17)

Taoism and Confucianism developed at approximately the same time, about 550-480 B.C. in the era of the Zhou dynasty. There are differing perceptions as to whether Laozi, the suggested founder of Taoism, was a real living person[12] and a contemporary of Confucius (Kongzi). Confucius was born in 551 B.C. and died in 479 B.C.. A third great thinker and strategist, Sunzi, lived at the same time, about 2,500 years ago. All three developed rules and strategies for how people should live and how to govern a state or win a war. (Idän uskonnot, 1997, 92-143; Sunzi, 1999, 21-25)

The most famous book of *Taoism* is Daodejing, the Classic of the Way (Dao) and its Power. The concept of 'Dao' is ambiguous. The core of Taoism comes from nature and is said to be the principle behind all creation: it is perfect and refers to non-being. Non-being (wu wei) is different from doing nothing: it means that a person should not take unnecessary or unnatural actions. Things go their way without the interference of people. 'De' is often translated as force or virtue and flows from the world dao. This part of Taoism is related to the ancient world order, and to yin and yang. Taoism is close to the yin principle in emphasising passivity, gentleness and adaptivity. (Idän uskonnot, 1997, 120-122; World Mythology, 1996, 98)

Confucius was a bureaucrat who was discontented with the morality in his time. He started teaching how to cultivate virtue and how to govern the state through self-cultivation. Confucianism is not a religion, it is more like a collection of moral rules. Confucius emphasised harmony, hierarchy, correct behaviour, virtue, benevolence, filial piety, reciprocity and constant learning. No man had the right to rule others without cultivating himself first. Through investigation and constant learning it was possible to become sincere and

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[12]   There is a similar discussion about Jesus Christ.

honest, which was required in order to be a righteous and benevolent leader. (The Great Learning, 1999, 5-7) Confucius created the concept of a gentleman who is righteous towards people who are in a lower position and obedient to his superiors. This concept is described in the section on values in Chapter 3.2.3 below.

Respect for age is also part of the Confucian heritage, as the following quotation indicates (Analects, 1996, 14-47):

> Since the age of 15, I have devoted myself to learning; since 30, I have been well established; since 40, I have understood many things and I have no longer been confused; since 50, I have known my heaven-sent duty; since 60, I have been able to distinguish right and wrong in other people's words; and since 70, I have been able to do what I intend freely without breaking the rules.

The contemporary teachings of Confucius are based on Five Classics and Four Books[13] (Idän uskonnot, 1997, 92-96; The Great Learning, 1999; Analects, 1996; Huang et al., 1994, 73). Confucians were persecuted during the Qin dynasty in 221-207 B.C. and many books were burned. The teachings of Confucius were officially approved during the Han dynasty about 270 years after his death. Confucianism has maintained its position as one of the most influential philosophies in Chinese culture up to the present. (Idän uskonnot, 1997, 94) Confucian principles are further discussed in the sections concerning values and social organisation below.

Sunzi [also known as Sun Zu] became famous for his strategy book, *The Art of War*, currently known as 'the Classic of Warfare'. It has been translated into 27 languages and has become popular reading for business managers as well. There are, in fact, two books named The Art of War. The first one was written by Sunzi about 2,500 years ago. Sun Bin then elaborated on Sunzi's ideas and wrote his book under the same name about 160 years later, during the period of the Warring States. (Sunzi, 1999, 21-25)

According to Sunzi, a good commander is a 'Confucian gentleman': he is wise, trustworthy, benevolent, courageous and firm. Wars are won before they are started, and a true leader does not fight. Sunzi based his ideas on the Confucian principle of the importance of careful studying. (The Great Learning, 1999, 66; Sunzi, 1999, 3-25; Krause, 1995, 10-11) Sunzi's ideas are more reactive and focus on how to win a war or solve a problem, while the teachings of Confucius are more proactive: how to behave in order to avoid the problems in advance.

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[13]   Five Classics: The Book of Changes, The Book of Songs, The Book of History, The Book of Rituals as well as Spring and Autumn Annals. The Four Books: The Great Learning, The Doctrine of the Mean, Analects of Confucius and The Book of Mencius

Many Westerners have become familiar with a phenomenon called *feng shui*, the roots of which lie in the ancient Chinese world order and the Taoist tradition. Feng shui means the cosmic breath, literally translated as wind and water. It is not a religion, or even a philosophy, but is more like a collection of good advice on how to improve the environment. If buildings and the environment are harmonious, life is also in harmony. Some Chinese call this luck management. Feng shui has remained practically unchanged for about 3,000 years. (Craze, 1997, 1-45; Idän uskonnot, 1997, 138; De Mente, 1995, 95; Fang, 1997, 107)

According to feng shui principles, there is a living relationship between the cosmos and the earth. Every place or direction on earth has a positive or negative spirit influencing anything that is located or built on that site. Geomancy (divination by lines and figures), which has been practised in China since the Zhou dynasty (1030-256 BCE), is therefore very important in locating and orienting buildings and other structures according to ancient Chinese compass directions. (De Mente, 1995, 95-96) Western companies often face problems building highways and office buildings, for example, because of feng shui. However mysterious this tradition may seem, it should be taken seriously. Managers should be prepared for the visit of a feng shui master before deciding on the final location. (De Mente, 1995, 96; Tang and Ward, 2004, 26-27)

3.2.2.3 Proverbs and Mythologies Characterising Cultures

Chinese philosophies may sound odd to Western people, but if we look beyond the Chinese names into the core of the teachings we find several similarities with Western thinking. The teachings of Laozi are quite close to the teachings of Jesus Christ emphasising humbleness and modesty. The ancient world order is close to the modern scientific perception of the nature of things.

Proverbs are independent thoughts expressed in a concrete form. They have their roots in oral tradition and are universal, covering issues such as wisdom, youth, love and death. However, proverbial characteristics vary. According to the Chinese, proverbs are the salt of the language, or pearls of wisdom, and many are to be found in The Book of Songs from the ninth century B.C. and the philosophical books of Confucianism and Taoism. The Finnish language is also full of old sayings and proverbs. Seppälä (1984, 7-11) collected Chinese proverbs, which were translated directly from Chinese into Finnish: the resemblance of the literal translations to Finnish proverbs is surprising.

Proverbs reflect ethical considerations and morality. As late as in the 1950s Finnish children were taught to be obedient, and that they should be seen but not heard. These principles coincide with the Chinese perceptions of family hierarchy. The 1960s and 1970s saw a more liberal approach to the upbringing of children in Finland. It could be assumed that older Finns who follow the old traditions and codes of behaviour have less difficulty in China than the younger ones. However, it must be remembered that young people in China have been influenced by Western ideas mixed in with Chinese traditions and Maoist ideology for almost all of their lives now. Accordingly, younger generations from the East and the West may have more in common than they do with older generations in their own cultures.

A look beyond the written history to the mythologies reveals further similarities between Finland and China, for example, that world became from an egg and the first human beings were created or given birth by a female goddess.[14] (Chinese Gods, 1998, 18-23; Suuri myyttikirja, 18-23, 54-55; Chinese Mythology, 1996, 54-57; World Mythology, 1996, 88-91) The first Finnish human being, Väinämöinen was known as a great man who solved problems by singing and talking rather than by violence. Although a mythological character, Väinämöinen is widely seen as a role model for the ideal man in Finland: peaceful, diplomatic and wise. These so-called feminine traits seem to have a long tradition in Finland. The tales of Väinämöinen are collected in the national epic 'Kalevala', which is considered to have been significant in the formation of Finnish culture. 'Kalevala' has been translated into 50 languages, including Chinese. It is widely quoted in contemporary Finland and has inspired several composers, authors and painters. (Chinese Gods, 1998, 18-23; Suuri myyttikirja, 18-23, 54-55; Kalevala, 1940, first poem)

The resemblances between Finland and China are obvious. It is interesting how people who have lived thousands of kilometres from each other tell similar stories long before any known connections between the cultures exist. Perhaps the differences are not as big as we tend to think.

3.2.3 Values and Attitudes

Values and attitudes have been shaped over thousands of years in both China and Finland. Finnish written records began at a much later time than the Chinese records, but part of the tradition has been preserved in oral format, in

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[14]   According to another story first human beings came into existence from the dead body of a male giant. This story was told also by the Vikings.

poems, songs and proverbs. Values and attitudes are a mixture of religious beliefs, folk traditions, social codes of behaviour and education, as mentioned earlier. Some aspects of Chinese and Finnish values and attitudes are described in the following.

3.2.3.1 Equality versus Inequality

Equality and inequality in a society refer to whether individual persons have equal rights and responsibilities. *Nordic cultures* score low on power distance, according to Hofstede (1994, 26). This implies that Nordic people are quite equal. Parents treat their children as equals, and hierarchies in organisations tend to be flat and flexible. Anyone can participate in decision-making and express his or her opinions, even confront a superior. Privileges and status symbols are minimal. Equality shows in the use of first names, and as rather informal behaviour and dress code (except formal occasions). This sometimes leads to mediocrity, expressed thus: 'Do not think that you are better than we are.' (Worm, 1997, 77-79)

There are only small differences between groups and classes, and everybody should be treated equally. Nordic people tend to be more universalist than particularist, and deal-focused rather than relationship-focused. The same rules apply to everybody. The low power distance is accompanied by a low ranking on the masculinity index, which could be interpreted as overlapping gender roles and a more tender and caring attitude towards the weaker in the society. (Worm, 1997, 79; Trompenaars and Hampden-Turner, 1998, 39; Hofstede, 1994, 84) Men and women are also treated equally, although there are some exceptions to this rule. Finland was the second country in the world to give women the right to vote in 1906. Finnish women participate in working life more than their European sisters, and Government policies have encouraged women to work outside of the home. (Mole, 1998, 126)

Particularist cultures, such as *China*, always take the circumstances into consideration when judging people and their behaviour. Friends are treated better than strangers, and this involves bending the rules if necessary. (Trompenaars and Hampden-Turner, 1998, 31-37; see also Barnett et al., 1996, 1161)

The Chinese culture is contradictory in terms of equality: the Confucian emphasis on hierarchy on the one hand and the Maoist, communist ideology of equality on the other. Inequality in society is a necessity based on the Confucian philosophy and the Five Cardinal Relationships (wu lun). (The Great Learning, 1999, 62-63; Tang and Ward, 2004, 13; Huang et al., 1994,

45-47; Bond and Hwang, 1987, 215-216) The following quotation shows the logic of Confucian philosophy and also how he tried to teach the rulers of his time to govern the state (The Great Learning, 1999, 62-63).

> The most important relationships are five in number: rulers and subjects; fathers and sons; husbands and wives; brothers and; friends. The maintenance and improvement of these relationships depend on three virtues: wisdom, benevolence and courage. The way to practise them is the same. Some know these relationships by nature, others by learning, still others by hard work. Once they know, what they know is the same. Some practise these relationships naturally, others grudgingly. Others still are inspired by profit. Once these are practised, the results are the same. To be eager to learn indicates wisdom because it may eliminate stupidity. To practise what one knows indicates benevolence because it makes one selfless. To have a sense of shame indicates courage because it clears one of cowardice. A man who knows these points knows how to cultivate himself; a man who knows how to cultivate himself knows how to rule others; a man who knows how to rule others knows how to administer the state.

The essentials of Confucianism are that a man is defined by and exists through his relationships with others, that relationships are hierarchical and social order is based on people honouring the requirements of their role (Bond and Hwang, 1987, 216). The world is not in balance without these hierarchical relationships. However, it is important to remember that all relationships are reciprocal, not a one-way street. They are governed by 'li', rules for correct behaviour, originally meaning 'to sacrifice'. (Tang and Ward, 2004, 13; Bond and Hwang, 1987, 215; De Mente, 1995, 27) These relationships and rules are summarised in Table 3 below.

Table 3. The Five Cardinal Relationships and Rules for Correct Behaviour.
(adapted from The Great Learning, 1999, 35-36)

Superior	Subject
The benevolence and justice of the ruler	The obedience and respect of the subject
The love of the father	The childlike respect of the son (filial piety)
The fairness of the man	The obedience of the woman
The goodwill of the elder brother	The respect of the younger brother
The loyalty of the older friend	The trust of the younger friend

The core of the system (society, company) is the family and filial piety. Children are taught to obey their parents, and take care of them when they grow old. Blind obedience is not demanded in cases of violence or other unrighteous parental behaviour, although even in such cases open confrontation is not encouraged. Obedience, impulse control and the acceptance of social obligations are emphasised even in contemporary China. (Tang and Ward, 2004, 13-14; Pukkila, 2002, 46-48) Provided that everybody is doing his or her share, harmony is maintained. (The Great Learning, The Doctrine of the Mean, 1999, 40) The system is logical. Unfortunately the reciprocity is often forgotten and relationships are seen only as a hierarchy of superiors and subjects with no rights or liabilities.

Confucian philosophy is based on the concept of a 'superior man', a Confucian gentleman (The Great Learning. The Doctrine of the Mean, 1999, 84-85):

> Therefore a gentleman treasures his own inherent virtues and accumulates his knowledge, expands the way to cover everything and studies the way in its minutest detail. His learning is most profound and he practices the way of the mean. He acquires new knowledge by reviewing that of the past. He is honest and sincere, and practices all rites. In this way, he is neither proud nor arrogant when he occupies high posts and does not defy his superiors and act rebelliously when he is in a low position.

The tradition of respecting one's superior is further extended to managers in companies as well as to local and national authorities (Tang and Ward, 2004, 13-14). Although the rules of good behaviour have been considerably relaxed

and deviation from them is no longer heavily sanctioned, formalities still exist in contemporary China (De Mente, 1995, 27).

Huang et al. (1994, 46-47) discussed the complexity between Confucian inequality and the Maoist demand for equality. There are three assumptions that indicate that inequality is eternal: first, differences among people are everlasting and the division of labour cannot be avoided; second, people organise their hierarchic societies in which the division of labour exists; and third, competition is independent of human will. As long as there is a commodity economy, selfish motives and private profit will prevail. Chinese communist ideology pursues equality by building structures that promote equality, such as price control and a salary system based on position rather than achievement. If the price mechanism does not function (due to fixed prices), people use the 'back-door system' in order to acquire the items needed. This creates a need for networks. If production materials are not available on the open market, for example, a manager can either do nothing or try to 'open the back door' to get them. In that case, how well he/she manages the situation depends on the number and quality of his/her networks, friends and other people (see also De Mente, 1995, 80-81).

Although old traditions still prevail in China, values and attitudes are also changing. Yang (1987, 106-170) reviewed several studies and found out that individual achievement-orientation has increased in line with an increase in autonomy, for example. This also shows in the preference for individual relationships over collectivist relationships. Democratic attitudes are more common, and young Chinese are more extrovert and sociable: they prefer tolerance to perseverance and masculine attitudes to feminine.

As noted earlier, equality is a complicated question: according to the Confucian doctrine, two persons can never be equal. On the other hand, communism lays great emphasis on the equality of people. In the Nordic countries equality among people shows in the femininity, the short power distance and the focus on Christianity. It seems that both cultures consider equality important, but the means of achieving it are different. It is the government's rather than the extended family's task to look after the weaker and to provide equal opportunities for everybody to succeed in life in the Nordic countries. In China Confucianism emphasises benevolence, the need for the family to take care of the weaker, and the overall hierarchical structure: communism places this responsibility with the state.

Finnish culture is based on the Protestant concept of the *absolute truth*. This is taught in early childhood. Telling the truth overrides the possibility of hurting one's family members, friends and other close ones. Lying is not acceptable. This coincides with previous notions of universalism and

particularism, that family and friends are treated in the same way as strangers are treated, and no exceptions are made.

One of the Confucian principles is *virtuous behaviour*, which involves not treating others as one would not like to be treated oneself. This is like the Christian Golden Rule, but negatively phrased. Virtue also includes constantly educating oneself, working hard, not spending more than necessary, and being patient and persevering. Losing one's temper is taboo. (Hofstede, 1994, 165) A Confucian gentleman is sincere and honest, and does not deceive himself. Sincerity and honesty show on the outside: if someone is not sincere others will see through him or her. (The Great Learning, 1999, 26)

Virtuous behaviour overcomes telling the truth: it is better to maintain good relationships than to hurt the other party by revealing what may be very embarrassing details. This leads to ambiguous and in-direct ways of speaking.

3.2.3.2 Self-orientation versus Group-orientation

Finnish culture, just like the other Nordic cultures, is individualistic but not to the same extent as in the United States, for example. China, in turn, ranks very highly on the collectivist end of the continuum. (Hofstede, 1994, 54) Trompenaars and Hampden-Turner came to the same conclusion in their study. They argue that individualism and communitarianism follow the Protestant – Catholic division. The Calvinists made contracts with God and with one another, and they were personally responsible for these contracts. They approached God individually and sought justification through their own actions. Roman Catholics have been more collective in approaching God. Latin, Catholic and Asian cultures rank higher in communitarianism than the Protestant West, the UK and Scandinavia, for example. (Trompenaars and Hampden-Turner, 1998, 51-52) However, it should be remembered that one reason for the Protestant Reformation was the tradition of buying and selling indulgences within the Catholic Church, which could be seen as a highly individual and profit-seeking operation on the part of both the individual and the Church.

Worm (1997, 75-76) describes Nordic individualism as having strong female traits in that people strive towards self-realisation rather than self-promotion and self-centredness. They pay a lot of attention to working conditions and to their leisure time, and individual judgement, independence, humanity and self-development are encouraged.

Hofstede and Bond (1994, 163) argue that individualism in Asia, and especially in China, is understood in terms of tolerance of others, harmony, non-competitiveness, close and intimate friendships, and trustworthiness.

Collectivism includes filial piety (obedience of one's parents, honouring one's ancestors), chastity in women and patriotism. Collectivist cultures pay less attention to friendships than individualistic cultures because friendships are predetermined by the group memberships. This goes against Chinese behaviour to some extent, such as in starting co-operation: building friendships at the beginning of the process is very important.

3.2.3.3 Time Orientation and Attitudes towards Change

Finnish culture (Nordic culture) is strictly sequential (monochronic) in terms of time and schedules, and promptness is appreciated. All actions are planned in advance and any deviation is considered to be disturbing. Time should not be wasted, and this is also evident in the use of words: idle talk, or small talk, is not highly appreciated. Nordic behaviour is characterised as slow, quiet and non-aggressive. Chinese people generally speak more than Nordic people. (Hall, 1989, 19; Lewis, 2004, 55; Gesteland, 2003, 309)

Trompenaars and Hampden-Turner (1998, 128) argue that both Finnish and *Chinese* cultures are long-term oriented, and rank equally high in this respect. Bond agreed with this in the case of China (Hofstede, 1994, 166). However, Trompenaars and Hampden-Turner (1998, 128-129) demonstrate further that China is both past- and future-oriented, as suggested also by Fang (2003, 355). The Chinese tend to make decisions based on history, which stems partly from the Confucian concept of a gentleman: he acquires new knowledge by reviewing the past (Worm, 1997, 79-80; Trompenaars, 1998, 120-130; the Great Learning, 1999, 85).

The question of whether the Chinese culture is more sequential or synchronic is also a complex one. Gesteland (2003, 174, 309) argues that both the Chinese and the Finns prefer punctuality and schedules. Lewis (2004, 59) characterises the Chinese as cyclic rather than linear in their perception of time. They are very conscious of taking other people's time, for which they frequently apologise. Appointments are kept, but meetings can be extended until the topic under discussion is exhausted. More time is given to getting to know each other and to making friends, as well as to people who are considered to be friends or are otherwise important. (Lewis, 2004, 59-60)

As far as uncertainty avoidance is concerned, Finland ranks in the middle of Hofstede's scale, thus differing from Sweden and Denmark, both of which show weak uncertainty avoidance. Mainland China was not included in this study, and the uncertainty-avoidance dimension was not supported by the data in Bond's study. Hong Kong and Singapore show weak uncertainty avoidance, and in fact Singapore ranks the 'weakest' (Hofstede, 1994, 123). If strong

uncertainty avoidance implies the need for strict rules and regulations, Singapore and Hong Kong do not describe Mainland China. Both Finland and China are characterised by numerous laws and regulations. Detailed regulations are a legacy of Roman law (civil law), and the Finnish legal system is a mixture of civil law and Swedish law. China has adopted civil law rather than common law as the basis for the reformation of the legal system, but the Chinese legal system is in transition and it is now a mixture of custom and statute law. (CIA World Factbook, 2005) The laws and regulations covering foreign direct investments in China are introduced in Chapter 4.

3.2.4   Education

Education normally means formal training at school, but in this case it should be understood more broadly. It includes the process of transmitting skills, ideas and attitudes, as well as training in particular disciplines, and it is through education that the existing culture and traditions are transmitted to the next generation (Terpstra - Sarathy, 1991, 107-109).

Finnish children start comprehensive school at the age of seven, although pre-school education has been offered to children of six for some years. Compulsory education lasts nine years, or until the young people are 17 years old. Instruction is given in both Finnish and Swedish, and in the Sami language in Lapland. About 50% of each age group continues to the upper-secondary level, and almost all the others continue their studies at vocational institutes. The matriculation examination or graduation from a vocational institute gives the qualification to continue in higher education in a polytechnic or university. All education from comprehensive school to a doctoral degree, apart from in private institutes, is free of charge. (Korpela, 2004)

The Finnish education system has attracted worldwide interest. Finnish teenagers' skills in mathematics, science and reading were rated the best among 40 countries in the OECD's latest PISA study in 2003. According to this survey, the key success factor of the Finnish system is that it guarantees equal learning opportunities for everybody regardless of their social background. The focus is on support and guidance rather than comparison. (Korpela, 2004)

China is in the middle of a remarkable educational reform. The education system is based on the Education Law of September 1, 1995, which strictly follows the principles of Marxism, Leninism, Mao Zedong Thought and the theory of building socialism with Chinese characteristics. According to the law, all citizens, regardless of ethnic group, race, sex, age, occupation,

property status or religious belief, enjoy equal educational opportunities. The state shall also institute a scientific education system as well as a system of vocational and adult education, and encourage international exchange and co-operation. (Education Law, 1995, 1-28) Project 211 started in 1996 with a view to raising the quality of 100 Chinese universities [key universities] to an international level as top-quality research units. Financial support was assigned to the key universities, but they also had to prove their competence nationwide. (Kallo, 1997, 21)

China implements an education system that is divided into three categories: basic education, higher education and adult education (Education System, 2004). Basic education includes pre-school, primary, and regular secondary education. Higher education on the undergraduate level (Bachelor's degree) includes two-to-three-year junior colleges, four-year colleges and universities. Many colleges and universities offer Master's and doctoral programmes, and are also open to international students. Adult education overlaps all of the above three categories and is aimed especially at workers and farmers. Advanced radio/TV schools and universities have been established to promote adult education. (Education System, 2004)

The basic education reform has been implemented in most parts of the country and the goal of eliminating illiteracy among the young and middle-aged population has almost been reached. However, the new system requires vast amounts of financing. The Chinese government encourages private institutions, companies and organisations to direct financing to education. It has set the year 2010 as the goal for reaching the standard of the world's relatively developed countries. WTO access also requires a new reform in the education system. (China Embarks, 2000)

3.2.5   Social Organisation

This section describes the social organisation in the Finnish and Chinese contexts. Special emphasis is laid on the accordance of status and the Chinese concepts of face and guanxi. The above discussion on equality and inequality is closely related to these issues.

3.2.5.1 Social Classes and According Status

The key unit in *Finnish* society is the family, which includes only the father and mother and their unmarried children – the core family. Finns keep their private and public lives separate. Business affairs are not usually discussed in

private with the family, other relatives and neighbours, and being good business associates or colleagues does not mean being friends or spending free time together. This is what Trompenaars and Hampden-Turner (1998, 81-101) call a specific culture. What is also characteristic of specific cultures is directness in speaking, and they are thus also sometimes called low-context cultures. Specific cultures begin with the core issue, unlike high-context cultures, which tend to circle around the topic.

Finns accord status to people on the basis of their individual achievements, as in Denmark, Sweden and the USA. Achievement orientation correlates with Protestantism. Young people may be promoted to high positions in the organisation if their personal achievements are considered to be adequate in relation to the duties involved. Authority is based on the position and is not invested in the person. Salary systems often include bonuses and other incentives in order to encourage improved personal performance. Titles are used if they are relevant in terms of competence. Superiors are respected if they are effective in carrying out their responsibilities, but they are also quite as easily criticised if the opposite is the case. Managers fall into different age groups. (Trompenaars and Hampden-Turner, 1998, 102-118)

Kinship in *China* should be understood in terms of the extended family, including grandparents, cousins, uncles, even friends, student mates and so on (Terpstra and Sarathy, 1991, 119). The Chinese culture is diffuse in nature, i.e. family life and public life are mixed. Managers are involved in the lives of their subordinates even after working hours. Information is shared intensively between family members, colleagues, neighbours and other people who are considered to belong to the ingroup. (Trompenaars and Hampden-Turner, 1998, 81-101)

The Chinese accord status by ascription, i.e. it is based on age, class, gender and connections. Emphasis is on being, not doing. What is important is not who you are, but whom you know. Respect for managers is based on seniority and they are not confronted openly. They tend to be male, middle-aged and qualified because of their background. Titles and business cards, which indicate status, are used frequently. (Trompenaars and Hampden-Turner, 1998, 102-119)

Three large social groups characterise China: 1) party members and those who follow the policy of the Communist Party, 2) non-members (the great majority), and 3) the army. A smaller grouping is the village, which together with the village committees (street committees) have been given broad authority over the life of the people in terms of birth control and business, for example. (Terpstra and Sarathy, 1991, 120)

3.2.5.2 Social Networks, Friendships and Guanxi

Lewis (1993, 54-57; Lewis, 2004, 45-50) characterises *Finland* as a data-oriented culture. Finns tend to rely on formal data and written information instead of networks of people. Their networks consist of a relatively small number of family members, friends and colleagues. Prying and gossiping are not highly valued. Even business information is collected via formal routes rather than through informal connections, which are often considered unreliable.

As stated above, according to Confucian principles the family in *China* is the prototype for all organisations as well as for the state. The Five Cardinal Relationships form the basis of social organisation. If a man cannot govern his family, his friends cannot trust him, and if his friends do not trust him, neither does his superior. (Hofstede, 1994, 165; The Great Learning, 1999, 66)

The Chinese concept of relationships and power is based on the following factors: guanxi, li, renqing, mianzi and bao. Guanxi (relationships) refers to all social boundaries and to the power the person has over other people. Social status is essential. Having a network of relationships opens doors, including the back door (see the section on equality above). Guanxi is a dyadic relationship between people rather than organisations. It is beneficial especially to the weaker party of the dyad, and gives protection in an insecure society. Renqing (services) is a way of creating guanxi. Services must always be returned somehow. A person can create guanxi by helping another to achieve his or her objectives without demanding compensation: the compensation will come later as a returned service. (Hwang, 1983 in Bond and Hwang, 1987, 223-226; Worm, 1997, 124-144; Tang and Ward, 2004, 13; De Mente, 1995, 27-29, 80-87; Fang, 1997, 104)

Li, as mentioned earlier, are the rules for correct behaviour (also referred to as courteousness, etiquette, protocol, rites, propriety and ceremony) that govern relationships. They maintain the hierarchical order and harmonious interpersonal relationships. Li is also a way of expressing sincerity, which shows in gift giving, for example. It is observed in meetings as back-stage behaviour aimed at resolving the problems either before the meeting or after it. (Fang, 1997, 106; De Mente, 1995, 27; Bond and Hwang, 1987, 223)

Mianzi (face) means social honour. It is possible to give and to lose face. Continuous criticism, negative responses and embarrassing comments should be avoided. Saving someone from losing face creates guanxi. Bao (reciprocity) refers to the obligation to return all services, and allowances are expected. Reciprocity, in turn, creates guanxi. (Worm, 1997, 125; Bond and Hwang, 1987, 223-249) The face system is discussed in more depth in the following section.

The need for guanxi is related to the dilemma between equality and inequality in the Chinese society, as discussed earlier. People use their connections in order to acquire something that would otherwise be unobtainable. Hwang calls the parties engaged in a relationship the resource allocator and the petitioner. Interpersonal relationships can be categorised in three groups: 1) expressive ties between members of the family, 2) instrumental ties between temporary parties, e.g., the customer and a sales person, and 3) mixed ties between people who most probably play power games linked with guanxi. In the first group resource allocation is based on the need rule: those who are able to work take care of the others. The rule for social exchange in the second group is based on equity: the inputs and outputs of the parties need to be in balance: price equals the value of a purchased product or service, for example. In the third group people are said to have guanxi with each other if they share something in common: their birthplace, university alumni or work. The relationships outside a person's family are classified as mixed ties. (Hwang in Bond and Hwang, 1987, 223-224; see also Fang, 1997, 104)

When a petitioner asks for a favour from the resource allocator the latter first evaluates their relationship. The stronger the affective relationship between the parties is, the greater is the possibility that the petitioner will be given what he/she is asking for. There are several strategies he or she can use to increase his/her influence over the allocator. One of these is to increase the social interaction between the parties by visiting, gift-giving or issuing invitations to banquets. (Bond and Hwang, 1987, 223-224) If the parties have no previous connection, in doing this the middleman also becomes morally responsible for the success of the relationship. (Worm, 1997, 129; Bond and Hwang, 1987, 225)

Another strategy that is frequently used in influencing the resource allocator is face-work. The petitioner pays special attention to maintaining face as well as to enhancing the face of the allocator. The more skilful the petitioner is in influencing the allocator, the more willing the allocator is to accept the request. The interaction may include money, goods, information, status, service and regard. If the allocator decides not to grant the petitioner's wishes it may lead to both losing face and to a deterioration of the relationship. In order to soften a negative reply the allocator may say nothing that could be interpreted as a negative answer. Thus both parties will forget the request, and will also have a better perception of the nature of their relationship. (Bond and Hwang, 1987, 225-226)

The concept of guanxi is contradictory to some degree. There are differing opinions about whether it is based on true friendship or pure utilitarianism. Some authors see it as a utilitarian relationship and as mutual exploitation that

is quite apart from friendship, while according to others, friendships between parties are fundamental for establishing guanxi. Even the Chinese government sees guanxi as a threat in that responsibility towards the network exceeds responsibility towards the state. (see e.g., Worm, 1997, 127-130; Huang et al., 1994, 147)

In order to shed more light on the contradiction, the nature of *friendships* should be investigated. Huang et al. (1997, 119-121) distinguish between three kinds of friendship. First, there is friendship that is driven by human feelings and psyche: friends help each other without asking anything in return. This kind of friendship is pure and sincere, and it is a universal human trait, not characteristic only of the Chinese. The second type of friendship is about righteousness, which is a typically Chinese trait. It is the heritage of Confucius, who emphasised benevolence and justice. The third type emerged with the advent of commerce: it is established for self-interest with a view to gaining profit or some other benefit. This kind of friendship was considered to be immoral according to Confucian principles.

Huang et al. note further that the characteristics of Chinese friendships are the following:

- being loyal
- paying a debt of gratitude
- being honest
- being as good as your word
- not embracing Buddha's feet in your hour of need

Benevolence, righteousness, propriety, wisdom and fidelity are deep-rooted principles in Chinese society. Fidelity is special to friendships. It encompasses loyalty as well as debts of gratitude, honesty and keeping one's word. Even though friends are assumed to help each other at any time without consideration of self-interest, favours granted should be paid back with interest. Friends also keep in contact with each other frequently, not only when they need a favour. One should be able to rely on the word of a friend, and people who use fine words without matching them to their actions are viewed as unreliable. Thus the Chinese trust the word of friends more than that of a formal contract. (Huang et al., 1994, 122-124) If Westerners insist on a written contract, it could be understood as distrust towards their Chinese partner.

The notion of 'true friendship' described above is also to be found among other nations. The question is how this pure and selfless friendship turns into a utilitarian relationship that is also called friendship. Huang et al. (1994, 143-145) explain the change by referring to the change in Chinese values. Money and profit are no longer seen as evil, righteousness and profit can co-exist, and a gentleman can pursue both simultaneously. Competition, profitability and

efficiency are blending in with traditional thinking, provoking a change in the value system. The mix of the old and new systems is called 'clan benefit'.

> The 'clan benefit' implies that a group is typically organised by relatives and friends to form a network of friendship and mutual support. If the traditional web of association was based on human feeling, conviction and loyalty and referred to as an effective friendship group, then the new web of association emerging today is based on money, power, benefit and friendship and is called a network of friendship and benefit.

The basis of the new concept is the mutual exchange of benefits, which strengthens the relationships. Characteristic of the new web is that it contains several inner circles but does not have a core. Groups are bound together by mutual confidence, tacit understanding and reciprocal benefits. The higher the person is in the circles, the more the friendship is directed towards him/her, and the lower the position, the more active the person is in exchanging benefits. This brings us back to the notion mentioned earlier that people use their position in the network in order to acquire something they are not able to get by themselves. Favours are most commonly bartered, but sometimes money is also used. If the person wanting the favour does not have what is asked in return, he/she will look elsewhere in the network for someone who can help. Thus fulfilling the demand for reciprocity often involves several people and is not necessarily bilateral. Many networks are local, although some of them have expanded nationwide, even worldwide, such as the Chinese overseas. (Huang et al., 1994, 146-147)

Worm compares guanxi with Nordic networks. Chinese networks seem to contain much more exchange of information than those in the Nordic countries, which are created between organisations not people. According to Worm, trust and guanxi are inseparable (Worm, 1997, 130-131), but there is a distinction between Nordic networks and Chinese guanxi in terms of trust. It is built in the Nordic countries among the members of the network through co-operation and commitment, while in China mutual trust is a prerequisite for engaging in a relationship. Building trust requires getting to know each other, i.e. gaining as much information as possible and building friendships.

Without creating guanxi it is very difficult for a Finnish manager (or any foreign manager) to approach and proceed in the Chinese business world. A foreign manager should even establish his/her position in Chinese society at the planning stage. This can be initiated by using existing connections such as middlemen, as discussed earlier. Even normal business routines, such as delivering goods in time, may be difficult due to inefficient bureaucracy, for example, and good connections are needed to solve the problem, preferably in advance. However, connections should be used only for establishing legal rights and the people in the network should only use legal methods to help,

otherwise all parties are subject to considerable risk and official sanction. The difference between legality and morality must also be taken into consideration. The activity in question may be legal in China but considered immoral by foreigners (e.g., eating dog meat), or the other way round: it may be against Chinese laws and/or morality but fully accepted abroad. Moral conflicts need to be handled with care and mutual understanding as far as possible. Building guanxi only on the national level is not sufficient due to the considerable importance and influence of the local authorities. (Worm, 1997, 129; Bond and Hwang, 1987, 225; Huang et al. 1994, 149)

3.2.5.3 The Face System

The concept of face has been mentioned several times already without deeper discussion. Face is interpersonal, thus differing from guilt and self-respect. One can feel guilty without other people knowing about it, but face is always related to the perceptions of other people. Individualist cultures, such as Finland and other mainly Protestant countries, are said to be guilt-focused. Guilt is seen as an intrapersonal orientation and behaviour is evaluated against a person's own standards. Collectivist cultures, such as China, are described as shame-focused. Shame is social and derives from the breaking of social norms and rules. Confucianism emphasised harmony in relationships and control in terms of following the rules for correct behaviour was exercised through social sanctions. (Worm, 1997, 145-147; Cheung, 1987, 205-206)

Although the face system is a universal phenomenon, it is more critical in China than in more individualistic cultures. There are two concepts of face in the Chinese culture, *lien* and *mianzi*. Mianzi refers to personal reputation and success achieved in life, or social prestige. Having mianzi is not imperative, although it is desired. Lien [also spelled lian] is the confidence others have in the moral character of a certain person (being upright and fulfilling obligations no matter what the cost). Everyone has lien by birth. It is possible to have lien but not mianzi, i.e. to behave as a decent human being but not achieve success and prosperity in life. Lien cannot be given by others. Face-work in Chinese society can be seen as front-stage behaviour, i.e. a person behaves differently in front of people from outside the family (a mixed tie) than with family members (expressive tie). Behaviour within the family is called backstage behaviour and it is assumed to be more authentic than front-stage behaviour. Conflicts within the family are not discussed in front of outsiders, and achievements are openly brought front-stage. (Bond and Hwang, 1987, 245, 249; De Mente, 1995, 59-60; Worm, 1997, 147-149)

There are six categories of face behaviour. *Enhancing one's own face* means showing off the most appreciated qualities of oneself and in a better light than actually is the case (Bond and Hwang, 1987, 246). It could be called impression management. However, it must be remembered that the Chinese value honesty and sincerity. Too exaggerated an appraisal of one's qualities or connections might lead to mistrust on the Chinese side if the reality does not meet the expectations.

Enhancing another's face involves presenting compliments, gift giving, confirming opinions or carrying out other activities with sufficient credibility and spontaneity. When the petitioner aims at influencing the resource allocator by advancing his/her prestige, the allocator may be willing to reciprocate and enhance the face of the petitioner as well. Thus both parties are in a better position in relation to other people than before. (Bond and Hwang, 1987, 246) This easily leads to a 'club of mutual flattering', which, at least for Finns, is quite difficult. As discussed earlier, Finns tend to use a minimal amount of words and understated rather than exaggerated expressions.

Losing face can have serious consequences for a person if he/she loses moral face, or lien. Society sees this person as having no face, in other words as no longer having any claim to be a person. It causes uneasy feelings, such as embarrassment, shame or shyness. Both lien and mianzi can be lost. The negative impact and shame is normally extended to the whole family, and in order to avoid this family members tend to exclude the person from their inner circle. (Bond and Hwang, 1987, 246-247; De Mente, 1995, 59, Worm, 1997, 147-149) When all connections are broken in a society that is characterised by tight relationships, mutual dependence and the lack of a social-security system, it is very difficult to continue living in it. For this reason it is often said that losing face is worse than death.

Hurting another's face occurs if the resource allocator rejects the petitioner's request for a favour, especially if the allocator ranks lower in the social hierarchy. Careful evaluation of one's position in relation to the resource allocator is therefore essential so that the probability of receiving a negative reply can be evaluated and withdrawal can take place without losing face. If the allocator accepts the request he/she gives face to the petitioner, i.e. his/her face is enhanced. (Bond and Hwang, 1987, 247, Worm, 1997, 150) Foreigners easily hurt the Chinese unconsciously because of a lack of understanding of the concept of face (Worm, 1997, 156).

A person who has lost face can take various *face-saving* actions. If the person him/herself is to blame, these actions might include apologising, terminating the face-losing behaviour, explaining the situation that led to the action, and working hard. In the worst case the person will find no alternative to committing suicide. If the loss of face is the fault of someone in the inner

circle the damage can be rectified by indirect expressions of complaint, for example. If the person is considered an outsider, the action may take the form of direct and open quarrelling or fighting back. If none of these actions is possible, the individual could react defensively, such as by devaluing the protagonist or the seriousness of the event, or pretending that nothing had happened. (Bond and Hwang, 1987, 247-248)

Saving another's face is important in order to preserve the social hierarchy. The tendency towards face-saving is expressed as the reluctance to criticise others, for example. If it cannot be avoided, moderate and indirect language is used. If the resource allocator refuses a favour, he or she could reduce the negative impact by giving explanations for the rejection, suggesting other solutions and compromising, for example. (Bond and Hwang, 1987, 248; De Mente, 1995, 57, Worm, 1997, 150-151)

Worm (1997, 152-162) compares Scandinavian and Chinese concepts of face. He argues that, although the Chinese are more concerned about face, the difference lies in the different wording: Scandinavian concepts such as self-esteem, ethics, reputation and prestige cover the Chinese lien and mianzi. Both lien and mianzi are important in both cultures, but their value differs. Guilt is seen as more important than shame in Scandinavia, while both self-esteem (lien) and the respect of others (mianzi) are important in China. Foreigners use the face system mainly negatively (to get rid of Chinese employees), or ignore it. Those who use it positively are more experienced people who have been working in Asia before. According to Worm, a typical reaction of Chinese people to losing face is to shut themselves off, to avoid the foreigner, or to talk to him/her as little as possible. The Chinese perception, in turn, is that foreigners should understand the concept of face otherwise they will not get anywhere. Sensitivity to other people's reactions is imperative. The Chinese also aim at maintaining superficial harmony by not confronting foreigners openly. They seem to follow the instructions of the foreign managers, but conduct operations in their own way.

3.2.5.4 Banquets as a Form of Socialising and Making Friends

The most common way to get to know each other and make friends in *China* is by eating together. The Chinese even greet each other by asking, 'Have you eaten?' rather than, 'How are you?' (Huang et al. 1994, 195-197; Pukkila, 2002, 122-123)

One of the best ways of creating guanxi and making friends is to invite people to a banquet. There are banquets for every occasion: welcoming banquets, personal and official banquets, governmental banquets, company

banquets, factory banquets and farewell banquets. Foreign guests are treated like royalty and the tables are full of food. A banquet is used as a bridge to bring people closer to each other and to establish a relationship. An invitation to dinner is a sign of being accepted and considered a good friend. Business affairs can be more easily handled at a banquet table. It is not uncommon for the Chinese to suggest having lunch or dinner at a critical phase in the negotiations, or to invite all relevant parties to a banquet. Refusal to participate may lead to a loss of face on both sides, and an invitation should not be ignored, belittled or rejected. (Huang et al. 1994, 201-203; De Mente, 1995, 171-172) It is easier to discuss problems and to change attitudes in a more favourable direction in a friendly atmosphere. In situations of dispute it may well be worthwhile for a foreign manager to arrange a banquet instead of calling in a lawyer. Western managers who have been invited to a banquet are expected to reciprocate.

There is a Chinese saying that people drinking wine together are establishing a friendship. Wine is an inseparable part of the banquet, although the Chinese do not drink alcohol to the same extent as Europeans, for example. If the most famous drink, Maotai, is served, it is the highest honour. Toasting is common. 'Ganbei' is often interpreted as 'Bottoms up', but it is acceptable to take only a sip, at least after the first toast. Refusing a toast is impolite. (Huang et al. 1994, 210-211; De Mente, 1995, 208)

In *Finland, too,* business partners are sometimes invited to lunch or dinner at a restaurant, or at the company's summer cottage and sauna (Mole, 1998, 127). The difference between Finnish and Chinese business lunches is that in Finland each person has their own portion. It is not possible to share and taste all courses unless the lunch or dinner is organised as a buffet. Even then, discussion and socialising are disrupted as people come and go between the dining table and the buffet. Chinese lunch or dinner is more collective.

3.2.6   Political Life

A brief description of the political systems in Finland, as part of the European Union, and China is given in this section. One of the preliminary assumptions in this study is that politics plays a major role in Sino-foreign joint ventures, and thus also influences managerial communication.

3.2.6.1 The Political System in Finland

The foundations of the political system in Finland and in other Scandinavian countries (Sweden, Norway and Denmark) lie in individualism, egalitarianism and humanity. Individualism and egalitarianism were described earlier. Parliamentarianism and democracy are deeply rooted, and the system is a combination of private business life and a strong labour movement. The labour market is controlled by employer and employee organisations, and not by the state. The social-security system enables individuals to be independent of family, neighbours and friends, which distinguishes the Nordic model from the Chinese system. (Worm, 1997, 80-82)

The social organisation in Finland and the other Nordic countries is built around the nuclear family, and the concept of the extended family does not apply except in some special religious groups. It is the state's obligation to take care of individuals. Public services, such as education and health care, are financed from tax revenue. How to maintain the present level of social security has become a critical issue in Finland during the past few years. Kinnunen (2004, 101-106) argues that, due to the ageing population, the relatively high unemployment rate and the increase in public expenditure, the financial base of the Finnish social-security system is in danger of collapse. Improved public productivity and an efficient fiscal policy are needed in order to maintain the welfare state.

According to Worm (1997, 80-82), Scandinavia (including Finland)

> is characterised by high incomes and a well-educated, but expensive labour force which forces industry either to invest in advanced technology, or to move less advanced production processes to other areas of the world and then sell know-how.

The globalisation of Nordic enterprises began in the late 1980s, showed a decline at the beginning of the 1990s, and has grown rapidly since the mid-1990s (Larimo, 2003, 791). The globalisation of Finnish firms has become a hot discussion topic during the past few years as the transfer of production to low-cost countries, generally referred to as the China phenomenon, has been seen as both negative and positive. On the one hand, the threat of losing jobs creates negative attitudes, while on the other hand lower prices and maintaining at least part of the operations in the home country balance the situation.

In fact, the political system of Finland (and, to some extend of Sweden and Denmark) should be investigated as part of European Union politics. Denmark joined the EU in 1973, Finland and Sweden in 1995. Norway and Iceland remain outside, but are members of the EEA. The European Union expanded in 2004, and now has 25 member states with a total population over 450

million people. Further enlargement is in progress. (Europa, 2003; Bright, 1995, 3)

The values of the EU are introduced in as far as they serve the purposes of this research. The new Constitution[15] is founded on the following values: human dignity, liberty, democracy, equality, the rule of law and respect for human rights, including the rights of people belonging to minorities. The member states are characterised by pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men, and respect for these values is a prerequisite for access to the EU. Non-respect, in turn, may lead to suspension of the rights given to the Member States. References to human dignity, equality and the rights of minorities, as well as the characterisation of values, were new and did not appear in the old Treaties. Special attention is paid to safeguarding and enhancing the European cultural heritage, i.e. respecting its cultural and linguistic diversity. The protection of children's rights on an international level is also included: the EU promotes these values in its relations with the rest of the world. (Constitution, 2004)

These values coincide with the Nordic (Finnish) values described above. The legacy of the ancient Greeks (Stevens, 1997, 4) and the French Revolution, i.e. liberty, equality and democracy, was introduced as the foundation of the European, and more specifically the Nordic, value base. These values have now been further strengthened by the Constitution. The future will show how well the new EU-25 is able to put this into practice[16].

The powers of the EU over its Member States are divided into three competence areas: 1) exclusive competence, 2) shared competence and 3) supporting, co-ordinating or complementing competence. In exclusive-competence areas the EU has the right to legislate and adopt legally binding acts, and these areas include the customs union, competition rules and the monetary policy of the Member States who have adopted the euro. Union regulations have direct legal force in each member state. Directives set out the principles of legislation, but leave space for implementation. In areas of shared competence a Member State may exercise its powers if the EU does not, while in the third area EU influence is mostly in the form of financial aid, and does not involve legislation or decision-making. (Constitution, 2004, Stevens, 1997, 6)

EU membership has had a significant impact on Finland and its foreign relations. Finland is part of the monetary union and uses the euro as its currency, thereby differing from Sweden and Denmark. Legislation is

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[15] The Constitution was signed on 29 Oct 2004 but it requires the ratification of the Member States. If ratified, it will come into force on 1st Nov 2006. (Ratification of the Treaty, 2004)

[16] France and the Netherlands voted against the Constitution in spring 2005.

harmonised, or is being harmonised, although some national laws and regulations will remain. Finland is part of the customs union formed by all 25 member countries, which promote the above-mentioned freedoms, and as a result applies EU laws and regulations concerning trade with non-member countries. Other areas, such as its common foreign and security policy, are under constant discussion and decisions are made unanimously. (Constitution, 2004)

3.2.6.2 The Political System and Reforms in China

The major changes in the *Chinese* political system during the past one hundred years have been the following: the collapse of the imperial dynasty (Qing dynasty) and the establishment of the Republic of China in 1911, the establishment of The People's Republic of China by Mao Zedong in 1949, and the reform and open-door policy established by Deng Xiaoping in 1978. The open-door policy started an enormous modernisation[17] of the Chinese economy after the years of Mao's Cultural Revolution. Deng's policy opened China up to the outside world and facilitated its rapid economic growth, mainly through government incentives such as legal and fiscal reform as well as allowing foreign investments. (Pukkila, 2002, 115-117; De Mente, 1995, xiii; Ren, 1999, 92-96)

The reform policy was complemented by an open policy. Foreign technology and capital were needed to facilitate modernisation. The major incentives were the joint-venture law (1979), the establishment of Special Economic Zones (SEZ) such as Shenzen and Xiamen, increasing the autonomy of the provinces, and the introduction of tax benefits. The position of the state-owned enterprises (SOE) and their employees weakened during the modernisation period. They could not compete successfully with the modern foreign-capital enterprises. The government[18] allowed the inefficient SOEs to continue in order to avoid the social problems that would have been inevitable if they had gone bankrupt. In the absence of an adequate social-security system, the SOEs took on health-care, pensions, housing, child-care and other responsibilities. The collapse of this system would have been too expensive and difficult to handle. (Siika, 1999, 2-4, 59; Worm, 1997, 59)

The fiscal reform was adopted in 1980 with a view to decentralising power, yielding profits to lower levels of government, and increasing the autonomy of

[17]   Deng's reform policy is known as the Four Modernisations: agriculture, industry, science and technology, as well as defence (Worm, 1997, 58).
[18]   Worm extensively studied types of Chinese enterprises, their management and the influence of Party politics (Worm, 1997, 57-71).

the 16 provinces. The reform allowed greater independence in terms of balancing provincial budgets, and an increasing amount of tax revenue was returned to the provinces. (Ren, 1999, 92-96) China also adopted a strategy called 'one country, two systems' in 1984. This announcement was originally Deng Xiaoping's assurance to the people of Hong Kong of maintaining its autonomy and special rights. A similar agreement was reached with Macao in 1999. The Taiwan question is still open. (Siika, 1999, 25)

The Chinese government is continuously using tax and other incentives in guiding foreign investments, the development of its central and western provinces, and the modernisation of its state-owned enterprises. As a result, China has become the fastest growing economy (PRC Economics Statistics, 2005) and the number-one destination for foreign direct investments in the world (World Investment Report 2004, 19). By 2004 the overheating of the economy had become a major problem, but in 2005 the growth in GDP had slowed to 8.3% from 9.5%. The inflation rate has also decreased significantly since mid-2004. At the same time, inequality is rising in terms of income distribution. (China Quarterly, 2005)

As described above, political life is an inseparable part of business operations in China. Given the dominant role of the Communist Party it is necessary to understand its impact on the management and operations of Chinese firms. The political system is characterised by a hierarchy that has its roots in Confucian philosophy. The administration consists of the Communist Party, the state government and the army. These three levels are further divided into five lower levels, centre, province, prefectorate, county and village. It is important to know the status of an official when negotiating a contract because the decision-making power and the overall authority differ on each level. All five levels have administrative organisations that deal with party operations, the state government and the army. There are also several unofficial channels linking various levels and experts together on a more comprehensive basis. (Siika, 1999, 39-44; Koskiniemi, 1997, 89-93)

What is significant in the Chinese administration is the sovereignty of the Communist Party, and especially of the party leader, who actually makes the biggest decisions and rules in the country. A change of leader often results in a change in politics as well. However, even if the leader has officially changed, the former leader often influences decisions 'behind the scenes', as Deng Xiaoping and Jiang Zemin did. Due to the complexity of the official and unofficial organisation it is difficult for a foreign business manager to identify all those involved in the decision-making. The involvement of several authorities also makes decision-making rigid and time consuming, but on the other hand decisions can be tailor-made for a foreign company. The existence

and use of guanxi should also be taken into consideration. (Siika, 1999, 47-48; Worm, 1997, 58; Koskiniemi, 1997, 94-97)

The Chinese public service, i.e. the cadre system, was also reformed in the 1990s on the initiative of Deng Xiaoping. The old system was considered too dependent on changes in politics and thus unsuitable for the new market-oriented economy. The administration was also overstaffed due to the prevalence of lifelong employment, and the educational level of the senior leaders was low. Furthermore, the old cadres, especially in the less developed areas, started to resist Deng's reform policy. (Mielonen, 2000, 152-176; Siika, 1999, 58)

The aim of the reform policy was to separate politics from the state administration, as well as to replace the old cadres with young, well-educated and professionally skilled personnel. Life tenure was abolished, holding several positions simultaneously was prohibited, and the number of jobs was reduced. An obligatory basic level of education and competition in the form of a civil servants' examination were prerequisites for recruitment and selection, qualifications were evaluated and work was inspected. One of the most significant changes was that individuals were given the right to sue a government official in an administrative court. (Mielonen, 2000, 152-176)

The Constitution of the P.R.C. was established in 1982 and superseded three earlier state constitutions from 1954, 1975 and 1978. The Constitution is under the control of the Communist Party, and was therefore amended according to the changes in Party politics in 1988, 1993, 2000 and 2004. (Constitution of P.R.C., 1982; China's Constitutional Framework, 2004; Constitutional Amendments, 2004) It defines the P.R.C. as a socialist state under the people's democratic dictatorship led by the working class and based on the alliance of workers and peasants. (Constitution of P.R.C., 1982; Constitutional Amendments, 2004) It emphasises equality of all nationalities and discrimination is prohibited. The status of the non-state sector has been expanded and upgraded, private property is protected, human rights are safeguarded and a social-security system has been established. Special Administrative Regions (SAR) such as Hong Kong have representatives in the National People's Congress. (Constitutional Amendments, 2004)

The political rhetoric emphasises the equality of the people. Both the EU (including Finland) and China aim at giving people the power of determining the affairs of the state (or community), although the means of doing this differ: the P.R.C. emphasises dictatorship and the EU and Finland democracy. The future will show how well these objectives will be achieved.

3.3   Stereotypes of Finnish and Chinese Managers

This section introduces stereotype pictures of Finnish and Chinese managers as communicators, and ends with a discussion of the potential cultural clashes in managerial communication. The stereotypes as well as the anticipated problems are used in the empirical part of the study in order to show in what respects the JV managers behaved according to the stereotype and in what respects they did not.

3.3.1   Finns as Communicators

Hall (1989, 91) characterises Scandinavia as a low-context culture in which most of the information is in an explicit code, i.e. in words. Finns in particular are regarded as frank, sincere and honest communicators who are not very good at diplomacy (Ekwall and Karlsson, 1999, 27; Keinonen, 1991, 31). They use words sparingly and are comfortable with silence. If confronted they speak even less. The seriousness and silence can make them difficult to approach. The Finnish negotiation style is straightforward and succinct, the aim being to reach decisions quickly. Finns talk directly without exaggeration or understatement, and support their message with facts and figures if possible. If something is said once, it should be enough. The extensive use of words may be seen by them as a smokescreen to cover a hidden agenda (Laine-Sveiby, 1991, 17-18, 128; Gesteland, 2003, 308-311; Lewis, 2004, 100-101), while Finns' economy with words may be partly due to how they perceive the surrounding world and form pictures in their brain. They pay more attention to characters and relationships between characters (people) than the Swedes, for example, who are interested in time, place and movement. It is not so important for Finns to justify arguments by creating links to time and space, and this in turn leads to taciturnity. (Ekwall and Karlsson, 1999, 27-47)

   Finns are members of a reactive and listening culture. They are good listeners, rarely initiate discussion and do not interrupt the conversation. They wait a moment before responding and give very little feedback. (Lewis, 2004, 42-49) People do not talk over each other, and Anglo-Saxon-style interruptions are considered to be impolite and disrespectful. The Mediterranean style of talking simultaneously is considered even more incomprehensible. Titles are not frequently used and first names are adopted at an early stage in the negotiations. Finns are ready to admit to a lack of skills in small talk: as mentioned above, they perceive idle talk as a waste of time. All

conversation should have a deeper meaning, and small talk is often regarded as nonsense and superficial. (Mole, 1998, 125-126; Lewis, 2004, 42-49)

Non-verbal language is limited to the minimum. Finns are not very active in using their hands and other body movements in communication. They keep quite a distance when talking to another person, and find standing too close uncomfortable and intrusive. The dress code is quite casual. Dark suits are mostly used at official occasions such as formal dinners and funerals. (Mole, 1989, 126)

Lewis characterises Finns as a contradictory nation. They are introverts who are eager to communicate, but easily undervalue their own language skills (Lewis, 2004, 270). Their skills are quite high, in fact, because the Finnish education system guarantees that most Finns learn at least two other languages in addition to their native language. These languages are mostly English and Swedish, but also include German, Russian, Spanish and French. (Gesteland, 2003, 308) Lewis (2004, 270) further claims that Finns protect their privacy and are independent, but are reluctant to express their opinions in the international arena. They behave like Westerners but are 'face' conscious. They are suspicious of exaggerated expressions and overemotional behaviour. They admire calm and cool behaviour, but can be very talkative and expressive under the influence of alcohol.

The contradictory behaviour of the Finns can be partly attributed to their history. Being under Swedish rule for 700 years and under Russian rule for another hundred years has left its marks on their self-image. Finnish people are a mixture of East and West. The status of not belonging to an independent nation easily leads to the undervaluing of skills and achievements. This is especially evident in Finnish-Swedish communication in which images of superiority and inferiority easily develop, although the situation is sometimes the reverse, i.e. Finns are superior in the relationship. (Vaara et al., 2005, 618-620; Laine-Sveiby, 1991, 14-15) On the other hand, having been able to preserve the Finnish language and their cultural heritage is what Finns are proud of. Furthermore, during the 800 years of foreign rule they were very international as they, or at least the leaders of the country, also had to communicate in Swedish, Russian and French, which was used in the Russian Court. The university law of 1937 secured the preferential status of the Finnish language over Swedish in the education system. After World War II, or more precisely the Continuation War, Finland had to resettle over 420,000 Karelians elsewhere in Finland (Meinander, 1999, 142-143, 246), which efficiently mingled the more talkative Finns from the eastern parts of the country with the quiet and more reserved inhabitants along the western coast. The notion of the silent Finn is thus not completely valid, but foreigners still tend to be surprised when meeting one who is talkative. (see also Lewis, 2004, 270)

The stereotypical Finnish communicator is a quiet and honest person who is able to speak about business affairs in great detail but feels uncomfortable using small talk. Finns tend to give a lot of facts and figures to support their points of view. They are described as being low-context in communicating due to their sparing use of words. They are also said to be rude, and to neglect giving detailed explanations in order to clarify their meaning. Focusing on people and relationships rather than on time and place positions them, in turn, towards the high-context end of the continuum.

3.3.2   The Chinese as Communicators

Chinese people are at the high-context end of the Hall's (1989, 93-101) continuum. High-context communication is considered more efficient than low-context communication because it takes into consideration what people already know: not everything needs to be said. Part of the information is already in the receiver and the situation, and only minimal information is transmitted in the message.

The Chinese discuss several issues simultaneously and can spend a lot of time on any particular one. They are both slow and tactical in communication, especially in negotiations (Worm, 1997, 187-191), and may exploit the impatience of Western negotiators by prolonging matters. A long time is spent in making acquaintance and building trust among the participants before the actual negotiating begins. Through small talk the Chinese try to collect as much information about the other party as possible. They also play the 'shame game', i.e. they try to make the other party feel ashamed about something and give up. They may also try to put the blame for the problems on the opposite side. The Chinese are masters at using psychological tools and keeping others under pressure, such as by referring to potential problems from the Chinese government's side. This strategy leaves the other party defenceless and unable to operate freely. (De Mente, 1995, 110-112)

Fang (1997, 250), in a comprehensive summary, described a Chinese negotiator as a blend of 'Maoist bureaucrat', 'Confucian gentleman' and 'Sun Tzu-like strategist'. They are capable of changing their approach or strategy from emphasising government regulations to the Confucian style of polite discussion, simultaneously seizing the moment to obtain a favourable result in the negotiations.

In sum, group thinking has a long tradition, and the Chinese look for consensus among participants. They are indirect in communicating and shun criticism or open confrontation in order to avoid losing their own or hurting somebody else's face. They may use exaggerated language, but at the same

time they expect honesty and sincerity. Building guanxi can lead to appraising the other person's qualities, and the diffuseness of relationships means that private issues and company affairs are widely discussed with family and neighbours. They might also try to influence the decision-makers in order to promote the career of a friend or family member. Gossiping and spreading negative rumours about other people work in the same direction.

The stereotypical pictures of Finnish and Chinese managers as communicators are presented in Figure 6 below.

Finnish manager		**Chinese manager**
Individualist		Collectivist
Achievement oriented		Ascription oriented
Universalist	Motivating	Particularist
Monochronic		Polychronic
Femininity	Negotiating	Masculinity
Neutral		Neutral
Low-context	Dispute	High-context
Direct communication		Indirect communication
Short power distance		Hierarchical
Honesty important		Face important

Finnish Country Specific Features	**Chinese Country Specific Features**
Small area	Large area
Small population	Large population
Finnish language	Chinese (putonghua)
Industrialised country	Developing country
Good infrastructure	Infrastructure under construction
Low government influence	High government influence
Private companies dominate	State-owned companies dominate

Figure 6.   Stereotypes of Finnish and Chinese managers as communicators.

The only similarity in the stereotypes is in neutral behaviour, i.e. neither Chinese nor Finnish communicators show their feelings openly. Given the opposing characteristics it could be assumed that joining forces in a joint venture and merging two management cultures will evoke many problems in communication. These potential problems are discussed in the following section.

3.3.3 Potential Cultural Clashes in Sino-Finnish Managerial Communication

Transferring new technology to another country may cause problems purely due to language difficulties: there is no common language and the use of interpreters is time-consuming and difficult. Technological details do not necessarily translate into the other language due to linguistic stickiness. Indirect and direct ways of communicating can easily clash, and if problems are stated openly it may be interpreted as rudeness or face-threatening behaviour. Indirect communication and polite escapes, or white lies, could also be interpreted as irritating and dishonest.

Adjusting to change in the management culture also affects communication. The fear of adopting new technology and of being incompetent in using it may provoke resistance among its recipients. Contradictory values and attitudes also often give rise to conflicts. If problems cannot be openly discussed they remain latent and take unrecognisable forms. Information overload makes communication more difficult.

The manager must recognise the levels of communication and convey the message so that the receiver understands, agrees and accepts it, and reacts as intended. He should also be able to read the weak signals when the receiver has not understood, or disagrees but expresses it in a way that is unfamiliar to the sender of the message. Cultural sensitivity is needed. If weak signals so indicate, the manager needs to choose another, more appropriate method of communication. In order to be able to do this he needs to understand the basic characteristics of the organisation and the formal and the informal communication channels that exist in it. (Lewis, 1987, 17)

When a Finnish company enters the Chinese market it brings its respected organisational culture and values into a totally different culture. The basic problem concerns how to introduce new ideas, new values and new ways of doing things to people who have a civilization reaching much further back in history than the Finns have. It is not possible to tell the Chinese that they are doing it all wrong. It would be a severe insult and result in great difficulties later on. It must be carefully considered whether Western values are the best ones to adopt, and / or whether they should be adapted to the local culture. This is the major concern in this study.

4 JOINT VENTURES AS A CONTEXT FOR SINO-FINNISH MANAGERIAL COMMUNICATION

This chapter provides the context for the whole research by examining joint ventures from several aspects: motives and partner selection, negotiations, control and conflict issues, performance assessment, and termination. These issues are first discussed generally, then the focus shifts to Sino-foreign joint ventures. The performance of the JV under study is considered against this background in order to see in what aspects it is similar to other JVs and in what aspects it differs. From the results it is possible to draw conclusions on how the unique solutions in this company could be applied in other Sino-Western JVs.

The literature referred to in this chapter mainly dates back to the 1980s and 1990s, reflecting what was known about JVs at the time when the first interviews were conducted. More recent studies are quoted in the final discussion. The companies forming a JV are referred to as partners regardless of the fact that they are only parties in the motivation, partner-selection and negotiation phases.

4.1 Motives for Establishing a Joint Venture

The discussion on motives begins on the general level in order to answer two questions: first, *why* companies would rather co-operate than act alone on a specific market, and second, *how* the partners and the JV are located in the supply chain. The motives for establishing a joint venture in China are of special interest, and they are considered from the viewpoint of the foreign investor as well as the Chinese partner.

4.1.1 General Motives for Establishing a Joint Venture

The reasons *why* companies form JVs have been extensively studied, especially in the 1980s and at the beginning of the 1990s. Generally speaking, there is the question of reciprocity to some degree. Each partner benefits in some way from forming a JV rather than a wholly-owned subsidiary. The

strategic motives basically cover three broad issues: reducing the *costs* of the operation, reducing the *risk* involved and creating *synergy*.

Several authors have identified cost reduction as one of the fundamental motives for establishing a JV (Contractor and Lorange, 1988, 10-19; Hennart, 1982, 168-169; Harrigan, 1986, 15-23; Kogut, 1988, 174-176). By concentrating production in lower-cost entities the partners are able to cut the costs. Additionally, the larger volumes reduce the unit cost. Co-operation also makes it possible to reduce excess capacity and restructure the industry when necessary. It lowers the start-up cost for each partner, especially in green-field operations. (Killing, 1983, 6-7) The total investment of partners engaging in a JV is lower than if both acted alone (the subadditivity factor) (Contractor and Lorange, 1988, 11-15).

Co-operating partners are able to spread the *risk* over more than one firm (Harrigan, 1986, 15-23). Cutting production costs reduces the financial risk, while saving time reduces the financial, political and marketing risks. It is also possible to reduce the political risk by joining forces with a partner that has good relationships with the national and local government. It is quite common for governments to prefer joint ventures over wholly foreign-owned companies, but it is in their interests that the international expansion of inexperienced national firms is facilitated by co-operation with a foreign company. This is especially the case in developing countries. Local partnership is assumed to bring more stability and consideration of local interests, and a joint venture is also a suitable way of avoiding trade barriers set against imports. Barter and counter-trade arrangements make JVs more attractive to governments by ensuring the development of national companies as well. (Contractor and Lorange, 1988, 11-15)

Companies also seek *synergy* through co-operation: it makes it possible to diversify the product portfolio and to achieve faster entry into the market, to gain access to raw materials or new technologies, and to overcome government insistence or resistance (Killing, 1983, 6-7; Harrigan, 1986, 15-23). Not having the skills to succeed alone, or having too large a project, may also motivate companies to join forces (Killing, 1983, 6-7). Technology exchanges are assumed to lead to a superior product, thus being one of the motivators for forming JVs. Combining research resources, for example, speeds up access to the market, thus also reducing the costs (Contractor and Lorange, 1988, 15-18). Buckley and Casson (1988, 41-42) demonstrated that a JV operation could be explained in terms of a combination of three factors: internalisation economies, indivisibilities, and obstacles to merger. The partners gain some benefit from internalising the market for some products instead of trading the goods. The authors suggest that there is an element of economic indivisibility in the facility (economies of scale, scope or

complementarity between the inputs.) Synergy is also created through mutual learning: firms transfer knowledge, learn, and increase their skills through JVs (Kogut, 1988, 174-176; Inkpen, 1995; Björkman, 1990).

Combating competition is often mentioned as a triggering force in forming a JV. Co-operating with a competitor could be seen as a defensive or an offensive strategic move, but it makes it easier to enter the market or to limit and restrict the operations of another competitor (Contractor and Lorange, 1988, 15-18; Harrigan, 1986, 15-23; Kogut, 1988, 174-176). Buckley and Casson (1988, 41-42) also address the issue of why partners prefer joint ownership to full ownership, even though there are inevitably more managerial problems in a jointly owned company. They point out that there must be some compensating advantage in sharing ownership. Among the reasons why companies do not merge may be that there are some net disadvantages, such as managerial diseconomies, legal restrictions or difficulties in financing.

Motives have a great influence on *how* the partners and the JV are positioned in the supply chain. Hennart (1982, 168-169) distinguishes two types of direct investments: vertical and horizontal. According to his model, backward vertical integration arises from three conditions: the high costs of co-ordinating successive production stages on the basis of market prices, the extension of trade over a long period of time, and a high degree of uncertainty. Forward integration is evoked by existing interdependencies between manufacturers and distributors, and by the high cost of constraining the interdependence through market prices or market contracts. Horizontal investments, in turn, are motivated by the high cost of exchanging goodwill through market processes, as well as by high market transaction costs in terms of knowledge.

Buckley and Casson (1988, 42-44), like Hennart, claim that co-operation may be horizontal or vertical in nature. On the horizontal level the partners offer similar inputs, while the contributions are complementary in vertical JVs, thereby providing synergy in terms of access to materials, capital, labour and technology, for example. The authors suggest four basic models of JV configuration: forward integration, backward integration, a buy-back arrangement and a multistage arrangement. These are discussed in Chapter 4.2.1.

Vertical quasi-integration (Contractor and Lorange, 1988, 15-18) refers to co-operation that lies between the extremes of complete vertical integration and a purely contractual relationship between independent companies. Partners bring complementary elements into the value chain, thus increasing its total value. Various types of co-operation enable them to offer their best

competencies and to avoid the extra cost often created by full vertical integration.

In conclusion, it could be said that joint-venture formations are mainly motivated by attempts to reduce costs, to share the risk (e.g., political, financial and marketing), and to gain synergy or strategic advantage by co-operation and offering complementary inputs. Motives have a major influence on whether the JV is formed horizontally or vertically, and on how the partners are positioned in the value chain in relation to each other and the JV.

4.1.2   Motives for Forming Sino-Western Joint Ventures

The main reasons for forming a JV in less developed countries (later LDCs) include government policy and legislation, the skills of the partner, and the assets or attributes needed. The need for controlling national resources and foreign exchange reserves, and supporting the growth of GDP, drive governments in LDCs to enforce strict rules against full foreign ownership of companies. (Beamish, 1988, 11)

China had a good starting point for attracting foreign direct investments compared with its neighbouring developing countries. It had a relatively well-developed and integrated industrial sector, and the industrial infrastructure was developed on the basis of non-equity foreign-technology transfer. The ability to imitate and modify the acquired technology facilitated the transfer further. Moreover, the practically non-existent collaboration between state-owned enterprises (later SOE) and small- and medium-sized enterprises offered foreign investors potential partnership opportunities for their labour-intensive production. Relatively high savings and investment rates, and close ties with Chinese people overseas were also an advantage. Due to extensive government ownership, a high political profile and rapid resource mobilisation were characteristic of China. (Zhang and Van Den Bulcke, 1996, 385-388)

The Chinese government opened up its borders to foreign investments at the end of the 1970s by announcing an 'open-door policy'. A law covering Chinese foreign-equity joint ventures (EJV) was adopted on July 1, 1979. It was amended on April 4, 1990, revised on March 15, 2001, and is effective in 2005 (Law 1990, Law 2001). The announcement of the law and the creation of four special economic zones (SEZs) gave a good start for foreign direct investments. The closeness of the SEZs to Hong Kong, as well as the lower labour costs, increased the economic and political interest of 55 million overseas Chinese in investing in their homeland (Zhang and Van Den Bulcke, 1996, 389). Later on, wholly foreign-owned companies and contractual joint ventures were also accepted (Law 1986, Law 2000b; Law 2000a). Laws are

complemented by regulations and rules for their implementation (Regulations 2001; Rules 2001; Rules 1995).

The absorption of foreign technology has enabled China to catch up on the technological level with Western countries in particular. The primary objectives of attracting foreign investments into the country are to bring in foreign capital, advanced technology, management skills and urban construction (Woodward and Liu, 1993, 83). According to the law, the technology and equipment contributed by the foreign partner has to be highly advanced, and to suit China's needs, and the use of outdated technology might lead to claims for compensation (Law, 1990, art. 5; Law 2001, art. 5). JVs used to be required to prioritise Chinese enterprises in their purchases of raw and semi-produced materials, but were entitled to buy directly from abroad with the foreign exchange they earned. They were encouraged to export the output as far as possible (Law, 1990, art. 9). According to the current law, a JV should buy both locally and internationally (Law 2001, art. 10).

The investments need to support the long-term development plans of the Chinese economy. Foreign investment projects are divided into four groups: encouraged, permitted, restricted and prohibited. (Provisions, 2002, art. 4) The Chinese government considers that the investments should expand the domestic market and reduce imports on the one hand, and facilitate the entry of Chinese enterprises into foreign markets on the other (Shapiro et al., 1991, 13). In the 1990s, when the ZB joint venture was under negotiation, investments in the fields of machinery and electronics, export-oriented products, import substitutes, communication, energy and transportation were particularly encouraged (Woodward – Liu, 1993, 83).

At present (2004), the Chinese government favours projects that use modern agricultural technology or modern technology that improves domestic production and product quality, aim at international markets, adopt technologies that save energy and raw materials, as well as make full use of mid-west resources (Provisions, 2002, art. 5). The biggest change in recent years has been in directing investment projects from coastal areas to mid-west provinces.

Projects that use out-dated technology or technology that unfavourably exploits resources (energy, raw materials, mining resources), and operations in industries that are gradually being opened up, are restricted. Those that endanger the safety of the state or its military facilities, pollute the environment, require large amounts of arable land or exploit unique Chinese craftsmanship or technology are totally prohibited. All others are permitted.[19]

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[19] Detailed information about encouraged, restricted and prohibited projects is given in the guidebooks 'The Provisions of Guiding Foreign Investment Direction' and 'Catalogue for the

Securing low-cost production, exploiting abundant material reserves and earning profits from the huge domestic market are the most important reasons why foreign enterprises invest in China (Shapiro et al., 1991, 216; Woodward and Liu, 1993, 85). Low labour costs are attractive, but on the other hand the great number of employees increases production costs, and their quality may be lower (Shapiro et al., 1991, 216-217).

However, these incentives are not sufficient in themselves. The prerequisites of technology transfer include the willingness and ability of the owner of the technology to transfer it, as well as the willingness and ability of the recipient country to use it. By drawing up proper agreements it is possible to safeguard the rights of the owner. In the Chinese case, the government dictates the willingness, but much more attention should be paid to the ability of the recipient to use the technology, which in many cases requires extensive training abroad. Suppliers and vendors should also understand the value of the transferred technology: it is easy to undermine the total quality of the final product by using low-quality raw materials, for example. Applying new technology also requires changes in the organisation, working routines, numbers and skills of employees and so on, and these changes may evoke high tensions. Moreover, China often needs to rely on R & D from abroad, and to combine new technology with its existing production capabilities. (Shapiro et al., 1991, 207-223)

On the other hand, outdated manufacturing equipment, low productivity and the poor quality of Chinese products, poor infrastructure, lack of skilled labour and managers, and low worker morale were among the factors that hindered foreign investments in China even in the 1990s. Some foreign partners built their own generators, roads, and even motorways in order to avoid disruptions in production, logistics and communication. As the modernisation process gets underway, these problems are gradually being solved. (Woodward and Liu, 1993, 83-88; Shapiro et al., 1991, 171-195)

The growing influence and independence of the provinces has made it easier for foreign investors to establish their plants further inland outside of growth centres such as Shanghai and other coastal areas, and companies are able to exploit lower labour costs, tax incentives, bigger local markets and other benefits (Luova, 1999, 138-143; Zhang & van den Bulcke, 1996, 400-401; Provisions 2002, art. 4; Goodman, 1994, 2-11). There has also been a shift in operations from labour-intensive and outsourced export-processing

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Guidance of Foreign Investment Industries', both available on the website of The Ministry of Commerce or e.g. The Zhejiang Foreign Trade & Economic Cooperation Bureau (ZFTEC) / Policies and Regulations (Catalogue, 2003, Provisions, 2002). Some other local commissions for foreign trade and economic co-operation also provide the investor with the laws, rules and regulations on their websites (Ministry of Commerce, 2004).

operations to more local-market-oriented and technology-driven industries, and some Chinese companies have started their international operations after gaining experience with their foreign partners (Zhang & van den Bulcke, 1996, 417-418).

The main motives for foreign enterprises to invest in China have been low labour costs, a large domestic market and the tax and other incentives offered by the Chinese government. Originally only JVs were acceptable, but it is now possible to set up wholly foreign-owned enterprises and to make other forms of investment. Unskilled labour, the poor quality of materials and equipment, as well as a poor infrastructure were barriers to investing in China especially in the 1980s and 1990s. On the Chinese side, the need to modernise the country by exploiting advanced foreign technology motivates the formation of JVs. The Chinese government still controls and directs foreign investments throughout the country.

4.2   Partner Selection

This section investigates partner-selection criteria, first on a general level. The focus is on whether *partner contributions* should be complementary or similar, and alternative JV *configurations* are also introduced. The section closes with a discussion of the selection criteria applied in the formation of Sino-foreign enterprises.

4.2.1   General Selection Criteria

Careful selection of partners has been said to be crucial for the future success of joint ventures. Requirements concerning symmetry and asymmetry, as well as various forms of JV configuration, are discussed in the following.

4.2.1.1 Partner Contributions – Complementary or Similar?

Research has shown that partner selection is a major factor influencing the performance of a JV. There is a great deal of interaction and interdependence involved. Many researchers (e.g., Harrigan, 1986, Geringer 1988, Beamish 1988, Zettinig and Hansén, 2002, Contractor and Lorange, 1988, 9-10, 25) suggest that partner contributions should be *complementary* in terms of products, geographic location, functional skills, resources and managerial capabilities, for example. The higher the partners' needs to engage in a JV, the

more stabilised is the relation. Mutual trust is the key issue (Buckley and Casson, 1988, 37-40). Earlier experiences in international co-operation normally facilitate the operations of a JV, as managers often prefer to work with equally experienced partners. Desirable partners have a good reputation for working together with other companies, and have a better understanding of the requirements for making a joint venture work. (Buckley and Casson, 1988, 37-40; Harrigan, 1986, 166-169) Moreover, the effect of the newly established JV on the networks of the partners requires careful consideration as it can bring either equilibrium or disequilibria to existing networks (Zettinig and Hansén, 2002, 159-160).

According to Harrigan (1986, 11-12, 166-169), the success of joint ventures is largely based on managing the chemistry between the partners. *Symmetry* occurs when partners complement each other in terms of strategic mission, resources and managerial skills so that the bargaining power is evenly matched: it is thus a stabilising factor. The ideal combination is between partners that offset each other's strengths without creating conflicts of interest. Geringer (1988, 21) strengthened the notion of the complementarity of partner contributions by separating the task- and partner-related dimensions of partner-selection criteria in developed countries. By task-related criteria he means the operational skills and resources, tangible or intangible, that are essential if the JV is to perform successfully (financial resources, technical know-how, access to distribution systems, for example). Partner-related criteria include factors related to efficiency and effectiveness of co-operation (e.g., national or corporate culture, trust between managers). They are relevant if the JV management is shared and two or more partners are participating actively in the operations.

Similar inputs are assumed to limit excess capacity, save costs and reduce risk (Contractor and Lorange, 1988, 9-10, 25). When attributes are similar, or bargaining power is evenly matched, asymmetry acts as a destabiliser. Asymmetry could be an opportunity if resource differences strengthened the partnership, but differences in management styles and control, for example, could be disruptive. (Harrigan, 12, 166-169) Big differences in partner size could lead to considerable difficulties, because normally visions, objectives and management differ as well (Harrigan, 1986, 177). Differences in size also affect bargaining power and the expectations of the potential partners. Smaller companies are normally more flexible, and sometimes also more innovative, thus offering opportunities for research and development to larger firms. Larger firms, in turn, offer quick market access to their smaller partners at a lower cost. (Doz, 1988, 317) Small companies are expected to participate in the costs of commercialising the product innovations, however, and thus share the risk envisioned by the more cautious partner (Harrigan, 1986, 177).

It is necessary to study the potential partner carefully, not only on the strategic level, but also to make sure of the common interests and thoughts, 'the meeting of minds' on the operational level. Managers who are actually running the joint venture should be involved in the selection process and their comments should be respected. Mutual trust and understanding should be built among the key individuals at the early stages of the negotiation in order to facilitate the formation of the JV. (Geringer, 1988, 154-158) The negotiation requires compromises because a perfect partner is rarely to be found. Timing in terms of when to enter the foreign market is also important: first-comers often gain access to better partners and this gives them a competitive edge. Top managers and operating managers all need to be enthusiastic about the joint venture: top-level commitment is not enough, because operating managers actually do the work. JVs that have been established under pressure, when no other alternative was available, are like 'shotgun weddings' and in danger of failing. (Harrigan, 1986, 11-12, 166-169)

4.2.1.2 The Configuration of a Joint Venture

Partner selection is naturally linked with the overall mission and objectives of the desired joint venture. The objectives may vary from R & D to the manufacturing, sales and distribution of the final products. The *position of each partner in the value chain* is dependent on the advantages it offers.

Buckley and Casson (1988, 42-44) argue that the configuration of a JV is determined by whether it is formed *upstream* or *downstream,* as well as by the nature of the products that flow between the partners: it is symmetrically positioned if each partner stands in exactly the same (upstream or downstream) relation. In a symmetric buy-back arrangement the partners act as subcontractors to the jointly owned company, whereas in a multistage arrangement one partner integrates forwards and the other backwards. This is the case especially in technology transfer.

A JV is symmetrically configured when the positioning is symmetric and the products are identical (similar inputs). However, a symmetric configuration does not necessarily imply that the motivation for the internalisation is symmetric (see Harrigan, 1986, 11-12). When considered as a whole, the JV operations may be symmetric locally but not globally, because the partners' operations may be asymmetric. It is essential to maintain the difference between local and global symmetry, because differences in economic power hold under circumstances of local symmetry (i.e. bargaining power and the possibilities of substituting the other partner's assets). Symmetry of substitution possibilities, which is essential, is achievable only

on a global scale. Furthermore, symmetry facilitates the avoidance of disturbances and opportunistic behaviour in the JV. (Buckley and Casson, 1988, 43-44) Organisational learning might change this structure in time.

In sum, there is an understanding among researchers that partner selection is one of the most crucial phases in establishing a JV. Complementary contributions are considered to lay a more solid foundation for future operations than similar contributions, and if wisely managed, contributions support each other without severe conflicts. JVs can be formed horizontally or vertically, the configuration depending on the partners' positions in the value chain as well as on their contributions and goals. They may also evolve from upstream or downstream integration, as buy-back or multistage arrangements.

4.2.2   Partner Contributions and Selection in China

Choosing the right partner is certainly one of the most important decisions in establishing a joint venture in China. Earlier the task was easy, because the partner was appointed by the Ministry. As the country has opened up, there has been more freedom in terms of partner choice. This has given new alternatives and increased flexibility to foreign firms but it has also made decision-making more complicated. (Melvin, 1995, 21)

Basically, finding eager partners is easy because most Chinese companies are willing to attract foreign capital and technology due to the government policy explained earlier. The choice from among the multitude of potential partners must be made carefully and it is therefore a time-consuming process: it should not be rushed. Market information is scarce and not always cheap or easily available.[20] It is not only the potential partners who are involved in the negotiations, and various interest groups, such as local and national authorities, technicians and senior management, all express their own interests concerning the mission and future of the joint venture. (Melvin, 1995, 21-22; Shapiro et al., 1991, 229)

As in any other country, the investor should keep clearly in mind the long-term investment objectives and look for a partner with similar aims (e.g., orientation to the domestic or the export market). The partner should possess a suitable supplier and/or distribution network as well as guanxi in order to facilitate operations in China. The impact of guanxi should not be overemphasised to the point of disregarding the financial performance of the

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[20]   Laws and regulations, official statistics and regional information are all nowadays easily available on the Internet on the websites of the Ministry of Commerce and/or provincial Bureaus of Foreign Trade and Economic Co-operation. Author's comment.

potential partner, however. Access to raw materials and skilled and unskilled labour, the supply of water and electricity, transportation links and the overall infrastructure in the area are all significant. In order to attract expatriates to the site there should also be adequate housing, schools and leisure-time activities. (Melvin, 1995, 22)

The foreign investor should search among a large number of potential partners, and move outside of its own business line: a company operating in the same industry may only be interested in extra capital and not in true co-operation. It is also advisable to exploit the services of respective ministries (e.g., MOFCOM), CITIC (China International Trust and Investment Corporation), CCPIT, trading companies and business associations, and it is crucial to check the authority of the Chinese partner to engage in a joint venture, as well as its business licence. It is advisable to use a consultant with good experience of the Chinese business environment in the selection process, and good relations with authorities and managers are essential. Good experience is also needed when the agreements are under negotiation in order to maintain reasonable control over the operation. It is recommended that a lawyer should check the background of the Chinese counterpart, but this should be done in a discrete manner, otherwise it might cause offence on the Chinese side. (Melvin 1995, 22) It should be borne in mind that it is not acceptable to negotiate simultaneously with more than one Chinese partner candidate (Shapiro et al., 1991, 236).

The Chinese partner in a joint venture normally supplies land, plant, labour, infrastructure, some machinery and some materials, while foreign partners provide technology, capital, and marketing and management skills, sometimes even raw materials (Woodward and Liu, 1993, 83).

In sum, investing in China is strongly regulated by the Chinese government in terms of location, form and partner contributions and operations. There are separate laws for contractual JVs, EJVs and WFOEs. The Government's main interest is to acquire new technology, management and financing from abroad, while foreign investors may be looking at the low labour costs or the large domestic market. It is advisable to search for a Chinese partner with complementary contributions and similar objectives, such as export or domestic-market orientation.

4.3   Joint Venture Negotiations

This section discusses the complexity of JV negotiations and the factors influencing the contents of a JV contract. The negotiation and establishment process in China is also introduced. The discussion is detailed in order to

facilitate interpretation of the communicative events concerning JV negotiations that are reported in the cultural part.

4.3.1 JV Negotiations in General

As soon as the potential partners are convinced of achieving certain strategic objectives better together than apart, negotiations for forming a joint venture can begin. JV negotiations are complicated due to the diversity of objectives of the parties involved, differences in bargaining power, government influence, legal restrictions, financial implications, cultural differences, and other issues. The negotiators need to be able to handle several issues simultaneously, to calculate and evaluate the tradeoffs between alternatives, and to foresee the impact of the combination on the future success of the venture. The final outcome is determined by the bargaining power and the negotiation skills of the parties. The contracts tend to be either very detailed, or only a general statement of the basic principles, which are developed further during the operation of the JV. Summa summarum, if successful, the negotiations lead to a JV agreement that satisfies both parties (all parties) and forms an operational basis.

The parties must be aware of the fact that, although gaining some benefit by forming a JV, they might also have to make some sacrifices. It is a matter of *bargaining power* (Harrigan, 1986, 30-41) how well the final agreement satisfies the partners. Bargaining power exists in one-to-one relationships when one partner wants something that is possessed by the other, and it is always situation-specific. In both parties it is based on benefits, costs, resources, alternatives, and the need for and barriers to co-operation. On both sides the estimated benefits of forming a JV should exceed the costs if an agreement is to be reached. The better the partner's resources and alternatives for achieving its goals are, the better bargaining power it has. In turn, a strong need to co-operate with one particular partner diminishes bargaining power. The balance of power may change during the negotiations, and especially if they last a long time, the strategic missions or priorities of the negotiating parties may change, or the basis of the bargaining power may shift.

> The form of the joint venture is the net result of the bilateral bargaining power of its owners.

Figure 7. illustrates how a JV agreement is a combination of the motives and objectives of the potential parties, government influence, cultural factors and third-party introduction. The agreement states the basic principles for managing the venture as well as the compensation structure.
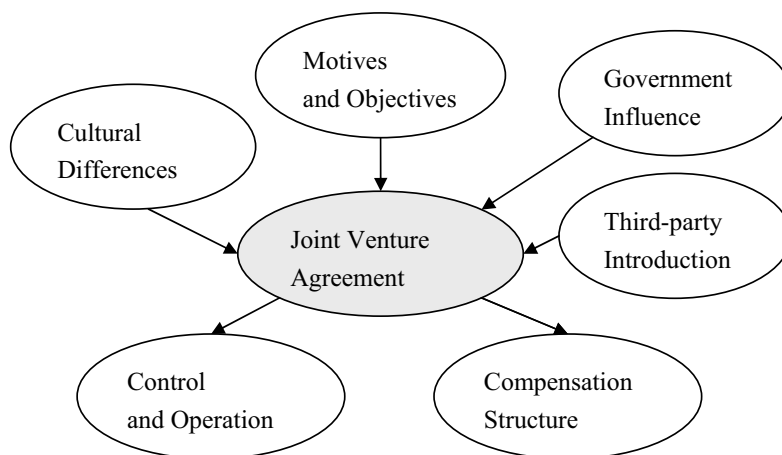
Figure 7.　　　The Formation of a Joint Venture Agreement

The motives for forming a joint venture were discussed in Chapter 4.1. Among the most common were cost reduction, risk reduction and benefits from synergy. The motives and *objectives* of the negotiating parties may be complementary or similar. The more heterogeneous the objectives are, the more specific the articles of the contract tend to be. This implies the need for avoiding conflicts in advance and solving the potential disputes arising from the contract later on. (Luo et al. 2002, 832-841) However, the objectives and negotiation strategies of the parties may vary over time, according to the situation. There may be implicit (concealed) objectives such as profit maximisation or limited durability, and the parties might also be attracted to opportunism or cheating in order to meet their objectives (see e.g., Contractor and Lorange, 1988, 34; Contractor and Ra, 2000, 291-295). Incomplete agreements open the door for these actions later on (Luo et al, 2002, 829-834).

Governmental policy and legal regulations might change the bargaining power of the parties. Changing policies also create uncertainty and increase the need for short-term contracts and fast lump-sum compensation. (Luo et al. 2002, 834; Contractor – Ra, 2000, 275) On the other hand, government policy may act as a stabilising factor. If the government favours foreign investments and gives clear regulations for their establishment and operation, it gives good guidelines for the JV negotiators.

Cultural differences have a significant effect on the negotiations: the larger the differences the more complicated they are. However, according to Luo et al. (2002, 839-843), the longer the cultural distance, the less enthusiastic the parties are about including all the details in the contract. They are more willing

to adjust the agreement later when they know each other and the culture better, as otherwise the negotiations might take a long time and thus postpone or even prevent the establishment of the JV. This is especially true in China. The cultural impact on negotiations is discussed in depth in Chapter 7.

Luo et al. (2002, 842) found that if a *third party introduced* the negotiators to each other the agreements tended to be longer and more detailed than if the opposite was the case. The third party in this case refers to a representative of the government or another interest group, for example.

A JV agreement always includes details about how the attributes (contributions) of the partners are compensated. Contractor and Ra (2000, 273-278) emphasise the fact that the essence of most alliances is the transfer of knowledge between partners. They do not see alliances as solely contractual or equity-based, but rather consider them a hybrid form of co-operation involving several payment structures. They argue that in the most general case the EJV is a combination of equity participation, contractual knowledge transfer from partner(s) to the alliance, and inter-firm trade between the alliance company and one of the parents. Therefore negotiating the *compensation structure* is a key issue in negotiating the EJV[21] agreement (see also Harrigan, 1986, 30-41).

The most common types of cash flow are lump-sum fees, royalties, dividends on equity shares, and margins on traded goods. Lump-sum fees are the least volatile in an uncertain environment, and royalties are also relatively independent of the profit of the JV. If goods are traded between one parent and the JV the margins are not affected by the performance of the JV either, but they might cause dispute among the partners. Dividends are most profitable in the long run if the JV is to be successful. Negotiating the tradeoffs between the alternative cash flows is a non-zero-sum game, however (Contractor – Ra, 2000, 275-278), and a 'zone of mutual benefit' should be found so that the partners could negotiate towards an agreement that maximises the joint profit, i.e. both partners benefit. There are, however, non-financial reasons why partners do not aim at such a point, as discussed earlier.

Comparing and valuing various cash-flow types depends on the partners' objectives, motives and mutual trust in forming the JV. If the recipient of the knowledge anticipates that the other will withdraw from the JV prematurely, for example, they could try to negotiate the lump sum as low as possible and offer royalties instead in order to engage the knowledge supplier more firmly in the relationship. It is not only cash flow, but also previously-mentioned issues such as political stability and the fear of losing control over the JV that

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[21] Because the authors drew their conclusions from a study on an equity joint venture, further references in this text will be made to EJVs.

are considered in weighing the alternatives (Contractor – Ra, 2000, 289-290). All combinations of alternatives and their implications should be calculated into the negotiation strategy. Both parties need to do their homework properly because comparison of the alternatives requires financial skills. A financial expert should therefore be a member of the negotiating team.

Financial negotiations might catch most of the attention of JV negotiators, but they should also consider how the potential JV would be managed, i.e. what the negotiating partners' relationship to the new venture will be. Sharing the management requires a lot of effort from both sides, and will probably cause problems. The chemistry between partners should also be assessed. Resources and attributes affect both the willingness to co-operate and the bargaining power of the partners. (Harrigan, 1986, 30-41)

The *JV agreement* covers the inputs, outputs, control mechanisms, duration and stability, and should protect the immaterial rights and technology from slipping into the hands of outsiders. It states where the materials and equipment are to be obtained as well as where the final products will be sold. The interaction between the key actors, the owners and the JV itself, is crucial in determining and understanding joint-venture strategies, and should be clearly defined in the bargaining agreement. (Harrigan 1986, 27-32) The parties need to discuss and agree upon whether the JV is to be formed vertically or horizontally, and on what synergies will be gained through co-operation. Parallel facilities refer to partners' operations that duplicate the JV's facilities (e.g., they manufacture the same products), and they also need to be specified. (Harrigan, 1986, 63-66) The composition of the board of directors and the staffing decisions need to be included in the agreement. The continuous rotation of JV staff between the partners and the JV, which Harrigan calls a 'revolving door', might harm its operations: it might bring in new ideas, but unfocused loyalty does not serve the purpose of the JV (Harrigan, 1986, 78-79).

Partners may have reached a consensus about the range of co-operation, but may be unable to translate it into a legally binding contract. Harrigan (1986, 178) also warns that lawyers may change the contents of the contract in order to clarify details that have escaped the eyes of the negotiators. The contract might no longer meet the requirements of the partners, and might lead to 'divorce before getting married'. As mentioned earlier, a joint-venture agreement should involve mutual consent in terms of the following issues: its mission, markets and products, the obligations of the partners, the compensation structure, and its termination. Guidelines covering management style, purchasing and performance assessment should also be included in the text.

In sum, JV negotiations are complicated and the result depends on the bargaining power and the negotiation skills of the partners. Agreements are influenced by the motives and objectives of the partners, cultural differences, government policies and third-party intervention. The final agreement should contain details of the operations and control of the JV, as well as the compensation structure.

4.3.2 JV Negotiations and Establishment in China

Joint-venture negotiations in China tend to be time-consuming and complicated because of government involvement and other cultural factors. On the other hand, official rules and regulations give good procedural guidelines. The legal system of Chinese enterprises is introduced in the following, the main focus being on Sino-foreign JV negotiations. The establishment process of an equity joint venture is also briefly discussed.

4.3.2.1 The Regulated System of Chinese Enterprises

This section mainly describes the situation that prevailed at the time when the ZB joint venture was negotiated and established. More recent changes are discussed later.

Four types of companies exist in China: 1) state-owned enterprises, 2) collective firms, 3) individual firms and 4) private firms. State-owned companies are mostly large and are typically involved in industrial production. Finnish companies tend to contact these companies first. In many cases they have problems with efficiency and productivity, and it is difficult to modernise them. On the other hand, they enjoy good financial and other support from the national and local governments, and are therefore attractive as partners (Björkman, 1994, 25).

Collective firms are owned by the local government. They receive support from the local authorities, but not from central government. Co-operation with these companies requires a lot of knowledge of local conditions. However, they are more independent and flexible than state-owned companies. (Björkman, 1994, 26)

The number of private enterprises is increasing and they are quite independent in their operations. On the other hand, local authorities may set new regulations that also affect private companies. Individual companies employ less than eight employees and private companies at least eight. Rural collectives, individual and private companies are sometimes called township

and village enterprises. Some private enterprises are foreign-invested companies, including wholly-owned subsidiaries and JVs. (Björkman, 1994, 26-27)

Companies in foreign ownership are distinguishable from Chinese-owned private enterprises in that, according to the law, foreign-invested companies are of the limited-liability type and are therefore not entitled to go public, i.e. to issue shares on the stock exchange (Laws 1990, 2001 and 1986, art 4.; Rules for the Implementation 1995, art. 14; Rules for the Implementation 2001, art. 18). At the time of the study (2004), foreign-capital enterprises could also take other liability forms, with approval (Rules for the Implementation, 2001, art. 18). The Chinese government was also investigating the possibilities of stock-listing as well as of acquisitions of and mergers with Chinese companies (Overview of FDI in China, 14.6.2004).

The main alternatives for foreign investors in the 1990's were a Chinese-foreign equity joint venture, a Chinese-foreign contractual joint venture, and a foreign-capital enterprise (or joint exploration for offshore oil projects). Joint ventures are also known as share-holding corporations. In 2004, the main alternatives were: equity joint ventures, co-operative joint ventures, Sino-foreign-invested joint stock companies, wholly foreign-owned enterprises, holding companies, branches of foreign companies, as well as technology transfer. The Chinese government also encouraged privatisation, mergers and the acquisition of SOEs (Neunuebel and Sapte, 2003, 139-143). It is now possible to establish co-operatives and other new forms of business (Overview of FDI in China, 14.6.2004). The following discussion is restricted to equity joint ventures.

An equity joint venture (EJV) is formed between a foreign company, enterprise or economic organisation and the respective Chinese counterparts. All EJVs are subject to approval by the Chinese government. (Law 1990, art. 1) The proportion held by the foreign investor needs to be minimum of 25% of the registered capital (Law 1990, art. 4; Law 2001, art. 4). Profits, risks and losses are shared among the parties in proportion to their contributions to the registered capital (Laws 1990, 2001 and 1986, art 4.; Rules for the Implementation 1995, art. 14; Rules for the Implementation 2001, art. 18). The biggest differences between equity joint venture laws 1990 and 2001 are the following (Law 1990 and 2001):

1) Foreign individuals (not Chinese) are allowed to be partners in EJVs. (art. 1)
2) Article 7 was added covering the rights of the workers to enrol in trade unions and the obligation of the employer to provide the necessary conditions for the union to operate.

3) Production and business plans no longer need to be submitted to the authorities. The EJV should purchase its raw materials and other requisites both domestically and from abroad, and purchases in China are no longer prioritised. Foreign-exchange restrictions have been removed. (Law 1990, art.9; Law 2001, art. 10)

4) The parties may take their case to a Chinese court if no arbitration clause is included in the JV contract, or if such a written agreement is made later: disputes were settled only by mediation or arbitration earlier (Law 1990, art. 14; Law 2001, art. 15).

The amendments show a clear shift towards the further liberalisation of foreign investments in China.

4.3.2.2 Sino-Foreign JV Negotiations

The joint-venture negotiations may take a long time due to the Chinese legal system and the Chinese perception of an agreement. To the Chinese, an agreement is only an initial paper stating that the parties agree to co-operate. The details can be discussed throughout the project, contrary to the Western perception of a final agreement. The Chinese are also more interested in the spirit and intent of the agreement than in the specific provisions. (Melvin, 1995, 22; Shapiro et al. 1991, 225-230) According to Shapiro et al. (1991, 237), anything less than two years is not sufficient time to learn the values and commitment of each other in order to trust the other's word.

The partner candidates should study the Chinese business environment as well as the establishment process and the required documents carefully before the actual negotiations begin. Although equity joint ventures are not as strictly controlled as foreign-capital enterprises, for example, a vast number of laws and regulations governing their implementation and the interpretation of the regulations need to be investigated. A lot of attention should be given to the reasonable objectives of forming the JV and negotiating a venture that meets the requirements of both partners. The more the partners are familiar with the legal requirements, the more quickly the actual negotiation proceeds. (Reuvid, 2003, 215; Shapiro et al. 1991, 227-231) However, it is difficult for both partner candidates to gain accurate information about each other's objectives, reputation and operational styles, and *mutual ignorance* is often characteristic of JV negotiating parties. Mutual ignorance, in turn, may lead to attempts to protect one's interests rather than to aim at balanced bargaining power. (Shapiro et al., 1991, 229)

The Chinese negotiation team may consist of 15-20 people representing various interest groups on the Chinese side (potential partner, local and national government offices, banks) (Melvin, 1995, 23). The Chinese representatives are more likely to vary during the negotiation process, but the key players, including the chief negotiator, normally remain the same. It is notable that the chief negotiator is the person the Chinese partner will probably suggest to be the general manager. Getting to know him/her and building trust is important even at the early stage of the co-operation. The Chinese chief negotiator is also often the person who introduces the project to the examination and approval authorities. Given the strong influence and decision-making power of the state authorities, it is recommended to engage negotiators who have good working relationships or connections with the approval authorities. This makes it easier to follow the formal rules and regulations concerning the JV formation, and thus to avoid problems in the approval process later on. (Reuvid, 2003, 214-217; Shapiro et al., 1991, 236-237, 259)

The foreign negotiation team should remain consistent throughout the whole negotiation process in order to build trust. The CEO should not be sent first. If the negotiation does not lead to the desired outcome, the top ranking managers can withdraw from the project without losing face. (Melvin, 1995, 23) Furthermore, cutting off the negotiation is seen as improper behaviour by the central government, and causes loss of face for the Chinese partner and the local authorities. In order to avoid this, the central government may oppose or prohibit negotiations with a new partner candidate. (Shapiro et al., 1991, 230-231)

Because the language of negotiation may be Chinese, and because the documents are written in Chinese and another language agreed by the partner candidates (mostly English), there is a need for a good interpreter, probably on both sides. It is important that both language versions have the same meaning and that the text is unambiguous and clear to both parties. The foreign partner may also benefit from an advisor who is experienced in JV operations in China. He/she can identify the potential problems in the negotiations in advance, and use his or her expertise throughout the negotiation process. The foreign partner should also build good relations with the approval authorities and not leave it all to the Chinese partner.The foreign partner might also need the services of other advisors such as tax or accounting experts. (Reuvid, 2003, 215; Neunuebel – Sapte, 2003, 141; Shapiro et al., 1991, 230)

There are conflicting opinions about using lawyers in the negotiations. Some argue that Western lawyers should be used, while others favour Chinese lawyers because of their knowledge and connections with the local and national legal system. Many prefer not bringing lawyers to the negotiating

table because it reflects mistrust, which in turn is a poor basis for co-operation. They would rather allow the legal experts to work backstage throughout the whole process. (Reuvid, 2003, 214) According to the Chinese convention, the managers decide what is right and proper in the contract. Future disputes cannot be foreseen and thus cannot be subject to legal interpretation. (Shapiro et al., 1991, 232)

4.3.2.3 The EJV Establishment Process in China

JV negotiations proceed in several phases. Government officials are involved throughout the process and several approvals are needed. Therefore it might be useful to conduct the negotiations in the city in which the authorities reside. (Reuvid, 2003, 215; Shapiro et al., 1991, 236)

The negotiations are probably conducted according to the Chinese style. The negotiators are arranged on opposite sides of the table. The atmosphere is formal, but it should also be sincere, flexible and relaxed. Mutual agreement on the objectives of the JV will carry over differences of opinion on the individual articles of the agreement and the contract. (Reuvid, 2003, 215) The Chinese negotiation style is discussed further in Chapter 7.

If the initial discussions are successful a Memorandum of Understanding (MOU) is signed by both parties. The MOU is a statement of the intent to conduct a feasibility study and to negotiate the terms of the JV. Some sources refer to a Letter of Intent (LOI), which has a similar purpose and contents. The MOU is filed with the authorities, together with a pre-feasibility study, which is more or less a checklist of the characteristics of the proposed JV. Negotiations cannot proceed without the approval of the authority. Neither the MOU nor the LOI is legally binding, and it is not required under Chinese law. However, it is a clear sign of the commitment of the partners to the venture. (Reuvid, 2003, 212-213; Neunuebel – Sapte, 2003, 141; Regulations for the Implementation, 2001, art.7; Law 1990, art.3; Law 2001, art. 7) Western partners are sometimes surprised by this Chinese habit of drafting the MOU before any agreements have been made. The main purpose of it is to show the authorities that the partner candidates are negotiating seriously. The Chinese can also refer to it as a general understanding if they do not achieve their negotiation objectives. (Shapiro et al., 1991, 231)

If the MOU/LOI is positive and approved by the authorities an extensive feasibility study (FS) is conducted jointly by the partners. The complexity and scope of the FS depend on the project (Reuvid, 2003, 213; Neunuebel – Sapte, 2003, 141). The FS is the basis for the formal approval, and even though it is not binding, it is crucially important. Therefore both partners should take an

equal part in conducting it, and it should truthfully reflect their intentions. The FS should then form the basis of a jointly drafted business plan that includes financial information such as the cash-flow statement, the profit and loss statement, analyses of fixed and variable expenses and the manpower plan. Until the beginning of the 1990s [when the ZB negotiations started], medium-term cash planning was, generally speaking, unfamiliar to Chinese managers, who were used to command economy accounting. The understanding of these statements has since improved significantly. A business plan is not required by law, but it does serve as a basis for further discussion. (Reuvid, 2003, 213; Neunuebel – Sapte, 2003, 141)

Once the feasibility study is underway the partners can start negotiating the joint-venture agreement, the contract and the articles of association. The agreement is between the partners and covers some major points and principles about the establishment of the JV, the contract declares the mutual rights and obligations of the partners, and the articles of association specify the purpose, the organisational principles and the management of the JV in accordance with the contract. The contract prevails over the agreement. At present, when the number of negotiated JVs is large, an agreement is generally only used in extensive projects. (Neunuebel – Sapte, 2003, 141; Reuvid, 2003, 214; Law 1990, art. 3; Law 2001, art. 3; Regulations for the Implementation, 2001, art. 10)

Because the Chinese operate on a long-term basis they are also unwilling to discuss 'the divorce when they are just getting married' to their foreign partner. Harrigan (1986, 178) argues that lawyers are good at writing down the legal scope, and especially the dissolution, of the venture, but might miss the original intentions of the partners. Chinese companies tend to avoid litigation and prefer traditional mediation in solving disputes for several reasons: first, failing to solve problems without taking the case to court means a considerable loss of face, secondly, the Chinese cannot rely on the efficiency of the court in complicated cases, and thirdly, there is a deep-rooted mistrust of the bureaucracy and the legal system. Joint consultation in the boards of directors is the first step in solving disputes, and if this fails, mediation or arbitration is used. CIETAC (The China International Economic and Trade Arbitration Commission) is considered to be a fair but a rather slow organisation in this context, but the law permits the use of other agencies as well. (Law 1990, art. 14; Björkman, 1994, 21; Shapiro et al., 1991, 243-244) According to the revised law 2001, it is possible for the partners to start legal proceeding in a Chinese court if no arbitration clause is included in the EJV contract (Law 2001, art. 15).

Detailed contracts in which all targets, contributions, terms of technology transfer and control are strictly defined are to be preferred, although foreign

investors easily make vague and impartial agreements in order to avoid long and detailed negotiations (Melvin, 1995, 24; Harrigan, 1986, 178). It is recommended that an outsider is used in the evaluation of assets (Melvin, 1995, 24; Harrigan, 1986, 178), but asset assessment by all parties is adequate according to the Chinese law (Law 1990 and 2000, art. 5).

All equity joint ventures need permission from the examination and approval authorities (Law 1990, art. 3; Law 2001, art.3). In the 1990s the documents were submitted to the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) for examination and approval. Other ministries might also be involved depending on the nature of the project. At present [2004], the examination and approval authorities are the provincial Commissions of Foreign Trade and Economic Co-operation (COFTECs), the Ministry of Commerce (MOFCOM) and the State Council. The most extensive projects are referred to the State Council (minimum registered capital value of USD 100 million). Projects to the value of USD 30 million – 100 million are approved by MOFCOM, and those of less than USD 30 million are approved by the COFTECs. (Neunuebel – Sapte, 2003, 141)

The application for the establishment, the feasibility study report, the JV contract signed by both parties, (and the JV agreement, if needed), the articles of association, the list of candidates for the board of directors, as well as other specified documents, are submitted and lobbied by the Chinese partner to the authorities (Regulations for the Implementation, 2001, art. 7; Neunuebel – Sapte, 2003, 141; Reuvid, 2003, 217). All documents have to be in Chinese, but the feasibility study report, the contract and its annexes may also be in a foreign language.

Even if the contract has been signed by both partners, it might be rejected by the respective ministries or by MOFCOM and returned for re-negotiation. Minor amendments can be made easily without a separate meeting, but bigger changes require the parties to reconvene and search for a new solution. Therefore good relations and continuous consultation with the ministries is essential. (Reuvid, 2003, 217) Making changes after submitting a signed application causes frustration and misunderstandings among foreign partners, who assume that the signed contract is the final one.

The decision of approval or non-approval is given within three months (Law 1990, art. 3; Law 2001, art. 3; Regulations for the Implementation, 2001, art. 4). The reasons for non-approval might include (Regulations for the Implementation, 2001, art. 4):

1) it offends China's sovereignty
2) it violates Chinese laws
3) it does not comply with the requirements of economic development
4) it pollutes the environment

5) it causes harm to one of the partners.

In turn, proposals that offer advanced technology and management skills, raise the quality of output or save energy, or are targeted to the central and western regions are encouraged (Catalogue for the Guidance 8.5.2003; Overview of FDI in China, 14.6.2004).

When the documents have been approved, all the contracts become effective. Within one month after receiving the Approval Certificate the equity joint venture will register at the SAIC[22] or its local office for a business licence. The JV also needs to register with the customs, tax and other necessary administrative offices in order to start operations.

Summa summarum, JV negotiations are complicated due to the diversity of objectives among the negotiating partners, differences in bargaining power, government influence, legal restrictions, financial implications, cultural differences and other issues. The Chinese bureaucracy, the differences in negotiation style and the ever-changing business environment make the negotiation process even more complex and time-consuming. However, the basically positive attitude of the government and the revised laws facilitate the establishment of an EJV. Careful investigation and consultation with the authorities are the keys to successful negotiation outcomes.

4.4   Control and Conflict Issues

When two or more partners are involved in a JV, conflicting interests in terms of controlling the operations may lead to problems with or even termination of the venture. This section examines the means of controlling the operations from both the majority and minority partner's point of view. The reasons for the conflicts, as well as the action taken in case of contract or other violations, are also considered, and the most common conflicts and problems in controlling Sino-foreign EJVs are introduced.

4.4.1   Partner Control over JVs

Managing a joint venture is problematic basically because there are two partners involved. Integrating two corporate cultures in every-day operations requires compromises from both sides. Control can be gained through

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[22]   State Administration for Industry and Commerce

ownership arrangements or bargaining power (see e.g., Beamish 1988**,** 22; Harrigan, 1986, 183; Root 1987 152-153).

The traditional joint venture could be seen as *independent* if the general manager has more or less free hands to manage it. In *dominant partner ventures* one partner has more management power and the JV is managed as if it were a wholly owned subsidiary. *Split-control ventures,* in turn, are those in which the managerial roles are clearly divided among the partners. When both partners participate actively in the decision-making and all significant decisions are shared, the JV is called a *shared-management venture*. Shared management does not necessarily require equal ownership. (Killing, 1983, 16-22; Killing, 1988, 62) From the cultural perspective, this type of venture entails most problems because the partners are more or less equally involved in the daily operations.

Root (1988, 76) argues that partner control over the JV may be strong, shared or weak. Strong control means that one firm can overrule the other partners, shared control implies that the partners need to agree on major decisions, and if the partner has very little influence on the decisions it is considered to have weak control.

The company can acquire more control by increasing its equity share or making the other partner more dependent on the assets it holds. The division of equity ownership is not equivalent to the division of control. Equity and control have different functions in the JV: equity is more relevant at the establishment and dissolution stages. Control provides guidelines for every-day activities: some managers are willing to accept an asymmetric split of profits that do not correspond to the distribution of equity ownership if they can gain control over the daily operations. (Harrigan, 1986, 183)

The minority partner is able to control the JV if it can make decisions about crucial capabilities and resources, such as key patents or trademarks. It is not necessary to control all the operations, only the critical dimensions. Other ways of gaining control include arranging a management contract or reserving the right to appoint the directors or key managers. It is also possible to issue voting and non-voting shares, and to retain a majority of voting shares. Equity participation of banks or other companies that have no interest in management could provide a solution, and in some cases spreading the majority shareholding over a multitude of small investors is worth considering (Walsh 1991, 87-88). Naturally, these arrangements must be made at the establishment stage and they may clash with the interests of the other partner. Finally, it is a question of the bargaining power of the partners.

4.4.2   Conflicts in JVs

Differing interests of partners may lead to failure and termination of the JV. The conflicts may arise mainly through two sources: inter-firm diversity and opportunism in the JV partners (actual or potential) (Harrigan 1986). Inter-firm diversity derives from the reciprocal strengths and complementary resources of the partners, which were the basis on which the JV was formed (complementary contributions). There are also differences in corporate and management culture, as well as in strategic direction (Parkhe, 1991, 579-601) and in national culture, business practices and management styles. Inadequate communication due to distance and language barriers may also create conflicts among partners (Walsh, 1991, 87).

During the life cycle of the JV the process of organisational learning and adaptation minimises inter-firm diversity. As a result, the reasons for the existence of the JV might disappear. Learning each other's technology changes the bargaining power structure, for example. The imbalance of power may show as a loss of autonomy and control, or as a loss of competitive edge. Antitrust laws or new legislation coming into force might jeopardise the future of a JV, and the issue of sovereignty, i.e. conflicting interests between partners and local government, could also cause problems. Difficulties in decision making and control often arise from the fact that there are two or more owners claiming autonomy. If the management of the JV is inflexible, the partners are poorly selected, the partner resources unbalanced or unfit, and the aims vaguely defined, the partners might easily end up worse off than they were beforehand. (Harrigan, 1986, 23-27)

Partner contracts in which little attention is paid to how the relationships between the partners and the JV will be handled will most probably fail. Pure facts about controlling technology and financing the venture are not sufficient. Specific tensions may lead to conflicts and to the rewriting of the agreements. (Harrigan, 1986, 167-168)

The partners may also start to act opportunistically. Opportunism is behaviour that involves 'self-interest-seeking with guile' (Williamson, 1975, 26). Buckley and Casson (1988, 34-37) discuss opportunistic behaviour and the punishment strategies used against the partner who has violated the agreement. It is possible to have recourse to the law, but this is quite limited because many forms of cheating are legal and therefore beyond it. Do-it-yourself-punishment relies on the victim's own judgement, but suffers from limited possibilities in terms of sanctions and lack of credibility. If the victim imposes sanctions on the other partner, he may damage his own interests as well: the other partner may not believe that the victim will carry out his threat. In order to overcome the credibility problem the parties can develop the

reputation of never being the first to abandon forbearance, and of always taking reprisals against others who do. In some cases the punishment is almost automatic, because both partners share the profit and the risk. The assumed gains for both will decrease as a result of cheating.

In order to avoid opportunistic behaviour it is possible to alter the payoff structure, which will diminish the gains from cheating and increase the gains from co-operation, or increase the costs of agreement violation. This calls for trust between the partners.

4.4.3 Control and Conflict in Sino-Western JVs

It was suggested by Beamish (1988, 5) that control over JVs in developing countries should be shared with the local partner or split between the partners in order to ensure stability.

Among the potential problems facing Western JV managers in China (Björkman, 1994, 38) are: a lack of ability to handle the negotiations, disregard of the face system, lack of patience, lack of guanxi, funding problems, lack of product localisation (failure to use local subcontractors and materials, for example,), and a lack of continuity in the personnel.

Hoon-Halbauer (1994, 12-18) identified similar problems: deficient or inadequate infrastructure, the demand for JV exports, sourcing material, severe bureaucratic interference, the multitude of regulations, and managing Chinese staff as well as managing relationships with Chinese executives. The Chinese managers' view on relationships with foreigners concentrated on attitudes. Foreign managers were seen as exploiting the Chinese market and as paying little attention to the welfare of Chinese workers. They were also accused of having a 'colonial attitude'. The foreigners also passed negative remarks about the Chinese, and refused to listen to advice on how to deal with officials, for example. Foreign managers perceived the Chinese as incompetent and stubborn in insisting on the 'Chinese way', while the Chinese described foreign staff as arrogant and aggressive, and as lacking in respect for the Chinese managers and their knowledge of the local situation.

In sum, control over a JV is exerted through ownership arrangements or bargaining power. Having the majority share of the equity normally gives control, although minority owners can use their bargaining power if they possess crucial assets. Control in China is partly regulated by the law protecting the rights of the minority partner. The major reasons for conflicts include changes in bargaining power resulting in the need to rewrite the agreement, and opportunistic actions taken by partners in order to improve their position. Ambiguous agreements and poorly selected staff may also

provoke disagreements. In the context of Sino-foreign JVs, perceptions of the conflicts vary between the foreign and local staff. Foreigners have fought with the infrastructure, supply problems and the Chinese management style, while the Chinese perceive foreigners as arrogant and ignorant of local circumstances, and as lacking in respect - in other words they were more concerned about the differences in management culture and personal behaviour.

4.5 Performance Assessment and Stability

Some JVs are established for a fixed period, but most of them are intended to operate for a long time. The partners' perceptions of the performance of the JV affect the decision to continue or terminate the co-operation. This section examines these issues.

4.5.1 General Aspects of Stability and Performance

Performance measurement is a complicated process in general, and in a JV it is even more complex due to the differing objectives of the partners. This means that the probability of JV stability is low. (Harrigan, 1986, 192) Several objective measures have been suggested: financial indicators, market share, JV survival and duration, cultural similarity/diversity of partners (Geringer and Hebert, 1991, 250; Harrigan, 1988, 225; Kogut, 1988b, 176-184). The instability is already inherent in the motivations for forming the JV, and increases as the bargaining power changes. The venture could also be assumed to be unstable if both the owner's need to control and the venture's need for autonomy are high. It will fail if the co-operation between the partners is unsuccessful, the markets disappear or the partner contributions do not match expectations, for example. (Harrigan, 1986, 73, 181-192) One of the incentives for establishing a JV is to combat the competition, and a change in the competitive structure of the market may therefore lead to instability and poor performance, even termination (Kogut, 1988b, 184).

In order to maintain stability, it is necessary for each partner in the joint venture to refrain from cheating and to maintain co-operation through mutual forbearance. Cheating is more effective when only short-term objectives are considered, but partners should also consider the indirect consequences. In the long run, forbearance may be more desirable. Co-operation could be seen as an input and an output of a joint venture. If the agreement is so loose that it leaves a lot of room for the partners to cheat, it requires a great deal of co-

operation and mutual forbearance in order to succeed. Co-operation could be seen as output when an arrangement leads to greater trust between the parties, and thereby reduces the transaction costs. There is also a connection between input and output. Co-operation is said to be efficient when a given amount of mutual forbearance generates the largest possible amount of mutual trust. (Buckley and Casson, 1988, 34-40)

JV stability can be understood in terms of its duration and survival. Because strictly objective measures do not give the whole picture of JV performance, researchers have suggested more qualitative instruments to complement the quantitative measures. Geringer and Hebert (1991, 249-263) analysed the reliability of objective and subjective measures of IJV performance: survival and duration were evaluated quite similarly by objective and subjective measures. The authors also found that single-respondent evaluation of performance was appropriate especially if the respondent represented one of the key stakeholders or the partners were from the same or similar cultures as the IJV. Partners tend to agree on the overall performance, but disagree on more detailed issues. A combination of assessment methods could give more reliable results.

4.5.2   Stability and Performance Assessment in Sino-Western JVs

It has been reported that the main local-partner contributions in high-performing JVs in developing countries are specific local management skills and local knowledge, while in the case of low-performing JVs the MNE executives expect their local partners only to satisfy government requirements concerning local ownership and to avoid political intervention. (Beamish, 1988, 42)

Even though there is higher decision-making authority in Chinese JVs today, the local conditions set limits on their activities, which include the antiquated financial system, unstable capital markets, and state control of corporate financial transactions via adjustable taxation. Infrastructural deficiencies, periodic energy and resource shortages, the limited availability of skilled technicians and trained managers, and unclear lines of authority set Sino-Western JVs in a different position compared with Western-Western JVs, for instance. Furthermore, control and local bureaucratic manipulation of production schedules via quotas, the involvement of the party, major attention to workers' welfare issues, price controls and fixing, and scarcity of supplies shrink the operational range of Sino-Western JVs (Antoniu and Whitman, 1995, 79-81). These things should be taken into consideration when performance is assessed, and it is better to compare a Sino-Western JV with

other JVs in China or other developing countries than with Western companies located in a totally different business environment.

Yang and Lee (2002, 100-105) identified the most important success factors for JVs in China. According to the experiences of Motorola, the most important factors are an effective long-term business-development strategy, an employee-oriented management approach, well-defined operational policies, and technology appropriateness. Careful selection of the investment location, integrating Western and Chinese culture into the company's policy, and a leading position in new-product development were also included in the top ten factors.

Joint-venture stability and performance have been evaluated in several ways. Objective measures such as financial indicators, market share, JV survival and duration, as well as cultural similarity/diversity of partners, have been suggested, but a more qualitative approach has also been recommended: performance evaluation by the key partner managers, for example. A combination of several indicators may produce more precise results. Success in China requires that government regulations and involvement are seriously taken into consideration and incorporated into the strategy: government support should be seen as an opportunity and not as a threat. Sino-Western enterprises should perform as good corporate citizens in order to gain confidence and acceptance in China.

4.6   Termination of a Joint Venture

As stated earlier, the majority of joint ventures are terminated and there are many reasons for this. The reasons, forms and communication of disengagement are discussed in general terms and in the Chinese context in this section.

4.6.1   The End of the Story – Dissolution or Acquisition?

There are two main ways in which a JV is terminated: by dissolution or by acquisition. The former involves total liquidation (Kogut, 1988, 170-171) and is often chosen when the JV was meant to be temporary and has fulfilled its objectives. Dissolution may also be the solution when the power structure has changed and the partners have not managed to re-negotiate the contract, or the JV is not profitable, or even because better partners have been found. A change in the nature of the business is another reason for dissolution. (Freeman and Browne, 2004, 170-171)

If one partner wishes to continue the operations but the other one does not, the resolution is normally an acquisition (ibid.) Termination by acquisition takes one of two forms: 1) the JV is sold to a local partner or to outsiders, in which case it remains in operation as a JV but under different ownership; 2) one partner buys out the other and continues operations as a wholly-owned subsidiary (Kogut, 1988, 170-171). Acquisition also comes into question if one partner wants more control over the venture and this is not possible by slightly increasing the equity share, or if one partner fails to fulfil its obligations (Freeman and Browne, 2004, 170-171).

The risk of IJV termination is highest after five to six years of operations: from a sample of 148 JVs one third was still in business, one third has been dissolved and the remaining third had been terminated by acquisition after six years (Kogut 1988, 169-185). Kogut argues further that the seeds of instability are inherent in the motivations behind the formation of the JV and that careful evaluation of partner motivation before establishing it is therefore crucial. On the other hand, all JVs are not meant to last.

Freeman and Browne (2004, 171-174) suggest several communication strategies for dealing with the dissolution of cross-cultural business relationships. The focal company will negotiate with the partner either to restore the relationship (voice strategy) or to dissolve it (exit strategy). Communication may be direct or indirect, and self- or other-oriented. Direct communication involves giving an explicit statement of intent to the other partner, while indirect communication protects the face of the other partner by giving hints or hiding real intentions. Two direct communication strategies have been observed: communicated exit and revocable exit. The former allows no discussion about the issue, while the latter leaves space for further negotiation. Disguised and silent exits are both indirect strategies. Other-oriented disguised exit implies that the partner wants to change the arrangement but not necessarily to dissolve it, whereas if a self-oriented strategy is used payment terms may be made more restrictive and continuing the relationship may become unprofitable for the other partner. Silent exit involves no communication: there is an understanding that the relationship has ended, which is expressed by withdrawal or not negotiating the continuation of the contract.

4.6.2   The Termination of Sino-Foreign Joint Ventures

Freeman and Browne (2004, 177-178) combined the communication strategies mentioned in the previous section with conflict management related to dissolution in an individualistic-collectivist setting. They argue that business

relationships between Asian and Western companies in Asia are characterised by high collaboration and low assertiveness, leading to the use of a co-operative style, i.e. indirect and other-oriented communication, and further,

> [An] accommodating approach is more likely to result in a beautiful exit.

Disguised exit, more precisely pseudo-de-escalation, is the most likely dissolution strategy. As mentioned above, the disengager (leaving partner) expresses the desire to change the relationship indirectly, such as by reducing the investment but leaving the dissolution option open.

In China an EJV can be terminated after a fixed duration (Law 1990, art. 13; Law 2001, art. 14). In these cases the EJV has fulfilled its task and is no longer needed. According to the law, an EJV can also be terminated in case of heavy losses, the failure of one partner to fulfil its obligations, and force majeur, for example. Termination is decided through mutual consultation and agreement in the board of directors and is approved by the examining and approval authorities. (Law 1990, art. 13; Law 2001, art. 14) If the board of directors is not able to settle the dispute it is settled through mediation or arbitration. (Law 1990, art. 14)[23] If no arbitration clause is included in the EJV contract, or no written agreement has been concluded afterwards, the partners may start legal proceedings in a Chinese court (Law 2001, art. 15).

In sum, it can be assumed that a Sino-foreign equity joint venture is terminated either by mutual consent if it has fulfilled its task and was originally planned for a fixed period. If it is terminated due to a dispute concerning the performance of the company or partner(s) the first approach would be mutual consultation, i.e. disguised exit as suggested by Freeman and Browne (2004, 177-178).

4.7 The Development and Location of Foreign Direct Investments in China

This section briefly introduces the scope of foreign direct investments in China in terms of type, value and location, and also covers Finnish direct investments.

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[23] Law 1990 was in force in 1999 when the ZB joint venture was terminated. The right to take the case to the Chinese court was added in 2001. Author's remark.

4.7.1   Type and Value

Given the promising prognosis, the recovery of the Chinese economy and the opening up of the country, the amount of foreign direct investments in China has increased tremendously since 1979. The first investors were overseas Chinese, especially from Hong Kong and, due to the uncertain political situation the main type of investment was a contractual joint venture. New regulations were announced in 1983 aimed at improving the investment environment, covering areas such as tax and tariff incentives and profit repatriation. Foreign capital enterprises were allowed in 1986 and contractual enterprises in 1988. The opening up of 14 coastal cities in 1984 expanded the location alternatives for foreign investors. (Zhang and Van Den Bulcke, 1996, 389 – 402; Law 1986; Law 2000a; FDI in China, 2004)

Three major drawbacks occurred on the investment path. Firstly, the expansion of FDIs stopped in the late 1980s due to prevailing strict government control as well as internal trade barriers imposed by provinces and local governments. Secondly, the military intervention in Tiananmen Square in 1989 and the political instability that followed made foreign companies draw back their investments. However, further government incentives and the continuing economic reform convinced foreign investors of the opportunities in China. The third drawback was in the late 1990s and was basically due to the Asian crisis. (Zhang and Van Den Bulcke, 1996, 389 – 402; Law 1986; Law 2000a; FDI in China, 2004).

Interpretation of the statistics is somewhat difficult because the sources do not always indicate whether they refer to the agreed value of the contracts or to their true utilised value[24]. The gap might be considerable. In 1989, when equity and contractual joint ventures as well as foreign-capital enterprises were possible, the total amount of utilised investment was USD 18.47 billion (agreed contracts USD 32.36 billion), and the number of projects was 21,776. Negotiations for the establishment of ZB started during the peak year of 1993, during which 83,437 new agreements were made valued at USD 111.44 billion (agreed contracts), with an actual utilised value of USD 27.52 billion. The growth in the number of contracts as well as in the value of agreed investments slowed down after 1993, but the value of utilised investments

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[24]   The MOFTEC (China Ministry of Foreign Trade & Economic Cooperation) statistics before 1997 include external loans, direct foreign investments and other foreign investments in the utilisation of foreign capital. External loans refer to loans from foreign governments and international monetary organisations, export credits, commercial loans from foreign banks, and bonds and shares issued to foreign countries. Direct foreign investments include joint ventures, contractual joint ventures, wholly foreign-owned enterprises and joint explorations. Other foreign investments comprise international leasing, compensation trade and processing assembly. (MOFTEC, 3.5.2000) More recent statistics are available from the P.R.C. Ministry of Commerce.

continued to increase. In 1997, when the interviews were conducted, 21,001 new contracts were made and their utilised value was USD 45.26 billion (agreed contracts USD 51 billion). The year 1997 was a setback and the value of new contracts dropped by nearly 30%, although the value of utilised investments increased by 7.8%. (FDI in China, 2004) Investors were probably cautious because of the Asian crisis, but simultaneously employed their old agreements.

The number and value of investments started to grow again at the turn of the millennium at the same time as the old foreign-investment laws and regulations were being revised. In 2003 over 41,000 contracts covering new foreign-funded enterprises were made and their utilised value was USD 53.51 billion. Over 62% of the investments were wholly foreign-owned enterprises, an increase of 5.23% on 2002. The proportion of equity joint ventures was 29%, an increase of 2.67%. Contractual joint ventures accounted for 7% of the total investments, a 24.14% decrease from 2002. There was thus a clear shift from contractual joint ventures and other kinds of co-operative ventures to wholly foreign-owned enterprises: the number of shareholding ventures decreased by 52.93% and joint resource explorations by 87.71%. From January to July 2004 foreign companies invested over USD 38 billion in China. (FDI in China, 2004; Statistics of Utilisation, 2004; China Statistical Data, 2004)

The total value of foreign investments in China (2003) was USD 943.13 billion (agreed contracts) and over half of it (USD 501.47 billion) was actually utilised (Statistics of Utilisation, 2004). China ranked as the top destination for foreign direct investments in 2003 (World Investment Report 2004, 19). Foreign investments accounted for 8% of the country's total investments and their share of industrial production was 33.4% (2002). Foreign-invested enterprises exported 44% of their production, which accounted for 52.2% of all exports. Their share of imports was 54.3%. (Kiinan talous, 2004)

The top ten nations and regions investing in China in 2003 were Hong Kong, the Virgin Islands, Japan, The Republic of Korea, the United States, Taiwan Province, Singapore, West Samoa, the Cayman Islands and Germany (Invest in China, 25.5.2004). In terms of accumulative investments, Hong Kong still ranks first (44.38%), followed by the United States, Japan, Taiwan Province and the Virgin Islands (Invest in China, 27.9.2004).

There were 20,000 joint ventures in China in 1990, and according to MOFTEC the number was nearly 200,000 in 1994. The smallest companies employed only 20 people and the largest ones 10,000 (Kaukonen, 1995, 91). By September 1994 about 27% of the projects were wholly in foreign ownership, almost 60% of which were joint ventures and the rest miscellaneous co-operative projects (Kauhanen, 1995, 93).

Finland does not rank among the top investors in China. According to Chinese statistics, Finland invested USD 353 million during the years 1979-2002, which accounted for 0.08% of the country's total utilised investments. In 2002 Finland occupied position 30 on the list of investors, with 19 projects valued at USD 64.65 million (utilised value), although about 96% of Finnish agreed projects were also utilised. During the same year (2002), investments from Sweden amounted to USD 99.8 million in 51 projects (utilisation 79%). (FDI Statistics, 2002) According to another survey, Finnish investments amounted to USD 3.2 billion in 2002, and when all ongoing projects are finished the total utilised value will be about four billion USD, accounting for 0.7% of China's total utilised investments (Kiinan talous 2004).

By the end of 2003, 465,277 foreign-funded enterprises had been approved altogether, although about half of them have been terminated or have ceased operations. Currently about 230,000 foreign-invested enterprises are registered and in operation, and 160,000 of them are industrial companies. Sino-foreign joint ventures and co-operative enterprises account for 62.95% of the accumulated number of foreign-invested companies, while 36.99% of enterprises are wholly foreign-owned. Foreign-invested enterprises employed over 23.5 million people in 2003. (Statistics of Utilisation, 2004; Invest in China, 27.9.2004)

4.7.2   The Location of the FDI's

The direct investments are not evenly located in China. The most popular areas have been the special economic zones (SEZ) along the eastern coast, where 86% of all utilised foreign investments were located in 1979-2002. Central China was the target for nine per cent of the investments, and western China for five per cent. (Kiinan talous 2004) Guangdong was the most attractive province in 2003, followed by Jiangsu, Shandong, Shanghai, Fujian, Liaoning and Zhejiang (FDI Distribution 2003). The Jangze River Valley has proved more and more attractive: Shanghai, Jiansu, Zhejiang, Anhui and Jiangxi received USD 29.1 billion, 54.4% of all foreign investments in China in 2003. There were over 32,000 foreign-invested enterprises from 108 countries in Shanghai alone. (Kiinan talous 2004)

There are almost 170 Finnish-invested companies in China, fifty of which are industrial enterprises. Fifty-one companies are located in the Beijing-Tianjin area, ninety-one in the Jangze River Valley around Shanghai, and 20 in the Pearl River Delta in Guangdong. There are a few companies in the central provinces and five in Zhejiang. (Kiinan talous 2004).

4.8   Conclusions

The aim of this chapter was to consider various aspects of the establishment and performance of international joint ventures in general, and specifically in China. The main incentives for establishing a joint venture generally concern the need to lower the costs or risks of the operation, or to gain synergy from joining forces with another company. As far as China is concerned, the major motives have been to overcome legal restrictions and exploit governmental policies, to meet the need to modernise the country, and on the Western side to effect market extension, economies of scale, minimised transaction costs and profit gain.

Partner selection is one of the most crucial phases in establishing a JV. Complementary contributions are considered to lay a more solid foundation for future operations than similar contributions, and if wisely managed, they support each other without severe conflicts. JVs can be formed horizontally or vertically, the configuration depending on the partners' position in the value chain as well as on their contributions and goals. They may also develop from upstream or downstream integration, or as buy-back or multistage arrangements. Partner selection in China can be characterised as mutual ignorance, meaning that the partners do not know very much about each other before starting the negotiations because of the long distances involved and the high number of candidates. The use of a mediator or consultant is therefore recommended. Partner contributions are normally complementary, and foreign companies are also advised to search for a partner with similar objectives, i.e. export or domestic market orientation.

JV negotiations are complicated and the result depends on the bargaining power and negotiation skills of the partners. Agreements are influenced by the motives and objectives of the partners, cultural differences, government policies and third-party intervention. The final agreement should contain the operational and control details, as well as the compensation structure. Negotiations tend to be very long in China because of the language barrier, government involvement and the need for approval throughout the whole process. Special attention should be paid to the composition of the negotiation team as well as to the skills of the negotiators.

Control over a JV is always a critical issue, and can be gained through ownership arrangements or bargaining power. A majority share of equity normally guarantees control over the company, although the minority partner may use its bargaining power to control some of the operations if it possesses assets that are crucial to the venture. Control over EJVs in China is regulated to some extent by the law protecting the rights of the minority partner.

Conflicts normally arise from the differing interests of the partners and through the space left open for opportunism and cheating, and the involvement of both partners in the operations often increases the problems. Organisational learning will change the bargaining power structure of the JV during its life cycle, and may also lead to the rewriting of agreements or other hostile actions. Mutual forbearance could prevent potential conflicts. The conflicts in Sino-foreign JVs are often due to a lack of understanding of the partner's culture. Foreigners have struggled with the poor infrastructure, supply problems and the Chinese management style, while the Chinese perceive foreigners as arrogant, ignorant of local circumstances and lacking in respect: they are more concerned with the differences in management culture and personal behaviour. Negligence of the underlying principles, which the partner is not willing to expose but rather makes excuses for, often leads to severe misunderstandings and is damaging to the performance of the JV.

There are several views on how joint-venture stability and performance should be evaluated. Financial indicators, market share, JV survival and duration, as well as cultural similarity/diversity in the partners, are among the most common criteria. Individual assessment by the key actors has been reported to be quite a reliable measure, but a combination of several indicators probably gives the best results. Stability calls for co-operation and forbearance. Co-operation is said to be efficient when a given amount of mutual forbearance generates the largest possible amount of mutual trust. Loyalty, forbearance and patience are essential to co-operation in China. Government regulations and involvement need to be taken into consideration and incorporated into the strategy, and government support should be seen as an opportunity rather than a threat. Sino-Western enterprises should act like good corporate citizens in order to gain confidence and acceptance.

A joint venture can be terminated by dissolution or acquisition. It is dissolved if it has fulfilled its task or the partners(s) are not satisfied with the performance and no longer consider it important to continue the co-operation, and it is terminated by acquisition if one partner wants to increase control over the operations or the bargaining-power balance or market situation has changed, for example.

About fifty per cent of the approved foreign-funded enterprises in China have been terminated or are not operating. Over sixty per cent of approved enterprises are joint ventures. Foreign investments used to take the form of a joint venture because of Chinese government regulations, but there has been a clear shift from JVs to wholly foreign-owned companies since the announcement of the law concerning foreign-capital enterprises.

A Sino-foreign equity joint venture can be terminated by mutual consent if it has fulfilled its task and was originally planned for a fixed period. If it is

terminated following a dispute over the performance of the company or partner(s), the first step is to engage in mutual consultation. If the board of directors is not able to resolve the dispute it is settled through mediation or arbitration. If arbitration is not possible the partners may start legal proceedings in a Chinese court.

5   A NARRATIVE APPROACH TO CROSS-CULTURAL COMMUNICATION

This chapter discusses the foundations and conduct of the research in which a narrative approach to cross-cultural managerial communication in a Sino-Finnish joint venture is applied. The text is written from a retrospective point of view due to the longitudinal nature of the study. The focus in this chapter is on why the narrative approach was taken, and what led to the collecting of stories of managerial communication, and why ZB was chosen as the target company. The conducting of the pilot study and the actual research is described and validated and some general results are introduced. The main results are discussed in Chapters 6 and 7. The aim here is to give a transparent description of the research process. Finally, conclusions are drawn in terms of what can be learned from one single case.

5.1   Preliminary Research Design and the Pilot Study

Effective managerial communication is essential for the success of a JV. As mentioned in the introduction, there are several studies about managing JVs in China, most of which are quantitative and focus on broad lines of management. Communication and cultural problems are frequently mentioned. These studies are very important in giving the big picture of managerial issues. However, very few of them focus on the daily operations or explore in-depth communication between managers. This study is designed to give insights on the grass-roots level into Sino-Finnish managerial communication in a joint venture.

As discussed in Chapters 1 and 3, several communication problems might be expected. Furthermore, Chinese managers may not be very open in describing communication with their partners to a stranger, which is what I would inevitably be as a researcher. Applying a narrative approach and asking the managers to tell stories about communication would not make the task any easier. Because no methodologically similar studies had been conducted earlier[25] there was a need to test the applicability of the method. I therefore

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[25]   This was the situation when the research design was developed in 1996. Author's comment.

decided to conduct a pilot study in which I could collect the first communicative events in order to test the method, and identify the most important elements in the episodes. Additionally, I assumed I would gain access to material and obtain more direct and frank answers by interviewing a friend. A further aim was to collect reference material to ensure correct interpretation in the actual research.

The pilot study was conducted in September 1996 when I interviewed a Chinese consultant in Finland (IC0, 1996). The informant was born in China and used to work as a middle manager at CITIC in order to promote China to foreign investors. Later he studied in Helsinki and in the United States. Nowadays he works as a consultant and a lecturer in international financing in Finland.

I asked the informant to tell me stories about interaction between Finnish and Chinese business people. I gave very few other instructions in order to let him speak freely and not to lead him according to my presumptions, and also to see what issues would come up spontaneously. The analysis of the interview data was not narrative in nature. I only looked for cultural distinctions and themes, in other words I categorised the material under the themes that were frequently mentioned by the interviewee (see e.g., Eskola and Suoranta, 1998, 175-176). While assessing the results I found that narrative analysis would have given more useful information than mere cultural distinctions and themes.

The results of the pilot study could be broadly categorised into two major themes: mastering relationships and marketing skills. Mastering relationships included the following statements: 'creating loyalty is an important skill', 'friendships and the ability to deal with authorities is essential', 'in order to succeed in China managers should stay long enough in the country, respect their partner and recruit qualified people and not family members'. The results coincide with the conclusions drawn in Chapter 3 on culture. Guanxi and family relations are important, but according to the consultant they should not be overemphasised. Language problems were not brought up in the interview.

The informant criticised the attitude that prevailed among Finnish managers in the mid 1990s. According to him, Finnish managers lacked marketing skills. Foreign direct investments were scattered all over China, and there was very little co-operation between the Finnish enterprises in the country. As a result, the companies had no influence on the local environment or on the authorities. He argued further that Finnish managers had not been used to competition because of the easy trading conditions in the days of the Soviet Union. It was hard to push Finnish companies on the Chinese market.

The major effects of the pilot study on the primary research were the following. Certain words were repeated in the episodes:

- friend, old friend, new friend, good friend
- someone I know (referring to other people than friends)
- insider, outsider
- respect, face
- favour, loyalty
- authorities

These words were repeated several times during the interview, indicating the importance of the issue to the informant. As a result I decided to focus on these kinds of *key words* in the final interviews as well. The words used by the consultant would be complemented by those brought up spontaneously by the JV managers. Certain *patterns* or plots in the stories were connected with the key words, e.g., the fact that forgetting to reciprocate favours led to poor performance but respecting the partner led to success. The use of the word 'friend' caught my attention in particular because the nuances in the usage clearly described the *relationship* between people. The informant supported my general preunderstanding (Gummesson, 2000) of the cultural factors and of the potential problems in communication. The results also convinced me that a narrative approach could be used in interviewing the Finnish and Chinese managers. However, some reservations remained concerning how openly the Chinese managers would tell their stories of managerial communication. Special attention should be paid to establishing trust.

5.2   Data Collection

The reasons for selecting ZB as the target company are explained in this section, and the reliability of various sources of information is discussed. The insider/outsider position of informants should be taken into account in evaluating the data and special attention should be paid to accessing various information sources, especially in China. The section ends with some general comments on the interviewing process.

5.2.1   Background information

Basic information on the Chinese economy, joint ventures and management, as well as on cultural differences between Finland and China, was collected from the literature and the available statistics. The results of the pilot study and my experiences complemented this material in line with the conceptual

framework. Information on the economic background, and on cultural behaviour and differences, helped in the planning of the interviews.

Technical, economic and cultural information was obtained from *official* bodies such as ministries, embassies, trade associations, international organisations and international banks. Most of the *publications* were rather easily accessible, but special attention had to be paid to the hidden biases in this kind of information. For instance, governmental prognoses and reports tend to support the prevailing policy, and statistical information is open to several interpretations. The *websites* of the Chinese government are very informative, but business practice does not always comply with the official requirements. *Newspaper and magazine articles* seldom meet academic standards, but they offer updated information and interesting insights on cultural issues. The official newspapers in China follow the official policy of the Chinese government. The articles provide secondary data, which is susceptible to mistakes in interpretation. If the journalist is describing events in some other country or culture than his own, he might process the events in terms of his own cultural background. Journalism focuses mostly on behaviour rather than on values and it is therefore essential to understand the values behind the behaviour. In many cases articles in magazines and newspapers focus on aberrant behaviour that is untypical of the culture and gives a negative reflection of its values. (Mead, 1994, 34-35) Academic articles based on research are more reliable, but attention must still be paid to the underlying assumptions, methods and definitions. The results must be considered in terms of their context. (Eskola and Suoranta, 1998, 211-213)

Outsiders and insiders give relevant background information about cultural differences, and especially about the history and development of the joint venture. The advantages and disadvantages of using both insiders and outsiders are discussed in Chapter 5.2.3. The main secondary sources used in this study were scholarly articles and books, official reports and other publications, as well as the policies of the Chinese government.

5.2.2   Selecting the Case Company

The main reasons for selecting ZB as the target company were its *accessibility* and *size,* and the need to *minimise cultural and business-line differences.* Access to the target company is crucial for successful research (Gummesson, 2000, 62-69). This is particularly problematic in China because interviewing Chinese managers requires an official permit. The same regulations might prevent one-to-one interviews between a foreign researcher and a Chinese interviewee. (Fang, 1997, 170) For this reason I decided to 'open the back

door'. I contacted a Finnish company with which I had been co-operating for many years. I knew they had a JV in China, and with help from the Finnish managers I gained access to ZB, their Chinese joint venture. This was, at least from my point of view, easily arranged. I never applied for any kind of permit, neither was I asked for one. I was also allowed to interview the Chinese managers alone.

Another reason for concentrating on one single company was its size. It was small enough to be analysed as a whole, and my aim was to interview all of the Finnish and Chinese managers in the JV. I interviewed seven Finnish managers during the first round in 1997, three of them being members of the board of directors and the rest were expatriates working in China for varying periods. The JV employed eight Chinese managers, including the General Manager (GM). During the second round in 2004 three Finnish and three Chinese managers were interviewed, including the eighth Finnish manager who joined the board of directors in 1998. The interviews with the Chinese managers had more of an updating purpose and served as a validity check of the previous interviews.

The third reason for selecting only one company was that Finnish companies were scattered all over China in the mid-1990s. This study concentrates on interaction between the managers of ZB in order to avoid the bias related to the differences between business lines as well as the cultural differences in various parts of China.

The only information I received about the JV in advance was that it was located in the countryside and was surrounded by a fence, there were guards at the gate and the Finnish expatriates lived at the factory. I had met one of the Chinese managers before, but I knew nothing about any of the other managers working in China. I had the great opportunity of living at the factory in a guest room, 24 hours a day, for a week. All the Finnish expatriates also lived in guest rooms at the factory. During this period I was an ethnographer meeting totally new people in an attempt to record and analyse their culture and communication. All of the material presented from now on is based on the narrative interviews and on observations made in Finland and in China in 1997 and 2004.

5.2.3   Insiders and Outsiders as Informants

Most of the data on the communicative events was collected in interviews with the Finnish and the Chinese managers in ZB in 1997. The focus in the first round was on the events, while in the second round in 2004 the purpose was to

collect material covering the later years of the JV as well as to check the validity of the data collected earlier.

I collected information on events concerning managerial communication by interviewing both outsiders and insiders. One reason for using these terms is that the Chinese consultant paid special attention to this distinction. *Outsiders*, who can supply useful data, consist of persons who have worked and socialised with members of the group, either in the local environment or elsewhere. They know the culture, but they are able to make objective assessments (Mead, 1994, 35-36). The Finnish managers (three in Finland, four in China) and the Chinese consultant could be considered outsiders.

The advantages of using outsiders include the fact that they are more able to be objective about features that members of the culture take for granted. It is easier to discuss matters with them because the respondent and the interviewer have the same cultural background from which to evaluate another culture. Moreover, having a common language makes understanding and clarification easier. It is also possible to learn from their mistakes, although owning up to mistakes might be embarrassing. Finally, the risk of upsetting local sensitivities by asking unintentionally offensive questions is smaller (Mead, 1994, 35-36).

On the other hand, outsiders are not always aware of the mistakes they have made. They might evaluate the culture according to fixed stereotypes (Scollon and Scollon, 1995, 156), and they can never entirely share and understand the values. They might not see the big picture, and if they have long been isolated from the culture and are dependent on official information, their knowledge and attitudes might be false and negative. (Mead, 1994, 36)

Another source of information was the *insiders*, members of the target culture. By observing insiders it is possible to find out how they experience their culture. This can be done by joining them in the performance of a task, such as a negotiation session, by pure observation, or by interviewing and questioning. (Mead, 1994, 36-39) I used all these methods in this study. The insiders and the Finnish managers working in China were interviewed and observed at the factory in August 1997.

It has been reported that there are great difficulties in joint ventures, because the behaviour of the Chinese partners in this case deviates from that of the Westerners. This is a claim that should be questioned: it has not been proved that the Western way is always the best way (see e.g., Hoon-Halbauer, 1994, 12-18). In addressing this problem it was necessary in this study to analyse the attitudes and thoughts of the Chinese managers as well, and to see whether they brought up the same issues as the Finnish managers did.

Using insiders has several advantages. As members of the culture, they have more information available to them than most outsiders. They are also

able to explain behaviour in terms of the local culture, and to avoid stereotyping. The biggest disadvantage is that they might be afraid of the researcher as an outsider, and may not be willing to discuss their behaviour. They might also expect the researcher to know the culture well enough so that no questions are needed. The face system might also cause some problems in interviewing Chinese managers: exposing their feelings and revealing the problems with the Western partners might lead to a loss of face on both sides. (Mead, 1994, 36-39)

Some insiders are very eager to answer questions, possibly because they wish to give a better picture of the present situation. For instance, the Chinese think that the manager, who in joint ventures is the foreign manager, is always right and has all the answers, and therefore the employees need not answer any questions, or if they do they give a good picture. In some cases the insiders fed the researcher misleading information on purpose. If only a few people are interviewed, it is possible that their attitudes differ radically from the average (Mead, 1994, 38-39). According to the Chinese consultant, grass-roots information, even if it is quite informal, like rumours in China, should not be ignored.

5.2.4   Interviewing the Managers

In 1997 eight Chinese managers and four Finnish managers were interviewed in China, and three Finnish managers were interviewed in Finland. During the second round in 2004 three Finnish managers were interviewed in Finland and three Chinese managers in China (Appendix 2). A total of 18 individual interviews were conducted, 12 in China and six in Finland. The last interview took the form of a group discussion with three Chinese managers. This study was the first experience of narrative interview for the interviewees.

The first part of the interview began with an explanation of the purpose of the study. I then encouraged the informants to describe in their own words the communicative events, i.e. to tell stories about situations in which the cultural differences had been most obvious. I asked for both success stories and stories of conflicts or problems, but gave virtually no other instructions.

The second part of the interview began with more focused questions about events and topics that had already been mentioned. I also asked some questions about issues that had not been brought up, or which I wanted to double-check. If the informant was unable or unwilling to tell stories, I asked more general questions, such as what were the biggest differences between the Finnish and Chinese management styles, or what were the difficulties in passing instructions to subordinates, and questions to do with motivating

employees, for example. The concluding question to the Chinese managers was: What are the most important things Finnish managers should know when they start doing business with China?

I did not ask direct questions about the cultural elements because I considered it my task to identify them in the interview text later on. According to Alasuutari (1995, 134-135), the researcher should pose different questions to the informants on the one hand, and to the material on the other. 'Why' questions are posed to the data in order to search for paradoxes within the material or the phenomenon under study. This was my aim as well. Most of the informants had a university background and were probably used to quantitative methods. They were not prepared to tell stories, but expected direct questions. Many of them commented that there were so many episodes, but they could not remember them, and could I come back and ask later. The consultant in the pilot study reacted in a similar way. He checked many times whether I was sure that this was what I wanted. It is possible that some great stories remain untold. On the other hand, had the interviewees had more time to think about the stories, their selection criteria might have changed. As it was, they were talking about the issues that first came to mind, and which were therefore very important.

However, the informants were learning fast and they had clearly discussed the research with each other. The second and third interviews contained many more stories than the first one. On the Chinese side, when I asked the same question about what were the most important things to know about China, I received the same answer from almost everybody. Several informants mentioned the same issues that the Chinese General Manager had brought up. This indicates, that the interviewees wanted to be prepared for the questions on the one hand, and on the other to reflect the opinions that the General Manager considered most important.

The individual styles differed remarkably. Some managers had done some analytical screening and had picked out episodes that were clearly linked with culture and communication, while others talked on a more general level. There were a few great storytellers, while others expressed themselves with fewer words. Some managers, both Finnish and Chinese, were very nervous because it was the first time they had been interviewed. One Finn estimated that the interview would last fifteen minutes: we exceeded the time by one hour. I heard one year later from a Chinese friend that one of the Chinese managers had thought I was a journalist, although I had explained the purpose of the study. I also showed the letter of reference, which was written in Chinese. Some managers found it easier to talk about general issues first, and when they began to feel more comfortable they started to talk about actual events and their interpretations of them.

The style of narrating differed between the Finnish and the Chinese managers. The Finns were very direct and also referred to individual episodes more often than the Chinese managers did. Some Finns refused to talk about disputes in their stories because they were too personal. Generally speaking, the Finns talked for longer, probably because they were using their native language. The Chinese narrated in English or used an interpreter. I was positively surprised at the reactions of the Chinese managers. They admitted that there had been problems and that cultural differences existed, but their style was indirect and they emphasised co-operation and solving problems together. However, some of them started to relax during the interview and it turned into a fruitful discussion of the events they had experienced.

After all, my impression of the interviews was that the informants were eager to talk about their experiences and feelings to someone who was quite as eager to learn more. They were also able to use me as a mediator to pass the messages and interpretations to the other partner. They gave explanations, directly or indirectly, for the disputes and problems that had occurred during the early years of the joint venture. They sometimes talked of exactly the same episodes, and the conversations often continued during lunch or over dinner, or in the evening. It was through the informal discussions that I was able to get a better picture of the life of the people working in the JV.

5.3   Analysing the Interview Data

This section describes the data-analysis process. The transcribed interview data was approached as if it were the autobiography of the ZB joint venture, therefore various techniques for analysing autobiographies were used. The main phases of the process were sequential analysis, thematic field analysis, genetic analysis and plot analysis. As mentioned earlier, the data was addressed with questions that were different from those the informants were asked, as suggested by Alasuutari (1995, 134-135). The informants were asked to tell stories about communicative events that had occurred among the managers. The genetic analysis reconstructed the 'life' of the JV, i.e. its history. Questions asked of the data covered the motives for establishing the JV, how it was controlled and what the major conflicts were. The thematic field analysis revealed the plots and patterns in the communication. The questions asked at this stage concerned the setting and the actors, the complications and the resolutions. The final summarising question was whether there were any similarities among the plots that enabled the construction of patterns. Finally, reliability, validity, generalisation and ethical issues were addressed.

5.3.1 Stories as Interpretations of Life

The database consists of a full transcription of the interviews, the interview notes and my field notes. Life, life history and life story refer to the 'life' of the joint venture under study seen through the eyes of the managers, and not to the individual managers themselves.

From the hermeneutic point of view, stories are based on life and life is expressed in stories. Thus stories make explicit what is implicit in life (Widdershoven, 1993, 9). In this research the life history (the path) of the ZB joint venture was reconstructed as truthfully as possible. However, the original meaning of the story or report may change in the analysis of the narrative interviews in order to explain other events. Looking for the ultimate truth is not the purpose of this study. The managers referred to events they found important and meaningful. The interview text is not the historical truth. (Alasuutari, 1995, 63)

The following quotation from my field-notes (1997) concerning the fate of a turtle serves to clarify how real-life episodes turn into stories and interpretations.

The Turtle

> Three Finnish managers and I were sitting and talking in the factory dining room. The handyman Mr L. came in with a big bowl and a live turtle in it. He smiled at us and explained in Chinese that the turtle would be our lunch. He took the turtle into the kitchen, which opened onto the dining room. Mr L. and the cook started to kill the turtle but it bit the cook on the finger and managed to escape. Mr L. and the cook chased the turtle around the kitchen waving a huge knife and finally caught the animal in a net and killed it. Then they closed the kitchen door. After a while Mr L. brought a steaming bowl of turtle soup to us.

This is my shortened account of what happened. Had I asked the Finnish managers to describe the situation, their stories would have been slightly different because I was the only one facing the kitchen. The stories of the cook and Mr L. would also have been different because they were the only ones who knew what happened behind the closed doors.

What is the meaning of this story? How is it interpreted? I told it to a German friend and colleague of mine. He was quite upset that I could eat an endangered animal. It was unethical and illegal. A Finnish lady was more concerned about the hygiene. To me this was a great gesture of hospitality from the General Manager that we were served an expensive and rare delicacy. The Finnish managers around the table laughed and said that this was nothing. I should have seen it when the cook tried to kill an eel and it escaped through the kitchen window.

In sum, there is one event, six different stories about it, and as many interpretations as there are listeners and readers. All of the interpretations are different, but real and true to those who created them. There is no way of judging who is right or wrong. On the question of what is the truth, no matter how many stories and how many interpretations there are, the fact remains that the turtle died and we ate it. What was the *meaning* of the episode is another issue. Whether the turtle, or even we, existed is a deep philosophical question and beyond the scope of this study.

I was mostly dealing with interpretations and different opinions about them. By collecting stories from several people in the organisation I may have been able to get closer to the truth. As is clear from the above quotation, even if people are present at the same time their stories differ. Interpretations arise from personal frames of reference, i.e. one's value base, education and previous experience, as discussed in Chapter 2. Problems arise as different interpretations clash. *This research focuses on the tape-recorded stories and the various interpretations of events that happened in the ZB joint venture.* What the informants said formed the data that was analysed. Whether they told the truth or not is irrelevant, and it is impossible to find out what actually happened in retrospect.

5.3.2 The Hermeneutic Reconstruction of Texts

There are two main principles in the hermeneutic reconstruction of texts: the principle of reconstructive analysis and the principle of sequentiality. Reconstructive analysis avoids the use of predefined systems of variables and classification. The research process is inductive: it begins with the facts and proceeds to more general structures. (Rosenthal 1993, 66) The conceptual framework of this study is thus very loose and gives space to deviant comments and themes (Silverman, 2002, 180-181). This approach assumes the purification of raw observations and all-inclusiveness, i.e. the inclusion and analysis of deviant cases. This, in turn, requires raising the level of abstraction in the data analysis. 'Unriddling', i.e. solving a riddle, means giving an interpretative explanation to the phenomenon under study based on the small clues and hints available. I as a researcher should not guess what the informants really meant (Alasuutari, 1995, 14-37), but should rather look for alternative interpretations of the events.

5.3.2.1 Sequencial Analysis and Selection Criteria

One method of purifying the raw observations and the interview text is through sequential analysis. Sequential analysis is carried out on two levels: analysis of the experienced life history (genetic analysis) and analysis of the narrated life story (thematic field analysis). The whole process of the analysis of the interview text used in this research is presented in Figure 8.

The data analysis began with the sequential analysis. The full transcription of the interview text was divided into sequences, i.e. summarised according to the following criteria: 1) turn-taking (changes of speaker), 2) textual sort (changes in style of presentation, such as narration, argumentation or description), and 3) thematic shifts.

Narrations transmit former experiences and the arguments represent the perspective of the present. The sequences that the respondent narrates, argues or describes are noted (Rosenthal, 1993, 69-70). The narratives are further categorised according to the style of narration in terms of whether they are reported (sequences of events are chained together without expanding upon individual situations) or told as a story (ibid.). Thus each story, report, argument or description is a sequence.

Vilkko (1990, 84) refers to the two main functions of a story: referential (reporting) and evaluative (argumentation). Each individual sequence is interpreted as it arises. The informant's own arguments are included in the narrative and used in the evaluation of the story or report.

According to abductive reasoning, sequential analysis involves hypothesising about the possibilities (to choose the episodes) as well as about further developments from the episodes, and finally contrasting the hypotheses with the actual outcome (empirical testing) (Rosenthal, 1993, 67). Due to the qualitative nature of this study, the term hypothesis is substituted by the term proposition, because the hypotheses are not statistically tested. The propositions were generated by me as a researcher, and they are interpreted through the informants' arguments, my own observations and experiences, and / or by contrasting them with the conceptual framework.

The principle of sequentiality assumes that the narrator has several alternatives to choose from when he/she decides which episodes to describe. Therefore the analysis procedure must take into consideration aspects such as the range of possibilities open to the respondent in a certain situation, the selection made, the possibilities ignored and the consequences of the decision. Interpretation is the reconstruction of the meaning of the text following the sequence of events. The aim is to reveal the underlying rules influencing the decision: whether the respondent systematically ignores certain alternatives or eliminates certain interpretations. The first question is not about what really

happened, or how precisely the respondent describes the events, but rather concerns the respondent's present situation and his rules of selection. Moreover, before any conclusions about the construct can be drawn, certain biographical information about the respondents must be available (Rosenthal, 1993, 66-68). The selection rules are identified by referring to the other respondents' choices.

5.3.2.2 Thematic Field Analysis

Genetic analysis is normally the first stage in reconstructing the life history of a person. Because the exact history of the joint venture is not the major issue in this study, it was possible to carry out the thematic and genetic analysis simultaneously as the narratives and descriptions arose in the text. The descriptions mainly form the company history. (Vilkko, 1990)

The main objective of thematic field analysis is to reconstruct the informants' system of knowledge, their interpretations of episodes and their classifications of experiences into thematic fields (Eskola and Suoranta, 1998, 175-182). The thematic field could be defined as the

> sum of events or situations presented in connection with the theme that form the background or the horizon against which the theme stands out as a central focus. (Rosenthal, 1993, 61-64)

This study combines the emic and etic approaches (Alasuutari, 1995, 67). First, I as a researcher categorised the sequences in the broad typology of cultural elements and types of managerial communication I had defined (etic). I then categorised the informants in the light of the interview data (emic). The aim was to identify the mechanism of selecting the episodes, and to establish whether the same topics, or thematic fields, were covered by the Finnish and the Chinese managers. The present perspective determines what the informants consider relevant, how they build links between events, and how the past, the present and the anticipated future affect their personal interpretations.

Narratives often evolve around the thematic topic given by the interviewer. During the first stage of the interviews, in other words 'the main narrative', the topics are brought up by the respondent because no instructions are given. This is why the selection of thematic topics is very important: it reflects the narrator's own choice and the relevance of the topics to him or her. There is a reciprocal relationship between the overall construct (life history) and the relevant experiences (life story): the construct determines the relevance of the experiences and the cumulative relevant experiences form the construct.

Before starting with the genetic analysis in depth, the researcher must reconstruct these selection principles (Rosenthal, 1993, 64).

Because several Finnish and Chinese managers were interviewed, the narratives and their division into thematic fields in this study will confirm the construct and the relevance of the experiences. Trust in me and in my aims as a researcher, and in my relations towards the company and its managers, had an impact on the stories, which resulted from the process of interaction between the narrator and the researcher. Thus the selection of the episodes was not random, but reflected the informants' need to give a certain impression.

5.3.2.3 Coding and Organising the Interview Text

The interviews were first transcribed and the text was divided into sequences, as mentioned earlier. Each sequence was given a code identifying the narrator, the nationality, the number of the sequence and the type: narrative or descriptive. The narratives were further divided into stories, reports and arguments, and identified by a number. By following the code it is possible to track the sequence to the original interview text. The text itself, in the sequences, was left in its original format in order to preserve the voice and style of the narrator. At the same time as the narrative was put into components, it was given a name. Naming sequences must be done carefully to avoid biased connotations.

Each sequence was summarised as follows: the interview number, the nationality of the narrator, the number and type of sequence (narrative, argument, description), and the type of narrative (story, report). The eight cultural elements present in the sequence, the type of communication (motivation, negotiation and dispute), the JV phase as well as the key words characterising the contents of the sequence were also included in the summary.

Every sequence was coded in order to facilitate finding and referring to the data. For example, the code IF2Se12N12S7 includes the following elements: IF2 = Interview 2, Finnish manager; Se12 = Sequence 12; N12 = Narrative 12; S7 = Story 7. The summarising characteristics of the sequences were also organised in an Excel table (Appendix 3) for counting purposes, to facilitate quick search, and to give an overall view of the interview data. Each sequence was analysed separately, and could contain several cultural elements, and sometimes more than one mode of communication. A sequence could also contain information about the phases of the joint venture.

The total number of cultural elements, the mode of communication and the JV phase were summarised for each interview. Because the unit of analysis in this research is a sequence, not the ZB joint venture as a whole, the cumulative

sums identify the most frequently appearing elements. This indicates the significance of that cultural element or mode of communication to the narrators in question. Therefore the numbers should be interpreted qualitatively, not quantitatively. Quantitative methods can also be combined with qualitative methods in order to facilitate generalisation from the analysis of one single case. (Silverman, 2002, 103)

It was not always easy to identify whether the sequence was a story, a report, an argument or a description. In many cases the sequences contained argumentative material, and a description very often resembled a report. However, it would have been impossible to divide the material in as short sequences as the style suggested. There were almost 400 of them, and a larger number would have given very little extra information about the issue under study. Therefore, if there were difficulties in deciding what kind of sequence it was, my main criterion was its end use: e.g., if the content was related to the history of the JV, I recorded the sequence as a description. Arguments were used in evaluating the stories, reports and descriptions.

The descriptions were first organised following the life cycle of the joint venture: 1) Planning phase, 2) Operational phase, 3) Termination phase and 4) Wholly Foreign Owned Enterprise phase. The narrators' comments and descriptions were combined and categorised under these phases according to the themes that arose from the interview data. Shortened versions of the sequence code were used as references. The references have been removed from this text in order to facilitate reading.

Stories and reports were first organised according to the cultural elements suggested in the conceptual framework. Within these cultural elements the sequences were further categorised according to the themes that arose from the interview text. However, the interplay between values, social organisation and language led to the conclusion that at least some of them should be discussed together. Additionally, events concerning aesthetics and religion were very seldom narrated, and they are discussed under the theme of values and attitudes. In Chapter 7, therefore, the following subchapters cover the results of the thematic analysis: Material Culture, Government Rules and Regulations, Values and Attitudes, Social Organisation, and Language. The mode of communication is discussed within these subchapters.

5.3.2.4 Plot Analysis

The plots of the stories and reports were further analysed according to the following structure, which is based on Vilkko's (1990, 94-95) and Apo's (1990, 63) suggestions and enables the analysis of sequences (Table 4).

Table 4.   The Narrative Structure (plot) of a Story (adapted from Vilkko, 1990 and Apo, 1990)

1. Introduction	Introduction to the events
2. Setting	Familiarisation with the circumstances
	Description of the starting point
	Place and date, characters
3. Complication	What happened?
	Complication of events
	Interesting, exceptional notes
4. Result or Resolution	Reactions to former happenings
5. Evaluation	Respondent's reactions to the events
	Answers the question: so what?
6. Conclusions	What did I learn? Conclusions for future events

Finally, the individual text segments were analysed and the propositions about various interpretations of the episodes were checked. Some ethnographic features were combined in the analysis of how the managers themselves interpreted the episodes. They commented on the events directly or through an actor in the story, and sometimes emphasised certain features by repeating or exaggerating them. Personal styles of narrating also varied: it could be formal, informal or humorist, for example. Accent and paralinguistic features, such as breaks and laughter, also influence interpretation of the sequences. Generally speaking, communication is a matter of interpretation. Truthfulness and honesty are not the main concern, which is about not only what is said, but also how it is said and what is not said.

Deeper analysis of the episodes was made by focusing on the use of key words such as 'friend', 'old friend', 'new friend', 'insider' and 'outsider', as well as on the new words used by the informants. According to the preliminary study, these key words seemed to be closely connected with successful performance and therefore required more precise analysis.

5.3.2.5 Genetic Analysis

The purpose of genetic analysis is to reconstruct both the biographical meaning of experiences at the time they happened and the chronological sequence of experiences. The purpose of analysing narrated life stories is to reconstruct the present meanings of experiences and the temporal and thematic order of the story at the time of narrating. The goal of the hermeneutical construction of texts is to reconstruct both the life history and the life story, which cannot be separated: they are dialectically linked and produce each other (Rosenthal, 1993, 59-61). Since it is not the purpose of this research to

produce the 'true life story' of the joint venture, genetic analysis is used only as general background for the events narrated by the managers. The exact chronological sequence is not relevant.

The genetic analysis began with the extraction of all the data from the interview that was independent of the narrator's own interpretation. This included all of the descriptions. This data was used as background information in the reconstruction of the case (Rosenthal, 1993, 68). Some arguments and stories were also used here in order to present the ZB establishment and development process, as well as the informants' own justifications and reasoning that were linked to the ZB operations and not to communication as such.

The sequences were originally organised according to the themes suggested by Parkhe (1993, 231): motives, partner selection, control/conflict issues and performance assessment. They were all given a name and a code, and summarised by using keywords to describe the main contents. All of the keywords were used by the informants. The text in each sequence was left in its original format. Both the original as well as the summaries were used in parallel when the text was written. In the writing process the sequences were further organised according to the phases of planning, operation and dissolution, with motives, partner selection, control/conflict, performance assessment and new organisation as sub-headings. The codes were used as references in the text: e.g., reference IF3Se10 refers to interview (I) 3, Finnish manager (F), sequence (Se) 10, in which a Finnish manager is talking about the JV establishment and the bureaucracy related to it. By following the codes it is possible to trace the comment to the original interview text. These references have also been removed from this text.

The research process is summarised in the following Figure 8.

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┌─────────────────────────────────────────────────────────────┐
│              Full Transcription of the Interviews             │
└─────────────────────────────────────────────────────────────┘
                              │
                              ▼
┌─────────────────────────────────────────────────────────────┐
│                     Sequential Analysis                       │
│  Turn-taking          Textual Sorts          Thematic Shifts  │
└─────────────────────────────────────────────────────────────┘
                              │
                              ▼
┌──────────────────┬──────────────────┬───────────────────────┐
│    Narrative     │     Argument     │      Description       │
└──────────────────┴──────────────────┴───────────────────────┘
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Structure of Individual Narratives
Introduction
Setting
Complication
Resolution
Evaluation
Conclusions

| Story | Report |

Thematic Field Analysis

Genetic Analysis

Proposition of Cultural Factors

Respondents' Arguments

Reflection to Theory

Conclusions of the Individual Narratives

Company History

Final Conclusions of the General Features of the Narratives
Patterns, Generalisation of the Study

Figure 8.   The Data Analysis Process

The design is a combination of several sub-analyses, i.e. sequential analysis, thematic field analysis, plot analysis and genetic analysis. Thematic field analysis reveals the cultural elements in force behind the communicative events, as well as the phases of the path of the JV. Genetic analysis produces the life history of the ZB joint venture. The conclusions from the individual narratives show the plots, the combinations of which reveals the communication patterns that were set as the aims of the research.

5.3.2.6 Overview of the Results of Analysing the Sequences

The interview data consisted of 389 sequences altogether (Table 6.). Of these, 122 were stories or reports, forming the core of the identification of cultural elements and communication patterns. Descriptions (109) were used in constructing the JV history, and arguments (147) were used in the interpretation and evaluation of the stories and reports, as well as in the descriptions. Only 11 sequences contained material that was irrelevant to the research (small talk, clarifying questions, my comments, comments about other companies, for example). The number of stories and reports well exceeded my estimation of 50-70 narratives.

As Table 5 indicates, the most important cultural elements I found in the interview texts were values and attitudes, social organisation, and language: they could be identified 511 times. Deeper analysis revealed the close interplay between these three elements. In most cases when values and attitudes could be identified, directly or indirectly, linkage to social organisation was also evident. Both cultural elements (values and attitudes and social organisation) were expressed in language in a way that was quite typical of both cultures. Religion and philosophy were not mentioned unless I specifically asked about them, although they formed the basis of the values and attitudes and the social organisation. The linkages and interplay between religion and philosophy, values and attitudes, social organisation, and language are discussed in more depth in Chapter 7.

Education (68 findings) and political life (67 findings) were equally important. However, political life and government regulations did not have as big a role as I assumed. Education was related to the technical, managerial and cultural knowledge of the managers and workers. Neither was material culture (57 findings) among the most important cultural elements, despite the fact that this concerned a developing country, China. One might also assume that aesthetics would be important in the garment industry, but it was referred to only once when the interviewee was talking about designing clothes for the Chinese market. Therefore aesthetics is not discussed in Chapter 7.

Table 5.   Summary of the Sequences

Sequence		Cultural Element		Communi-cation		JV Phase	
story	43	material culture	57	motivation	23	motives	10
report	79	language	120	negotiation	52	partner selection	17
argument	147	education	68	dispute	109	control/conflict	27
description	108	aesthetics	1	giving assignments	22	performance assessment	59
other	12	religion and philosophy	7	general	97	operation	23
		values and attitudes	205	co-operation	3	organisation	22
		social organisation	186	grapevine	1	termination	10
		political life	67			new company	25
						general	2
total	389		711		307		195

Most narratives (109 stories, reports and arguments) described disputes. Dispute turned out to be too strong a word to describe the situation. Problem solving could have easily replaced it, because in many cases it was only a question of solving a technical problem or not understanding what was going on. However, some problems developed into severe disputes that needed to be solved on the highest level.

Motivating other managers was very seldom referred to. In most cases the managers were talking about motivating employees or about their personal motivation for doing their work. Negotiations were described especially by the Finnish top management and some controllers and departmental managers. On the other hand, how to give assignments to lower-ranking managers and workers became a critical issue and is discussed in Chapter 7.

Many narratives described communication in general (97 findings). Not all of the episodes fell neatly into the motivation, negotiation or dispute category, and many were a mixture of all three. Non-verbal communication was also mentioned, and the Chinese in particular used informal and /or non-verbal channels to send messages. Thus the original division of managerial communication into these three modes was not as effective as I had assumed, and needed to be modified during the analysis.

Originally the aim was to collect stories and reports about communicative events between managers. As the pilot study already showed, the narrative interview as a data-collection method is very productive and the JV history

(Chapter 6) was more extensive than I had planned. However, it serves as a background to the cultural part and also links the episodes more closely to the life cycle of the JV. The initial division of the descriptions was based on Parkhe's (1993, 230-231) dimensions of IJV research streams: the motives for establishing a JV, partner selection, control and conflict issues, and performance assessment. The interviewees also described the organisation, operation and termination of the JV, as well as the management and communication in the new company, and the original division had to be extended to cover these areas. Due to the qualitative nature of this research, new categories and typologies arose during the process. I also aimed at all-inclusiveness (Alasuutari, 1995, 14), i.e. including all of the sequences in the analysis. Deviant cases were analysed with special care (Silverman, 2002, 180-184).

5.3.2.7 Analysis of the Main Narratives

The main narrative is in the first part of the interview when the interviewee responds to the first open question. Narrators often pick out the most important issues first, and analysing the main narrative is therefore important. The length of the main narratives varied a lot: the longest ones contained nine or ten sequences and the shortest ones only one. Almost half of the sequences were stories or reports. The key issue shared by both the Chinese and the Finnish sides concerned the different styles of communicating. The Finns did not understand the Chinese indirectness and avoidance of negative expressions, and easily interpreted indirect responses as lying. The Chinese, on the other hand, found the Finnish way of communicating very direct and open, the Chinese being more careful in what they say.

Another issue of concern to both parties was the concept of efficiency and the linking of salaries to it. This turned out to be one of the most difficult problems throughout the life cycle of the joint venture. Although the reason for the dispute was economic and not cultural, the way it was communicated and resolved was closely linked to the cultural background of the partners.

The Finns also talked about avoiding responsibility: if problems occurred it was difficult to find the person who was responsible. Responsibility was passed from one person to another and hierarchy was important. The Chinese, on the other hand, emphasised co-operation as a way of shortening cultural distance. They admitted the problems but also mediated the reasons that arose and said that the Finns did not know the situation in the area. The Chinese also questioned various company practices and did not always agree on the superiority of the Finnish system. Job descriptions and organisational

questions were also mentioned by the Finns. The communication episodes and their interpretations in the cultural context are discussed further in Chapter 7.

5.4   What Can Be Learned from a Single Case?

The material for this research was collected in one company, ZB, in China. However, the unit of analysis is a sequence, not the company as a whole, as in normal case studies. The analysis includes quantitative elements, such as calculating the frequencies of various cultural elements or JV phases, thereby implying their importance (see e.g., Silverman, 2002, 103-104). However, as mentioned earlier, the frequencies were analysed qualitatively and not quantitatively. It is for this reason that the term 'narrative approach' is used instead of case study or quantitative/qualitative study.

One has to think what can be learned from one *single case*. Stake (1994, 236-242) points out that optimising the understanding is more important than generalisation. He distinguishes three types of cases, intrinsic, instrumental and collective. An intrinsic case is analysed because it is interesting in itself. Readers learn from the detailed description of the case rather than from any comparison. An instrumental case offers insights into an issue or theory: the case itself is secondary and it is selected because it may advance understanding of something else. Illustrating how a particular phenomenon exists within a particular case is valued and trustworthy knowledge. In a collective case study several cases are combined in order to increase understanding of a particular phenomenon, not of any single case as such.

This study could be characterised as a *qualitative instrumental case study that includes quantitative elements*. Chapter 6 in particular describes the path of the ZB joint venture, and assesses in what respects the performance of this company coincided with the general performance of Sino-foreign JVs and in what respects it did not. In fact, any other Sino-Finnish JV could have been chosen instead of ZB. The main reasons for the selection were access, location and the size of the company. It should also be borne in mind that one deviating finding could increase understanding of the phenomenon or add new elements to the existing theory (Fang, 2000, 62).

Reliability in terms of this research is quite complex because the social world is always changing and thus complete replication of the events or the interviews is not necessarily possible. Stake (1994, 241) points out that, although observations or interpretations are not readily repeatable, triangulation clarifies the meaning by showing different ways of seeing the phenomenon. However, *synchronic reliability*, the similarity of observations

within the same time period, can be assessed by means of methodological triangulation (Silverman, 1994, 145-146).

The data used in this research consists of full transcripts of tape-recorded interviews. It is divided into 389 sequences, which are further analysed. By comparing and combining the sequences it is possible to create alternative interpretations of the events. As the sequences involve several narrators, it is possible to contrast the texts and the interpretations of the narrators with each other. This is, in fact, actually assessing *synchronic reliability by using one method* within the same time period with different informants. There was one episode about a dispute between a Finnish and a Chinese manager. The stories of the informants were totally different. Another Finnish manager provided clarification and interpretation of the event by explaining the complications involved. This kind of interpretation helps managers to recognise and interpret the weak signals in managerial communication and to be better prepared for communicating with Chinese managers.

The use of an interpreter in China weakened the reliability of the interviews in that he may have changed the meaning or ignored certain comments. Moreover, the managers who were able to speak English were more open in their comments than those who had to use the interpreter. However, the great number of sequences and informants and the inclusion of all of the interview data guaranteed that the negative comments were also brought out. If one person was not confident with direct discussion the other managers often spoke for them and clarified the situation. Because most interviews were tape-recorded the correspondence between the tapes and the transcript is easily checked.

Validity concerns the truthfulness of the accounts, in this case sequences, i.e. how well an account represents the phenomena it refers to. The concept of truth was also discussed in Chapter 3. It was argued that there are differing views among Finnish and Chinese managers about what is true and what is not. The same tendency is evident in the interview texts. Consideration of the truthfulness is up to the researcher and the commentators, but they are also influenced by cultural perceptions of truth. Triangulation is also used in assessing the validity of the research. By *comparing different kinds of data* (quantitative and qualitative) and *different methods* (e.g., observation and interviews), some researchers seek to establish whether they corroborate one another. According to Silverman (1994, 156-158), the problem of triangulation is that it ignores the context-bound character of the material and assumes that members are 'cultural dopes', who need a researcher to clarify their illusions. Therefore he suggests that triangulation should be used at the 'why' stage of the research, i.e. in analysing the data not in its collection. I used my

observations and field notes mainly in the interpretation of the episodes and not during the data-collection stage.

Another method of assessing validity is *respondent validation*: the tentative results are taken back to the subjects for comment. This is done to avoid clear misunderstandings. Managers are not experts in their own case, therefore their confirmation or rejection is not a sign of the absolute truth (Silverman, 1994, 159-160). A validity check was conducted in China on 20 December 2004 in order to check some inconsistencies in the interviews as well as some of my own assumptions that were not based on the interviews. Because the transcripts of the tape-recorded interviews form the main material in this research, the validity is easily double-checked: it is true that the managers said what they said. The interpretation is the researcher's and the readers' responsibility.

The main *beneficiaries of the research* are Finnish and Chinese managers who work in joint ventures. By following the narratives of the communicative events as well as the overall path of the JV they will be able to predict future situations and to react in time. The analysis of the cultural elements deepens understanding of the significance of the events and their impact on real-life situations.

The focus of attention is on increasing *understanding of the phenomenon*, not on proving its existence. Therefore generalisation is not a problem (Alasuutari, 1995, 147). The reader makes his or her own conclusions in terms of how the narratives of the events can be generalised and how they fit into the reader's own situation. Furthermore, given the large number of episodes, raw observations can be combined into meta-observations. Several different versions of the same episode were collected and combined into a few typologies of narratives covering all the variation among them. Thus it could be said that the problem was studied not in terms of individual episodes, but rather on a more general level (Alasuutari, 1994, 147). Additionally, by contrasting the path of the ZB joint venture with the average performance of Sino-Western JVs it is possible to show in what respects ZB is a *representative sample* (Alasuutari, 1995, 42) of a bigger group of joint ventures and in what respects it is not. As a consequence it is possible to inductively evaluate the applicability of the decisions made in this instrumental case.

Good *relationships and trust* are essential when insiders are involved. This is one reason why this company was chosen. As stated earlier, I knew the Finnish company and the managers there beforehand. I had the opportunity to live in a guest room at the factory and thus to be involved in the everyday life at the factory as well as in the informal part of living. All the Finnish managers lived at the factory as well.

Ethical considerations and the need for trust affect the behaviour of a researcher and how he/she exposes the real purpose of his or her questioning. I presented a letter of reference written in Chinese to the General Manager of the factory, thus introducing the purpose of the study as well as giving some background information. After the validity check in 2004 the GM gave his permission to publish the name of the company, but I decided not to use that privilege for the following reasons.

Social and educational experiences influence informants' attitudes towards a foreigner asking delicate questions. *The misuse of friendship* to collect data might lead to severe problems when discovered. The written text may hurt the informants intentionally, but also unintentionally. Just as much attention must be paid to what was written as to what was left out. Because doctoral dissertations are public they can also be sensationalised by the mass media. The researcher cannot guarantee that no offensive characterisations will be produced, which increases the need to protect the anonymity of the informants at the cost of losing part of the material. However, the informants probably recognise themselves and each other, which might provoke high tension. It also offers the opportunity to learn and understand more about each other. (Murphy and Dingwall, 2001, 340-342)

Applying the narrative approach in one single company in China raised many ethical questions. I had to deal with problems concerning *face issues*, indirect communication, and the confidential nature of many of the events narrated by the informants. Careful selection of words was needed to protect the anonymity of the interviewees without compromising the research. In some other cases, identifying the informant was necessary and even desirable. Looking back at the course of this study I fully understand why most studies in China are quantitative. Maintaining anonymity is a key issue in analysing survey data. However, this means that the voice of the informants is not as clearly heard and, as discussed in the introduction, collecting communicative events would not have been possible through a survey.

6 FROM RICE FIELD TO INTERNATIONAL MARKETS - THE PATH OF A SINO-FINNISH JOINT VENTURE

This chapter describes the path of the ZB Sino-Finnish joint venture from the first negotiations to its termination, as well as the establishment of a wholly foreign-owned company. The present state and future perspectives of the company are also introduced. The path of the company is investigated from the following aspects: motives for establishment, partner-selection criteria, JV negotiations, operations, control and conflict issues, performance assessment, and termination. All these issues are seen from both the Finnish and the Chinese perspectives. Each section begins with a description of the actions and processes of the ZB joint venture, and the more general experiences of joint ventures are then considered, especially in China. By comparing the empirical findings with the general development it is possible to draw conclusions about how well this company represents the average. It is important to remember that ZB is only one example of the vast number of joint ventures that have been approved in China, and the results cannot be directly generalised to all. However, for managerial purposes it is useful to consider the unique solutions made in this company and to evaluate their applicability in other companies as well.

The data was collected from 18 narrative interviews conducted in May and August 1997 and April-May 2004 both in Finland and in China. A validity check was carried out in December 2004 in the form of a group interview in China. In 1997 the joint venture had been in full operation for one-and-a-half years. It had already reached the halfway point on its life cycle, which no-one could have anticipated at the time.

6.1 The Motives for Establishing the ZB Joint Venture

This section examines the motives of the partners R and CF for forming the ZB join venture. The results are considered against the general motives for IJV establishment, especially in China.

6.1.1   The Motives of Partners R and CF

The Finnish partner R was a medium-sized private company in the textile and garment industry. According to the Finnish managers, the industry had been in transition in Europe since the 1980s. The general trend of moving production abroad actually began in Sweden, when big Swedish companies moved their production to Finland. As Finland became too expensive, they moved to Portugal. Later the European industry spread to South East Asia, the Mediterranean area (especially Morocco, Tunisia and Turkey), former Soviet Union states and Central Eastern Europe. The Finnish partner had moved the assembly first to Portugal, then to Turkey, Russia, the Baltic States and Asia. Production was based on contract manufacturing. Investing in China was a direct continuation of partner R's former international operations. At present [2004], there are production facilities in the Baltic area, South East Asia (especially Vietnam and Laos) and China.

Partner R had a knitwear unit in Finland in the 1990s that manufactured final products starting from the yarn. The products were targeted at export markets mainly in Europe. However, the unit was too small to be profitable and there were basically two alternatives: move it closer to the headquarters in Finland or to China. Partner R already had experience of working with the Chinese, having been engaged in contract manufacturing in Beijing since the mid-1980s. Lower production costs, especially labour costs, constituted the main reason for investing in China, although previous experience of international operations in Europe and Asia supported the decision. As a result, the machinery of an entire factory was transferred from Finland to China, although the aim was to export the products, not to enter the Chinese market.

The Chinese partner CF was a state-owned enterprise (SOE) in the chemical industry. CF wanted to expand into the textile industry but it did not possess the required technology. It was important to learn about the new technology, and also about the management style and company and 'spirit', how to run a factory and how to operate on the market. This was possible only through co-operation with the outside world, which was initiated and facilitated by the reform policy.

The Chinese General Manager (GM) pointed out that China offered a big market and the Finnish partner had the technology, the funds and the management expertise. He also mentioned the other aspect of the reform policy: it was aimed at not only opening up and co-operating with the outside world, but also at reforming the domestic market. The objective of the JV was to produce goods in co-operation with the foreign partner for the Chinese market as well as for export: 'With Finnish technology and Chinese

production we can succeed on the Chinese market'. He found this very important in order to prevent other companies from taking over. He also mentioned the local situation: the intended location was a small town (50,000 inhabitants) and the investment would create many new jobs in the area.

Some people voiced their suspicions about co-operation in general: one Chinese manager, referring to Mr Deng's famous speech, said that it was good to be in contact with the outside world, but when the windows were opened on account of all the good news, the flies would come in. By flies he meant the negative impact on the Chinese culture, new things that did not suit the country and should be resisted.

6.1.2   General Motives for Establishing JVs - Focus on China

The main reasons for forming a JV in less developed countries have been to do with government policy and legislation, the skills of the partner and the assets or attributes that have been needed (Beamish, 1988, 11). Exploiting vast resources, low labour costs and the potential profits from the huge Chinese domestic market have been the major incentives for *foreign enterprises* investing in China, while the primary objectives of the *Chinese government* in attracting foreign investments have been to bring in foreign capital, advanced technology and management skills, and to facilitate urban construction (Woodward and Liu, 1993, 83-85, Shapiro et al., 1991, 216). Low labour costs are attractive, but on the other hand a greater number of employees increases the production costs. The willingness and ability of the owner of the technology to transfer it, and of the recipient country to use it, are prerequisites for technology transfer (Shapiro et al., 1991, 216-217). It is also important to have similar objectives concerning the mission of the JV, in other words orientation to the domestic or the export market (Melvin, 1995, 22).

Reducing production costs and sharing the costs of a project have also been among the most common motivators for establishing a joint venture on the *international level*. Saving time and lowering start-up costs, especially in green-field operations, are key factors, and other reasons for forming a JV include risk reduction and the search for synergy: it is one way to reduce political risk because governments often prefer JVs to wholly foreign-owned enterprises. Synergy is gained by joining forces in research or marketing, for example, and JV partners also learn from each other by exchanging technologies. (Contractor and Lorange, 1988, 10-19, Harrigan, 1986, 15-23; Killing, 1983; 6-7 Hennart, 1982, 168-169; Kogut, 1988, 174-176; Inkpen, 1995)

The Chinese government has emphasised the need for modernisation, the acquisition of new management skills as well as the expansion of the domestic market. Increasing the foreign currency inflow and the substitution of imports are also mentioned in the Chinese law (Law, 1990, effective until 2001). Previous studies on motives for setting up Sino-Western JVs have pointed out the same issues. Government policies, or overcoming government restrictions, as well as the need to gain access to the partner's skills and knowledge, were also seen as the main motivating factors for establishing JVs in general. In turn, other motives such as combating foreign competition or risk reduction were not explicitly mentioned by the partners, except for the brief remark by the Chinese manager mentioned above. However, lowering production costs makes prices more competitive.

According to the Finnish managers questioned, the Chinese General Manager was very influential and active in local and regional politics, and being fully aware of government policies thus emphasised the national and regional benefits. However, it is surprising that the parties started to negotiate in an industry (textile and garment industry) in which foreign investments were not encouraged by the Chinese government at the beginning of the 1990s due to the traditional and labour-intensive nature of the industry. The most probable reason for this was that new technology had been introduced and the products were targeted to export markets, thereby bringing foreign currency to China. These issues were emphasised by the government, and from that point of view the investment was justified. (Law 1990, art. 9)

In sum, the need of the Finnish partner to benefit from low-cost production and to export final products, coupled with the need of the Chinese partner to gain access to modern technology and management systems and to improve the local situation, correspond to the motives for forming Sino-Western JVs as well as JVs in general. The Chinese partner CF also emphasised synergy and the learning perspective. Export orientation was common to both partners, although the Chinese partner found the domestic market just as important. It could therefore be inductively reasoned that the motivation base of the ZB joint venture represented the majority of similar JVs in China.

6.2   Partner Selection

Partner contributions, as well as the selection criteria and process, are discussed in this section. The data on the ZB joint venture are first introduced, and a more general discussion follows.

6.2.1   Contributions of Partners R and CF

The Finnish partner was a designing, marketing and logistics centre. Its products were manufactured abroad, imported to Finland and distributed to the final customers in Finland, other Nordic countries, central Europe, Russia and North America. However, it should be remembered that company R did not own the production units abroad, but operated on a contract-manufacturing basis. Contract manufacturing started in China in 1984. When the JV negotiations started the company was management-owned.

   The technology was advanced, highly automised and computerised. The latest innovation, from the year 2000, was wearable technology, combining computer technology with clothes: wearable technology is a high-tech product and an innovation worldwide.

   The Finnish partner R had no experience of forming and operating a joint venture. The Managing Director (MD) paid his first visit to China and Chinese companies in 1986, his experience gained during ten years of contract manufacturing being the basis for starting negotiations. None of the Finnish managers spoke any Chinese. The objective of partner R was to outsource composition manufacturing to the JV and to take care of the designing phase of the manufacturing process, supplying most of the materials as well as post-production marketing and logistics. R did not conduct a thorough investigation of the Chinese business culture or of the process of starting a company in China. It did not know much about its potential partner company either, but relied on the recommendations of experienced consultants.

   The *Chinese partner* CF was a state-owned enterprise in the chemical industry. It had no textile manufacturing, but wanted to expand into that area, and it had excess personnel. It also supplied the JV with some chemicals and spare parts, but did not intend to participate in the daily operations except as an owner. It was the intention to sell a small proportion of the products on the Chinese market. CF had no previous experience of international business or of co-operating with foreigners. They knew nothing about the potential partner either, and therefore they also used consultants in the preliminary investigations.

6.2.2   Partner Contributions in China and Internationally

Many researchers have emphasised that JVs in which the partners' contributions are *complementary* are more likely to succeed (e.g., Harrigan, 1986; Geringer, 1988; Beamish, 1988; Contractor and Lorange, 1988). *Symmetry* has also been mentioned as a stabilising factor, although there are

different definitions. According to Harrigan (1986, 11-12), symmetry exists when the attributes are complementary in terms of resources, mission, managerial skills and bargaining power, such as when there is a shared vision of the mission of the JV. Asymmetry is also seen as an asset if the partners are able to exploit it efficiently.

Buckley and Casson (1988, 42-44) take a different approach to symmetry. The configuration of a JV is symmetric if the position of the partners and of the products in the value chain is identical, while the joint venture is symmetrical if the *positions* of the partners in the value chain and of the *products* that flow into the system are *identical*. In this respect, the configuration of the joint venture under negotiation would be *asymmetric*. Figure 9 illustrates the configuration of the joint venture based on the motivations and contributions of the partners R and CF.

The ZB joint venture was formed downstream but the position of the partners in the value chain was somewhat different. Both were identically situated upstream regarding the JV, and they were acting as suppliers. However, the Finnish partner R was also positioned downstream because it was a customer of the JV. Buckley and Casson (1988) suggest a buy-back arrangement to describe this kind of situation.

In Sino-Western joint ventures the *Chinese partner* normally supplies land, plant, labour, infrastructure, some machinery and some materials, while the *foreign partner* provides technology, capital, marketing and management skills, and sometimes even raw materials (Woodward and Liu, 1993, 83). Contributions are complementary rather than similar. However, Melvin (1995, 22) emphasises the long-term objectives of investing in China: the partner should have a suitable supplier and/or distribution network, as well as guanxi, in order to facilitate operations. The impact of guanxi should not be overemphasised, however, to the extent of disregarding the financial performance of the potential partner. Access to raw materials as well as to skilled and unskilled labour, the supply of water and electricity, transportation links and the overall infrastructure in the area are all significant. In order to attract expatriates to the site there also have to be adequate housing, schools and leisure-time activities. (Melvin, 1995, 22)

From the Finnish perspective, this joint venture was close to an asymmetric buy-back arrangement as suggested by Buckley and Casson (Figure 9), while to the Chinese partner it was asymmetric forward integration into a joint venture. Because both the motivation and the configuration were asymmetric, it could be concluded that the whole ZB joint venture was asymmetric, at least on the local level (in China). Global symmetry requires investigation of both partners' other operations as well, which is beyond the scope of this study.
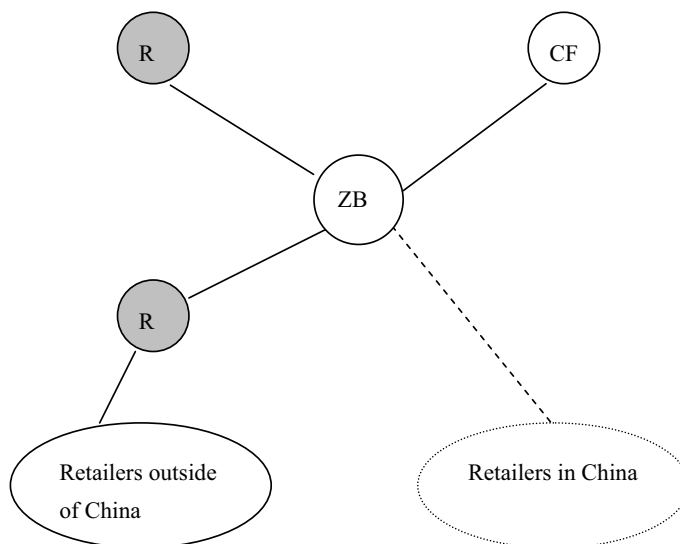
Figure 9.   The ZB Joint Venture Configuration (based on Buckley – Casson's
              model 1988, 43)

In sum, the Finnish partner's contribution to the JV was in machinery and equipment, modern technology, the management system, the final customers and the distribution channels, in its experience of international operations as well as in the training of the Chinese staff. The Chinese input consisted of financing, personnel (some managers and workers), political and business connections as well as experience in operating in China. The contributions were thus complementary. The parties also differed in terms of ownership and expertise. The Finnish company was a private company and the Chinese partner a state-owned enterprise. The Finnish partner was very experienced in international operations, but for the Chinese partner the venture was its first. Both parties were inexperienced in joint ventures and did not know much about each other. Their attributes were quite similar in content to those normally offered in Sino-foreign JVs, the main difference being that the local partner often supplied the machinery and equipment. The contributions of the parties were complementary, as mentioned above.

Although the starting situation seemed difficult to handle, the bargaining power seemed to be in balance, according to the interviewees. The majority partner was able to use its size as well as its local expertise as leverage, while the minority partner had new technology and management to be negotiated. The objectives of forming the joint venture were also different. The Finns were looking for a low-cost production unit with a view to exporting final

products outside of China, while the Chinese wanted to acquire new technology and management, develop the area and sell part of the production on the domestic market. However, there seemed to be a mutual understanding about the need for the venture. Symmetry and asymmetry, as described above, are also related to the bargaining power of the partners and can thus influence the performance of the joint venture. Co-operation in this case must be seen as an input. Both partners were committed to their own motives for engaging in the joint venture. Neither commitment to each other nor mutual trust was visible at this stage because the partners did not know each other. Strength of motives and complementary contributions must prevail over asymmetry and imbalance for the joint venture to succeed.

6.2.3 The Partner Selection Process

The *selection process* was started with a Finnish consulting company with long experience of operating in China searching for potential partners in China. At the same time, CF was also looking for a foreign partner. The Finnish consultant introduced the candidates to each other. A Chinese government representative was also used as a mediator in order to ensure that information was passed on in a culturally correct form between the negotiating parties. The Chinese official saw an opportunity for bringing modern technology to a developing area, and he also had personal contacts in the province. The consultants brought both companies together to start negotiations in Finland in 1993.

Choosing the right partner is one of the most important decisions in establishing a joint venture in *China*. The task used to be easy because the decision used to be made by the ministry, but as the country has opened up, the freedom for the foreign company to choose its partner has also increased. This freedom has offered new alternatives and flexibility to foreign firms, but it has also made decision-making more complicated. Finding eager partners is easy because many Chinese companies are willing to attract foreign capital and technology due to the government policy explained earlier, but choosing from among the multitude of potential partners must be done carefully and is therefore time-consuming. The process should not be rushed, however. Market information is scarce and not always cheap or easily available. Negotiations involve several interest groups, such as local and national authorities, technicians and senior management, in addition to the potential partners, all expressing their own interests concerning the mission and the future of the joint venture. (Melvin, 1995, 21-22)

It is particularly important in China to study the business as well as the living environment, and given the size of the country and the open-door policy, regional differences may be considerable. It is also worthwhile studying the various development policies in the provinces when considering the success of future operations. It is just as important to analyse the characteristics of the partner, not only its business licence and material contribution, but also its financial status, distribution channels, reputation and management, for example: these enterprises might only be interested in additional capital and not necessarily committed to the objectives of the JV. The Chinese partner candidate should also have guanxi in the area. The use of experienced consultants is recommended, as is involving government (local and national) officials in the process as early as possible. (Melvin, 1995, 21-22)

In sum, the partner candidates were a medium-sized Finnish private company in the textile and garment industry (R) and a Chinese state-owned enterprise (CF) in the chemical industry. They offered complementary contributions to the joint venture. Both Finnish and Chinese consultants were used in the selection process. According to the results of previous studies, these factors could be seen as facilitating the negotiation process and the success of the venture. On the other hand, neither partner carried out thorough investigations in advance, and merely relied on consultants. The parties knew nothing about each other when the negotiations started, thus the relationship could be characterised as *mutual ignorance* (Shapiro et al., 1991, 229). They had nothing in common in terms of business line and final customers. The Finnish partner was experienced in international operations, but for the Chinese company it was the first time. Integrating into a joint venture was a new experience for both of them. Furthermore, both English and Chinese language skills were inadequate. From the outside, this potential joint venture would appear to have been quite risky. It was a question of how committed the parties were to forming and operating the new company, and whether they were able to build mutual trust.

6.3   Joint Venture Negotiations

The JV negotiation process and the problems to be tackled are described in this section first from the ZB perspective and then on a broader level in terms of Sino-foreign and international JVs.

6.3.1   Negotiating the ZB Joint Venture

The actual negotiations with the potential partner CF started in 1993 in Finland, when a Chinese delegation visited the Finnish partner and familiarised themselves with the factory, the technology and the management. The delegation consisted of representatives of the Chinese partner, local authorities as well as banking people. On the Finnish side the negotiation team consisted of the Managing Director of the company and the Finnish consultant. The representative of a Chinese national-level organisation acted as mediator. Later on the Finnish Director of Administration and Production Manager also joined the negotiation team. The language of the negotiations was English and interpreters were used. The Finns also made onsite visits to China for the first time in 1993 in order to get to know the Chinese partner and familiarise themselves with the environment and the site of the factory.

One big problem in the negotiations, according to partner R, was how to set a price on immaterial rights, in other words know-how. As the Finns saw it, it was not possible to run the operation without a considerable input of know-how, the value of which must be at least as high as the value of machinery and equipment. In the Chinese partner's opinion, it was very difficult to set a price on intangible assets. According to the Finns, the negotiations were long, complicated and difficult to follow, and a collective decision was required at every stage. The agreement was finally made and the contract signed in December 1993. The ZB equity joint venture was formed, with the Finns having a minority ownership of 25% and the Chinese partner 75%. The interests of the Finnish partner were ensured in the partner contract, and mainly concerned its sole right to decide about prices and customers.

Banquets and speeches were an inevitable part of the negotiation process. Long lunches and dinners at which alcohol was served typified the Chinese way of negotiating, which was very different from the Finnish style of easily skipping lunch and refraining from alcohol during working hours. When the contract was signed the elite of the province as well as the whole staff of the Chinese partner enterprise were invited to celebrate the formation of the new company.

6.3.2   Negotiating JVs in China and Internationally

As soon as the potential partners are convinced of achieving certain strategic objectives better together than apart, the negotiations for forming a joint venture can begin. Buttery and Leung (1998, 387) suggest that foreign negotiators should take three characteristics into consideration in *negotiating*

with the Chinese: the mixture of guanxi, favours and face, the slow pace of negotiations, and the meaning of a signed contract. The negotiations can take a long time due to the legal system and the Chinese perception of an agreement: to them it is only a piece of paper stating that the parties agree to co-operate. The details can be discussed throughout the project, which is contrary to the Western perception of a final agreement. (Melvin, 1995, 22)

The Chinese negotiation team may consist of 15-20 people representing various interest groups (the potential partner, local and national government offices, and banks, for example) (Melvin, 1995, 23). The representatives are more likely to vary during the negotiation process, but the key negotiators as well as the chief negotiator normally remain the same. It is notable that the chief negotiator is the person the Chinese partner will probably propose as the general manager, and getting to know him/her and building trust is important even at the early stages of the co-operation. The Chinese chief negotiator is also often the person who introduces the project to the examination and approval authorities.

Given the strong influence and decision-making power of the state authorities, it is advisable to engage negotiators who have good working relationships with or connections to the approval authorities. This makes it easier to follow the formal rules and regulations concerning the JV formation, and thus to avoid problems in the approval process later on. (Reuvid, 2003, 214-217) Guanxi means building life-long relationships with a network of people, such as by inviting people to banquets, as described above. By turning to this network it is possible to influence the negotiations or other matters. The more powerful people are in the network, the more they can influence the result, if it is thus agreed. Guanxi is based on reciprocal favours, i.e. the received favour needs to be returned in a more excessive form. (Pearce and Robinson, 2000, 31-38; Lee and Ellis, 2000, 25-29; Bond and Hwang, 1987, 223-226; Buttery and Leung, 1998, 382-384; Leung and Wong, 2001, 56)

Negotiations with the Chinese tend to be calm and to avoid open confrontation. According to Confucian principles, a gentleman should control himself and never lose his temper (The Great Learning. The Doctrine of the Mean, 1999, 84-85). Seeking consensus is partly a result of Chinese bureaucracy and partly a face-saving procedure, and someone in a higher position should be respected and not criticised (Pearce and Robinson, 2000, 31-38; Lee and Ellis, 2000, 25-29; Bond and Hwang, 1987, 223-226; Buttery and Leung, 1998, 382-384). The foreign negotiation team should remain consistent throughout the whole negotiation process in order to build trust. The CEO should not be sent first, however. Lower-ranking managers do the preliminary work, and if the project does not start, the CEO will save face because he/she was not involved in the initial phase. (Melvin, 1995, 23)

The negotiations normally consist of two parts, the technical part and the commercial part, which may involve different negotiating teams. The technical part in JV negotiations includes details about the contributions, and the commercial part covers the financial issues. Bureaucracy dictates the negotiation process to a great extent, and the authorities should be involved at an early stage in order to ensure a successful outcome. All decisions require approval by the authorities. The foreign partner will also benefit from an advisor who is experienced in JV operations in China, and who can identify the potential problems in the negotiations in advance as well as use his or her expertise throughout the negotiation process. The foreign partner should also build good relations with the approval authorities and not leave it totally to the Chinese partner. Furthermore, the foreign partner might need the services of other advisors such as tax or accounting experts. (Reuvid, 2003, 212-218; Neunuebel and Sapte, 2003, 141; Björkman, 1994, 35)

All equity joint ventures need the permission of the examination and approval authorities (Law 1990, art. 3; Law 2001, art.3). Even though the contract is signed by both partners, it might be rejected by the authorities and returned for re-negotiation. Minor amendments can easily be made without the need for a separate meeting, but bigger changes require the parties to reconvene and search for a new solution. It is thus essential to maintain good relations and continuous consultation with the ministries. (Reuvid, 2003, 217) Making changes after submitting a signed application often causes frustration and misunderstandings among foreign partners, who assume that the signed contract is the final one.

Generally speaking, *international JV negotiations* are complicated due to cultural differences, a diversity of objectives among the negotiating parties, differences in bargaining power, government influence, legal restrictions, financial implications, and other issues. The negotiators need to be able to handle several issues simultaneously, to calculate and evaluate the tradeoffs between alternatives, and to foresee the impact of the combination on the future success of the venture. The final outcome is determined by the bargaining power and the negotiation skills of the parties. According to Harrigan (1986, 30-41),

> … the form of the joint venture is the net result of the bilateral bargaining power of its owners.

Governmental policy and legal regulations might change the bargaining power of the parties. Changing policies also create uncertainty and increase the need for short-term contracts and fast lump-sum compensation. (Luo et al. 2002, 834; Contractor and Ra, 2000, 275) On the other hand, government policy may act as a stabilising factor: if the government favours foreign

investments and gives clear regulations for their establishment and operation, it gives good guidelines to the JV negotiators. Luo et al. (2002, 842) argue further that if a third party, such as a government representative, introduces the negotiators to each other the agreements tend to be longer and more detailed than if the opposite is the case.

As stated above, the motives and objectives of the negotiating parties may be complementary or similar. The more heterogeneous the goals are, the more specific the articles of the contract tend to be. This implies the need for avoiding conflicts in advance and solving the potential disputes later on. (Luo et al. 2002, 832-841) However, the objectives and negotiation strategies of the parties may vary from their initial motives, depending on the situation. There may be concealed objectives such as profit maximisation or a limited-durability venture. The parties might also be tempted into opportunism or cheating in order to meet their objectives. (see e.g., Contractor and Lorange, 1988, 34; Contractor and Ra, 2000, 291-295) Incomplete agreements leave the way open for these actions later on, too (Luo et al, 2002, 829-834).

Cultural differences have a significant effect: the larger the differences are, the more complicated the negotiations. However, according to Luo et al. (2002, 839-843), the longer the cultural distance the less enthusiastic the parties are to include all the details in the contract. They are more willing to adjust the agreement later when they know each other and the culture better.

A JV agreement always includes details about how the contributions of the parties are compensated. Contractor and Ra (2000, 273-278) emphasise that the essence of most alliances is the transfer of knowledge between partners. The authors do not see alliances as solely contractual or equity-based, but rather consider them a hybrid form of co-operation involving several payment structures. They argue that in the most general case the EJV is a combination of equity participation, contractual knowledge transfer from the partner(s) to the alliance, and inter-firm trade between the alliance company and one of the parents. Therefore negotiating the compensation structure is a key issue in negotiating the EJV agreement (see also Harrigan, 1986, 30-41).

Financial negotiations might catch most of the attention of the JV negotiators. However, they should also consider how the potential JV would be managed, i.e. what the negotiating partners' relationship to the new venture would be. Sharing the management requires a lot of effort from both sides, and will probably cause problems. The chemistry between the partners is another important aspect to be assessed. The resources and attributes affect both the willingness to co-operate and the bargaining power of the parties. (Harrigan, 1986, 30-41)

In sum, JV negotiations often last long due to the complicated issues, the diverse objectives and the bargaining power of the potential partners, the

involvement of several interest groups and the cultural differences. The use of guanxi and building up friendship and trust at the beginning are particularly important in China, and potential partners get to know each other over lunch and at banquets. Consensus is sought in order to save the face of negotiators and to guarantee the approval of the contract. In this respect, JV negotiations between R and CF did not differ from the average except that they progressed more quickly than is normal.

6.4   The ZB Greenfield Operation

Very few studies have focused on the construction and installation phase of a JV. Therefore this section is based solely on the empirical findings. It describes the construction and test phases, the organisation, as well as the production, markets and customers of the ZB joint venture, and points out the importance of this phase when the different management cultures start to merge.

6.4.1   The Construction and Test Phases

The establishment of the joint venture was literally a *green-field operation*: the factory was built on a rice field in 1994-1995. The JV was located in a two-thousand-year-old town inland. Even though the area was a development zone and only 40 km from the sea, it was covered by a different government policy. The county did not have access to all of the financing and other benefits available for coastal areas and special economic zones (SEZ). The roads were narrow and in poor condition. ZB was the first foreign company in the county, and most local people had hardly ever seen and worked with Westerners before. The locals were very interested in and friendly towards the foreigners. The Western management style and working attitude were new to them all, and their English-language skills were inadequate as were also the Chinese-language skills of the Finns. There were interruptions in the supply of electricity as well. In practice, everything had to be started from scratch.

   The newly established JV bought the land[26] and was responsible for *constructing* the factory building in co-operation with the Finnish partner R. The construction started in 1995. The layout was designed according to the Finnish manufacturing process. As previously mentioned, the machinery and

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[26]   ZB was located in a rural area and was therefore able to buy the land instead of renting it. (Validity check 2004)

equipment from the Finnish factory were transported by sea in fifty containers and installed in the new facility in China. There were some problems with the construction and installation, such as the placing of the factory on the site, unclear Chinese construction rules and laws, and determining the responsibility for various phases in the construction. The construction took six months and the *installation* another six months. The factory was ready by the end of 1995.

At the same time as this was happening, four Chinese departmental managers were *trained in Finland,* from summer 1994 to summer 1995. Some of them did not speak English at all when they arrived, and some had studied at university but had not used English. They studied English, manufacturing technology and management for a year, and learned about all the production phases, the quality control, how to write dyeing specifications and how to maintain the machinery. Three vice-departmental managers were also sent to Finland for three months for training.

After returning to China these managers were the only ones who could communicate directly with the workers and teach them what they needed to know. Without skills in English and Chinese this would have been impossible. Finnish *expatriates* were in charge of supervising and controlling the manufacturing process. The first test runs were in January 1996. The Chinese managers who had been trained in Finland and the Finns taught the Chinese workforce. The Finnish Vice General Manager (FVGM) was stationed at the factory permanently, but all the others had assignments varying from one to six months, renewable if needed. The Finns lived in the factory guestrooms because it was much easier to supervise the factory, which was running in three shifts, when they did not have to travel back and forth between the town and the factory.

Most of the *employees* had been working for state-owned companies. Some of them had experience, but most had never done this kind of work before. They had been working on silk, which is very different from knitwear. There were also more machines to learn to use, but as well as having to learn about the new technology they had to adjust to a new management style.

High-voltage electricity came from the local power plant. Water came from the local waterworks but it was processed in the factory to be used in manufacturing. With the exception of the early months of construction there were hardly any unexpected interruptions in the electricity and water supply. The factory also had three water-storage tanks to enable the process to be finished in case of a sudden interruption in the water supply.

Production was tested for three months, and full production started in April 1996. In only fifteen months the rice field had been transformed into a fully operating company.

6.4.2 The ZB Organisation

The highest decision-making power in JVs in China rests with the board of directors, according to the law on Chinese-foreign joint ventures. The composition and tasks of the board are defined in the law and the JV contract. (Law 1990, art. 6, 2001, art. 6) The Finnish company R was a minority partner, holding 25% of the equity. The chairman of the board was the Finnish MD, and there were representatives from both partner companies and the national government (the official who had been mediating in the JV negotiations). The General Manager of partner CF became the General Manager (GM) of ZB as well. The Chinese Vice General Manager (CVGM) was responsible for administration and financing, while the Finnish Vice General Manager was responsible for the whole production.

Production was divided into three departments. There were Departmental Managers (DM), several Vice Departmental Managers (VDM), Chinese supervisors as well as group leaders. Additionally there were five Finns in charge of controlling the manufacturing process. Their tasks varied from total supervision and control over a department to smaller daily operations and quality control. The organisation was very hierarchical. The Finns could approach and supervise Chinese workers and managers regardless of rank. However, before taking any actions the Chinese managers asked for confirmation from the GM, which sometimes complicated the communication and slowed down the action. There were nine levels in the hierarchy.

6.4.3 ZB's Production, Markets and Customers

ZB produced knitwear garments according to the patterns made in Finland. At first all the materials, the colours for dyeing, as well as the accessories, were imported from Europe. Local supply was not possible at this stage for quality reasons, but by 1997 most accessories came from China. The JV was in close contact with the Finnish headquarters. The manufacturing process began with knitting the yarn, then the knitwear was sent to the dye house, then for printing and cutting, and finally for sewing and finishing. Meeting European Union quality standards was a key production objective and this was achieved within one year. The factory was enlarged in 1998 when a new sewing department was built. The final products were targeted for export. At first the sole customer was the Finnish partner R, which distributed the products to the European market.

There were a couple of attempts to sell products under the ZB or Finnish T brand in China. ZB had a few shops in the province, but they never really

succeeded. The problem in selling on the Chinese market was the price of the products: the use of imported materials and chemicals made them too expensive. The normal Chinese consumer did not think about the quality if the price was five-to-fifteen times higher than the price of competing products. Some market research was conducted later in the Shanghai area. The results were promising in terms of quality, design and the like, but the selection was not wide enough. It was decided not to invest in designing a special collection for China, but rather to continue exporting.

6.5   Control and Conflict Issues

This section examines the control of ZB in relation to other Sino-foreign JVs. The most common problems that were faced by the Finnish and Chinese managers are discussed in a more general context.

6.5.1   Control in ZB

The Chinese partner CF was the majority owner of ZB, but as stated earlier, the Finnish partner had secured its rights by partner contract. Both partners were involved in the daily operations. The JV could therefore be characterised as a shared-management EJV. Disputes related to the exercising of power are discussed more deeply in the cultural part, as this section focuses on decision-making, quality control and bureaucracy.

6.5.1.1 Decision Making

The Chinese General Manager of ZB was also the GM of the Chinese partner. The Finnish partner, although with minority ownership, represented the expertise and know-how and this led to many difficult situations. Basically, the Finnish managers made the decisions and the Chinese personnel implemented them. Implementation was slow and required constant supervision. When the tasks were not fulfilled, several explanations were given. Furthermore, employees were involved in the decision making in situations in which Finns would not have done so, and such collective decision-making often led to a decrease in efficiency. The fact that many managers lived in the same blocks of flats as their subordinates also made it very difficult for them to make decisions concerning hiring and firing and

salaries, for example, because they had to justify the decisions at home to their friends and neighbours.

It was also difficult for the Chinese managers to make independent decisions and to take responsibility, especially on the departmental level given the strong fear of responsibility and of making mistakes. All decisions were confirmed by the GM, and some were pushed onto the Finnish managers. The refusal to take responsibility was partly attributable to the SOE legacy: the highest-ranking manager makes all the decisions. Furthermore, the departmental managers were very young and the responsibility involved in starting a new enterprise was enormous. As one Chinese manager put it, things take some time in China. The Finns, in turn, emphasised efficiency and wanted to do everything very quickly. The breadth of the managers' responsibilities, which included involvement in operational work such as moving materials if there was time, was also new to the Chinese managers.

Bureaucracy and the involvement of the authorities were also considered to be problems by the Finnish managers, although it was well understood that this was part of the Chinese system. Formalities were important, and the decision-making was based on hierarchy and not on the person's competence. The manager made the decisions and they were followed. This used to be the case in Finland, but not any more.

The Chinese GM pointed out the political differences between China and Finland. In spite of the 'one country, two systems' notion, China was still a socialist country, which made people see things somewhat differently. The Chinese GM agreed with my comment about Finnish managers' directness and impatience. If the Finnish managers wanted something to be done immediately, the Chinese management expressed the same wishes, but it was sometimes difficult to achieve due to the open policy. Some things were managed according to the old system, and others were in the new system. Even if the parties involved wanted to proceed quickly, this was not possible. An additional factor was that the systems were changing all the time in China, and 'business was not so well-developed'.

6.5.1.2 Quality Control

Quality issues were also complex, and influenced the salaries. The Departmental Managers had learned most of the technical details in Finland, and there were very few problems during the test period. The Finns knew a simple way of teaching the operatives to work on knitwear and to make different kinds of clothes, but they were very careful and precise about the quality: export quality needed to be good. The supervisors and workers

complained that they worked harder than employees in other companies, and good quality should be reflected in the salaries as well. The Chinese managers were in the difficult position of having to explain that clothes of poor quality were returned from Europe, and that meant major problems.

When the production starts from the yarn and ends with the finished clothes, it is difficult to control the quality. It was very difficult for the Chinese workers, who had no knowledge of the quality level in Finland, to judge whether the output fulfilled the requirements, and it was therefore necessary to teach quality control. At first each lot was inspected by the Departmental Manager. If local chemicals, materials and manufacturing techniques were used it was impossible to sell the products to the European Union because they would not have fulfilled Öko-tex (environmental protection) requirements, for example. Regardless of the difficulties encountered during the learning phase, however, the required quality level was reached within one year, by the end of 1996. At present [2004], most materials and chemicals are bought locally.

6.5.2   Conflicts in ZB

The biggest problems or conflicts reported by both the Chinese and the Finnish managers concerned the concept and implementation of efficiency, and communication difficulties. The Finns also referred to the work ethic more often than the Chinese. The work ethic is discussed in depth in Chapter 7.

6.5.2.1 Efficiency, Salaries and the Work Ethic

One of the biggest problems in ZB was the concept of efficiency. A typical Chinese enterprise employs a lot of people and the pressure from the authorities to increase the number of employees was strong. Although the salaries were low, the Finnish partner emphasised productivity. Salaries were based on efficiency. Salaries in Chinese enterprises are based on the piecework system: if a person's quota is one hundred pieces a day, the salary might be twenty yuan, and if he/she makes two hundred pieces the salary goes up to forty yuan per person. Salaries based on efficiency are calculated differently. If a worker makes one hundred pieces in a day, for example, the efficiency is one hundred per cent and the salary may be twenty yuan. If he/she makes two hundred pieces, the efficiency is two hundred per cent, but this does not earn forty yuan - rather thirty or possibly thirty-two. This was difficult for the workers to understand.

Salary-calculation systems also varied between the departments due to the nature of the work. It is common for Chinese workers to talk openly about their salaries with each other, and they noticed that there were also differences in the total amounts of monthly salary between the departments. This evoked strong criticism and led to some changes in one department. Moreover, all the mistakes made and second-class material produced in other departments culminated in even lower salaries in the third department. Combined with the fact that there were too few machines to allow for efficient working, the problems finally came to a head in a strike in the third department. After negotiating with the trade union and the employment authorities the board of directors decided not to change the system. As a result, about ten workers left. As mentioned above, the trade union was able to operate in ZB: many Chinese companies have been accused of restricting union operations even though their rights are secured by Chinese law, including the JV law. The existence of the trade union was not clear to the Finns at first. The Chinese also referred to the regulations defining the minimum number of workers who had to be employed, which might have led to the overstaffing that was a constant problem until 1999.

Another issue in which the role of the trade union became evident was the question of working hours and working days. The Finnish managers stipulated a five-day week, taking account of the health of the workers and efficiency. The workers wanted to work seven days a week and to do overtime because they would earn more money. Negotiations were held and the working days were first extended to six a week, with Sunday off, and later to seven days a week, 10-12 hours a day: overtime would be available in an emergency. After the joint-venture period they were still working seven days a week, but four days were shorter (eight hours). At present [Dec 2004] they work six days a week. According to the Labour Law (1995), the maximum working hours are 44 a week and the maximum number of days is six. However, exceptions to this rule can be made with the approval of the labour-administration department.

Generally speaking, the managers considered the Chinese workers to be hard-working and fast learners. The fact that they reached the desired quality level within one year is also indicative of this. However, some of the Finns said that Chinese did not work to their full capacity and only did the minimum: they could do better. The Chinese workers knew how to produce the goods, but they did not do it. They were not committed to their work, and in particular, reaching high standards was not considered to be important. Nevertheless, the Departmental Managers understood the quality issues and were able to supervise and control the process strictly.

If the workers did not obey the rules they were punished, often by having their salary reduced. In the departments in which the mistakes could not be rectified, such as when needles were broken, a full lot of the wrong shade was produced or the print quality was poor, there was a direct impact on the contract salary: 15 tons of second-class material resulted in a total loss of salary. In another department poorly sewn clothes had to be taken to pieces, which affected efficiency and thus also the salary. Another form of punishment was to reprimand the worker and to teach him or her how to do the work properly. Repetition of the mistake would result in being fired, which served as an example to the other workers to encourage them to work better. This system was reported to be very common in Chinese enterprises but was not applied or approved of by the Finns.

It was very common to find employees sleeping at work when the JV first started. Because of overstaffing the employees managed to complete their work quite easily, and spent the rest of the time sleeping or reading the newspapers. Attempts to change the compensation system to make it more motivating for those who took responsibility and worked hard were rejected by the Chinese management at first, the justification being that it was not customary in China. To the Finns it seemed unfair if hard work and reading newspapers were rewarded equally. It took one year before the first departments really understood the concept of efficiency and its connection to salaries.

6.5.2.2 Language and Communication

As anticipated at the beginning of this research process, one of the problems was linked with language and communication. Because not all of the managers spoke English, interpreters were needed and this was not always easy. Discussing complicated management or production issues was difficult and furthermore, the Chinese way of giving excuses or irrational answers instead of answering directly was interpreted by many Finns as lying or cheating. Interpreters helped a lot in understanding and anticipating problems, but due to the different (local) dialect they sometimes could not follow the discussion. The Chinese also had difficulties understanding the Finns, and sometimes asked other Finnish managers for help.

Conceptual discussion in managerial terms was also difficult. One Finnish manager compared China with the Soviet Union, stating that there were actually two generations missing. In general, as a result of the Cultural Revolution the older Chinese managers lacked modern managerial education. People were intelligent, but without education they could not understand

modern management practices. However, on the departmental level all of the managers were young and had a university degree. They had also been trained in Finland. Therefore the situation in ZB was better than in many other companies. Generally speaking, education in China was improving all the time and international business was becoming easier. The Chinese managers emphasised the fact that knowing each other and the policy in China facilitated communication and helped to minimise misunderstandings.

According to one Chinese manager, the Chinese are not as open and direct as the Finns. In Finland if something was wrong the manager would be told, whereas in China people are more careful in what they say and managers listen to the workers more. Some Finns were considered to be too straight and to show their emotions and anger too easily, although some Chinese managers could cope quite well with the Finnish directness.

Communicating the orders given by the Finnish managers to the workers was not simple either. Because most workers did not speak English, the DMs needed to translate all of the instructions from English into Chinese, and to explain carefully how to proceed. For example, everything in the dye house was based on recipes, and all new shades required a new configuration of chemicals to be used. The new recipe was first tested by the departmental manager and then translated and explained to the workers. The Finnish managers used non-verbal language, examples and a few words of Chinese in their communication with the workers. 'Bu haa' meant 'not good' and 'haa haa' meant good[27].

6.5.3   Control and Conflict Issues in IJVs Focusing on China

Managing a joint venture is problematic in that there are two partners involved. *Control* can be gained through ownership arrangements or bargaining power (see e.g., Beamish, 1988; Geringer and Hebert, 1989). The company can acquire more control by increasing its equity share or making the other partner more dependent on the assets it holds. The minority partner is able to control the JV if it can make decisions about the critical capabilities or resources, e.g., key patents or trademarks: it is not necessary to control all the operations. Other ways of gaining control include arranging a management contract and reserving the right to appoint the directors or key managers. (Root 1987, 152-153) It is also possible to issue voting and non-voting shares, and to retain a majority of voting shares. Equity participation of banks or other

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[27]   The spelling is not according to the pinjyin system, but reflects the local dialect. Author's remark.

companies that have no interest in management could solve the problem. In some cases, spreading the majority shareholding over a multitude of small investors is worth considering (Walsh 1991, 87-88).

In the 1990s the main alternatives for foreign investors *in China* were a Chinese-foreign equity joint venture, a Chinese-foreign contractual joint venture and a foreign-capital enterprise (joint exploration for offshore oil projects, for example). Joint ventures were also known as share-holding corporations. At present [2004], the main alternatives still apply, and co-operative businesses, foreign-funded share-holding companies and some other new forms are also available (Overview of FDI in China, 14.6.2004).

An equity joint venture (EJV) is formed between a foreign company, enterprise or economic organisation and the respective Chinese counterparts, and is subject to approval by the Chinese authorities (Law 1990, art. 1). The foreign investor has to hold a minimum of 25% of the registered capital (Law 1990, art. 4; Law 2001, art. 4). Profits, risks and losses are shared among the parties in proportion to their contributions to the registered capital. The laws and regulations define the relationship between the partners, the organisation and operations of the JV, as well as the appointment of the board of directors. The laws affect the management, but also protect the rights of the minority partner. (Laws 1990, 2001; Rules for the Implementation 1995, art. 14; Rules for the Implementation 2001, art. 18)

Because in this case the other partner was an SOE, a few words about the impact of government ownership on the corporate culture are in order. Government ownership has been a hindrance to the development of SOEs, because strict rules and regulations have resulted in deficient management, unprofessional managers and low employee motivation. SOEs have also lacked marketing expertise and competitive experience. Frequent intervention of authorities in the corporate operations as well as parallel decision-making and rigid state planning have weakened the ability of Chinese enterprises to operate successfully. (Zhang and Van Den Bulcke, 1996, 387-388)

Differing interests among the partners may lead to the failure and termination of the JV. *Conflicts* may arise mainly through two sources: inter-firm diversity and partner opportunism (actual or potential) (see e.g., Harrigan 1986, 23-27). Inter-firm diversity derives from the reciprocal strengths and complementary resources of the partners, which provided the basis on which the JV was formed (complementary contributions). There are also differences in corporate and management culture, as well as in strategic direction. (Parkhe, 1991, 579-601) Furthermore, inadequate communication due to distance and language barriers create conflicts (Walsh, 1991, 87). During the life-cycle of the JV organisational learning and adaptation minimise inter-firm diversity, and as a result the reasons for the existence of the JV might disappear.

Learning each other's technology changes the bargaining power structure, for example. The imbalance of power may show as a loss of autonomy and control, or as the loss of competitive edge. (Harrigan, 1986, 23-27) Specific tensions may lead to conflicts and the rewriting of agreements.

Partners may also start opportunistic actions. Buckley and Casson (1988, 34-37) discuss opportunistic behaviour and the punishment strategies used against a partner who has violated the agreement. It is possible to have recourse to the law, but this is quite limited because many forms of cheating are legal and therefore beyond the scope of this strategy. Do-it-yourself-punishment relies on the victim's own judgement, but suffers from limited powers of sanctions and a lack of credibility. If the victim imposes sanctions on the other partner, he or she may damage his or her own interests as well, and moreover, the other partner may not believe that the victim will carry out the threat. In order to overcome the credibility problem the parties could develop a reputation for never being the first to abandon forbearance, and for always taking reprisals against others who do. In some cases the punishment is almost automatic, because both partners share the profit and the risk: the assumed gains for both will decrease as a result of cheating.

Among the potential problems facing Western JV managers in China are the following (Björkman, 1994, 38): a lack of ability to handle the negotiations, funding problems and a lack of product localisation (local subcontractors and materials are not used). Disregarding typically Chinese characteristics such as the face system and guanxi is another of the most common mistakes made by foreign managers. Westerners also tend to lack patience and continuity on the personnel front.

Hoon-Halbauer (1994, 12-18) identified similar problems: managing Chinese staff as well as managing relationships with Chinese executives. A deficient or inadequate infrastructure, the demand for JV exports, severe bureaucratic interference and the multitude of regulations have also been reported. The Chinese managers' views on relationships with foreigners concentrated on attitudes. Foreign managers were seen as exploiting the Chinese market and as paying little attention to the welfare of Chinese workers. They were also accused of showing a 'colonial attitude'. The foreigners also passed negative remarks about the Chinese, and refused to listen to how to deal with officials, for example. Foreign managers perceived the Chinese as incompetent and stubborn when they insisted on doing things the 'Chinese way', while the Chinese described foreign staff as arrogant and aggressive, and as lacking in respect for the Chinese managers and their knowledge of the local situation.

In sum, control over a JV can be gained through ownership arrangements or bargaining power. A majority share of the equity normally gives control over

the company, but a minority owner can use its bargaining power if it possesses assets that are crucial to the venture. Control over JVs in China is partly regulated by the EJV law protecting the rights of the minority partner. Control over ZB was in the hands of the board of directors, which had a Finnish chairman. The Chinese partner held the majority 75% of the equity and appointed the General Manager. The minority partner had secured its rights by means of a partner contract and the appointment of a Vice General Manager.

The setting suggested conflicts in the management of the company, but the major problems occurred in the daily operations and not on the strategic level. The issues that evoked conflict involved efficiency and salaries, quality control, decision-making, language and communication, the work ethic, bureaucracy and hierarchy. These conflicts mainly arose due to different corporate and management cultures, and differences in language and communication also led to misunderstandings. According to the Finnish managers of ZB's local supply network, managing Chinese staff, relations with Chinese managers, negotiations and the bureaucracy were problematic. On the other hand, funding and export demand caused no difficulties. Guanxi was handled by the Chinese partner and caused no problems - on the contrary. In the opinion of the Chinese managers a lack of patience and aggressiveness were typical of the Finns, which was also reported by Björkman (1994, 38) and Hoon-Hallbauer (1994, 12-18). The Finns did not trust the Chinese staff's knowledge of the local situation. However, they were not accused of having a colonial attitude or of neglecting the welfare of the Chinese staff.

In overcoming the difficulties the partners showed mutual trust and forbearance, and opportunism was not mentioned. Even the termination phase, which is discussed in the next section, was handled through mutual understanding. The selling partner often behaves opportunistically in the acquisition process in order to get a better share price, but this was not the case in ZB. It could be concluded that the control structure of the JV functioned quite well and in accordance with generally accepted principles. The conflicts that occurred were in the daily operations rather than on a strategic level and there was no evidence of opportunism. In this respect ZB was different from other joint ventures.

6.6   Performance Assessment

The stability and performance of ZB is assessed in this section in the light of general performance criteria for joint ventures.

6.6.1   Evaluating the Performance of ZB

The Finnish managers' perceptions of the JV performance varied from reasonably satisfied to 'damned satisfied'. The factory was running, quality was exceptionally good, and in spite of difficulties in the start-up phase the factory was operating according to schedule. Basic knowledge of the processes and activities had been acquired within one-and-a-half years, by the summer of 1997. They saw the reasons for the success in terms of the strong input from the Finnish partner, the expertise that was passed on to the JV, and letting the Chinese handle the local relationships. The general manager took care of relations with local authorities and other relevant actors. The Finns attended some meetings but did not interfere otherwise: in their opinion, the Chinese could handle them better. Mutual trust had been built between the Finnish Chairman of the Board and the Chinese GM. The former described the relationship as follows: 'He trusts me and I trust him'. The latter emphasised his friendship with the Finnish top managers and praised them for 'being in sincere co-operation with us'.

For the Finns the project was a way of testing their capabilities in terms of whether it was possible to start a factory in China and to make it function as it would in Finland. Questions concerning when to use diplomacy and when to use force, and how to involve the Chinese partner in the operations, required a lot of thinking and learning. The time spent in China had been a great learning experience, and had also changed their personal priorities in life – in terms of what was really important and what was not. Family relations assumed even more significance than before, and the running water and constant supply of electricity that were taken for granted in Finland, for example, were appreciated more.

The Chinese GM was very happy with the co-operation with the Finnish partner and found it valuable for China. To start with the Chinese only knew the name of the country, but through co-operation they learned that Finns were very hard working and honest. The Chinese were honest and friendly, too. If there was a cultural distance at first, it was shortened by co-operation. The GM pointed out that respecting foreign countries' customs was important, including on the governmental level, for 'if we have the same direction the distance is shorter and shorter'. He called the company 'our family' and said it was a good example of co-operation to show to other Finnish companies as well.

In the view of the Chinese GM, clear evidence of the JV success was that they managed to sell their products to Europe in such a short time. It started with a rice field, and less than two years later [1997] there was a factory, machines and workers. The workers had never done those jobs before, but

they learned and in just one year the products manufactured in China fulfilled the European quality requirements. The efficiency was high and the employees were working better and better. He also emphasised the good personal relations with the Finnish top managers. The Finnish consultant was very helpful and very well liked. He also said, with a smile, that the Finnish government should give a prize to the brave Finnish partner R.

The General Manager referred to the long Chinese history, 5000 years, as being both good and bad. The Chinese use this long experience when they do things, make decisions. They always compare the time when China was closed with its current openness. The country is developing rapidly and opening up to international co-operation: a brave nation should face up to its previous mistakes.

Friendship, respect and sincere and honest co-operation were emphasised as the keys to success. Even though the thinking was different, the partners had the same aim. By working together and doing one's best it is possible to succeed. Even if the target is the same destination, there are many ways of getting there and one has to choose the best one.

Other Chinese managers were also of the opinion that everything was going much better [1997], mainly because they knew each other better. The management was better than in the Chinese parent company CF: there were fewer managers and each one had many responsibilities. The Finnish managers were also well liked professionally, but there were also some complaints about this: aggressiveness, anxiety and impatience were regarded as negative features. Moreover, insisting on having everything done in the Finnish way was not always appreciated. Directness, discussion and joint problem-solving were appreciated by some of the Chinese managers. The Chinese had learned a lot about producing and working on knitwear and about the documentation, as well as some technical details in a very short time. Learning from mistakes had helped them to avoid mistakes later. In terms of stability, the life cycle of the ZB joint venture lasted six years from the signing of the contract.

6.6.2   Stability and Performance Assessment in General

Buckley and Casson (1988, 34-40) argue that, in order to maintain the stability of the joint venture, it is necessary for each partner to show forbearance and to refrain from cheating. Co-operation could be seen as both an input and an output, and there is a strong connection between the two. In cases in which the JV agreement is so loose that it leaves open a lot of possibilities for the partners to cheat, there is a need for a great deal of co-operation and mutual

forbearance in order to succeed. Co-operation could be seen as an output when an arrangement leads to greater trust between the parties, and to a subsequent reduction in the transaction costs of the JV. It is said to be efficient when a given amount of mutual forbearance generates the largest possible amount of mutual trust.

Performance measurement is a complicated process in general, and in a JV it is even more complex due to the differing objectives of the partners. Several objective measures have been suggested: financial indicators, market share, JV survival and duration (Geringer and Hebert 1989; Kogut 1988). Single respondent evaluation of performance has also been reported to be appropriate especially if the respondent represents one of the key stakeholders, or the partners were from the same culture (Geringer and Hebert, 1991, 249-263). Killing (1983, 22-23) investigated management assessments and found that the performance of dominant-partner JVs was better than that of shared-management JVs.

Even though there is higher decision-making authority in *Chinese JVs* today, the local conditions set limits on their activities. These limitations include the antiquated financial system, periodic energy and resource shortages, infrastructural deficiencies, state control of enterprises, financial transactions via adjustable taxation, control and local bureaucratic manipulation of production schedules via the quota system, the limited availability of skilled technicians and trained managers, political involvement, unclear lines of authority, a major focus on workers' welfare, price controls and fixing, unstable capital markets, and scarcity of supplies (Antoniu and Whitman, 1995, 79-81). These things should be taken into consideration when the performance is assessed, and it is better to compare a Sino-Western JV with other JVs in China or elsewhere in developing countries than with Western companies located in a totally different business environment.

Yang and Lee (2002, 100-105) identified the most important success factors for joint ventures in China. According to the experiences of Motorola, the most important factors are an effective long-term business-development strategy, an employee-oriented management approach, well-defined operational policies, and technology appropriateness. Careful selection of investment location, integrating Western and Chinese culture into the company's policy, as well as leading in new product development, were also included among the top ten factors.

To sum up, I as a researcher assessed the stability of ZB. The life cycle lasted six years. The Finnish and the Chinese managers, mainly the Chairman of the board and the GM, evaluated its performance and both were satisfied. These results do not coincide with Killing's (1983) findings that shared management ventures perform poorly. Furthermore, a long-term business

strategy and operational policies were developed. The management was employee-oriented and applied technology that was appropriate to China. Both Finnish and Chinese cultures were incorporated into the company's policy, and new-product development and manufacturing took place. It could be said that ZB fulfilled the good performance criteria, with the exception of carefully choosing its investment location. The factory was located in a development zone but the most beneficial development policies were not applied in that region. As stated earlier, the location was the suggestion of the consultants. On the other hand, the JV was important to the authorities and managers, which, in turn, facilitated the operations.

6.7   Termination

In spite of its good performance and the fact that the partners were satisfied with their share of the venture, ZB was terminated. This section examines the reasons for and the process of termination, and again reflects on the results in terms of more general findings.

6.7.1   The Termination of ZB

Regardless of the fact that both partner companies were satisfied with its performance, ZB was terminated in 1999. The main reason for this was that the Chinese partner's operations were in decline. In fact, many SOEs have drifted into bankruptcy or have ceased operations (Jakobson, 2005, 45-49). As part of the reformation process the state wanted to make changes that affected CF. The chemical operations were closed down and outsourced to other companies. Several entrepreneurs were responsible for running the business. The land was sold to a real-estate company and new villas were to be built on the former factory site. Therefore it was unclear who would be sitting on the ZB board of directors. The rigidity of the decision-making and the organisational culture were further reasons for the Finnish side to reconsider the acquisition. All this affected the general attitudes and decision-making in ZB as well, and new investments were difficult to realise.

   Both partners wanted to maintain the operations of ZB and termination negotiations started. The Finns would have been satisfied with minority ownership, but in fact there was no alternative to acquisition. The investment was not too extensive and afterwards it would be possible to operate more freely. The initiative came from the Chinese General Manager, and he, the Finnish chairman of the board and two other Finnish managers were involved

in the negotiations. As stated earlier, the ZB general manager was also the general manager and chairman of the board of the Chinese partner CF. According to the law (1990, art. 6; 2001, art. 6), termination of a joint venture requires a board meeting. In this case most of the negotiations were handled by correspondence, in a 'virtual board meeting'. The negotiations were very direct and short. The Finnish partner made an offer to buy the shares, which was accepted by the Chinese partner. The Chinese GM took care of all the formalities in China, as well as of the paperwork required for the establishment of the new wholly foreign-owned enterprise ZB2. The Finnish partner only had to sign the documents. The termination process began in 1999, and the negotiations took only about six months, although the final approval took a year. The operations were not disrupted during the process.

Chinese reaction to the acquisition was positive, and co-operation actually improved. The Chinese partner CF received good compensation for its share and the new company still employs people in China. Thanks to the GM relations with the local government remained good and the Chinese style was not discarded.

6.7.2   General Considerations of JV Termination

A joint venture can be terminated by dissolution or acquisition. Dissolution is often chosen when the JV has fulfilled its objectives and was actually meant to be a temporary arrangement. Partners also end up with dissolution when the power structure has changed and they have not managed to re-negotiate the contract, or if the JV is not profitable. It is also possible that better partners have been found. A change in the nature of the business is also a reason for termination. If one partner wants to continue operations but the other one does not, the resolution is normally acquisition, or buy-out of the other partner. Acquisition is also considered if one partner wants more control over the venture and this is not possible by slightly increasing the equity share. The failure of one partner to fulfil its obligations may also lead to acquisition. (Freeman and Browne, 2004, 170-171)

An equity joint venture in China can be terminated after a fixed period, or in the case of heavy losses, the failure of one partner to fulfil obligations, or force majeure, for example. Termination is decided through mutual consultation and agreement in the board of directors, and is endorsed by the examination and approval authorities. (Law 1990, art. 13; Law 2001, art. 14) If the board of directors is not able to settle the dispute it is settled through

mediation or arbitration (Law 1990, art.14).[28] If no arbitration clause is included in the equity-joint-venture contract, or no written agreement was concluded afterwards, the partners may start legal proceedings in a Chinese court (Law 2001, art. 15).

Freeman and Browne (2004, 171-174) suggest several strategies for communicating the dissolution of cross-cultural business relationships. Although ZB was not dissolved, but rather terminated by acquisition, the strategies are still applicable. The focal company negotiates with the other either to restore the relationship (voice strategy) or to dissolve it (exit strategy). Communication is direct or indirect, and self- or other-oriented. The direct-communication approach involves an explicit statement of intent to the other partner, while the indirect approach protects the 'face' of the other partner by giving hints or hiding the real intentions. There are two direct-communication strategies: communicated exit and revocable exit. The former allows no discussion on the issue, while the latter leaves space for further negotiations. Disguised and silent exits are both indirect strategies. Other-oriented disguised exit implies that the partner wants to change the arrangement but not necessarily to dissolve it. If a self-oriented strategy is used, the payment terms may be made more restrictive and continuing the relationship thus becomes unprofitable to the other partner. Silent exit involves no communication, and there is just an understanding that the relationship has ended. This is expressed by withdrawal or not negotiating the continuation of the contract.

Freeman and Browne (2004, 177-178) combine the above-mentioned communication strategies with theories of conflict management for dissolution in individualistic-collectivist settings. They argue that business relationships in Asia between Asian and Western companies are characterised by high collaboration and low assertiveness, leading to the use of a co-operative style, i.e. indirect and other-oriented communication. Furthermore, the 'accommodating approach is more likely to result in a beautiful exit'. Disguised exit, more precisely pseudo-de-escalation, is the most common dissolution strategy. As described above, the disengager (leaving partner) expresses the desire to change the relationship, such as by reducing the investment and possibly being willing to dissolve it later.

The ZB case does not fit very well into the setting described above. Communication among the managers was difficult in the early years of the JV due to the directness of the Finns and the indirectness of the Chinese. However, the communication style of the Chinese managers moved towards

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[28] Law 1990 was effective in 1999 when ZB was terminated. The right to take the case to the Chinese court was added in 2001. Author's remark.

the direct and low-context end of the continuum and the Finns learned to adjust their approach to suit the situation more. The Chinese GM directly and openly described the current situation of partner CF and its impact on the management of ZB. According to the Finns, these kinds of problems would never have been brought openly to the negotiation table earlier. It should be borne in mind that the GM was sitting on two chairs: he was also General Manager of partner CF. It was he who suggested the acquisition, pointing out that if nothing was done he did not know what would happen to ZB later. His aim was to keep ZB in operation in the future. This was therefore more in tune with direct other-oriented communicated exit – a negotiated farewell. By using this strategy the disengager (partner CF) discussed the issue without provoking hostility, thus allowing partner R to accept the inevitable and even to see the benefit of ending the relationship. As the next section reveals, this benefit was realised immediately after the acquisition.

6.8 The Wholly Foreign-owned Enterprise ZB2

A brief look beyond the JV era is needed in order to evaluate the changes in the organisation. Therefore the organisation and operations of the wholly foreign-owned enterprise ZB2 are introduced in the following, and a message from the Finnish and Chinese top management to future investors is delivered.

6.8.1 The New Organisation

There were considerable changes in the organisation during the last year of the JV and in the early days of the new company ZB2. The organisation was downsized. Having SOE as a partner probably led to overstaffing in the whole organisation, as suggested earlier. There had been many previous attempts to reduce the number of employees, but it was finally on the initiative of the Chinese GM that the downsizing took place. Economic reasons and problems in the decision-making chain were behind the decision, and three departments were combined into two. At present [Dec 2004] the workers in ZB2 are local, which is uncommon in a Chinese garment company, and nobody is living in the factory dormitory. Monthly salaries are on the normal level, but regular in the Finnish style, which has been respected by the workers. ZB2 recruited more workers at Chinese New Year 2004, and now employs more sewers than ever before. The number of office staff was reduced, and operations did not suffer.

Most of the expatriates were withdrawn, and only one quality controller remained. A new Finnish Vice General Manager started his assignment in 1998 and stayed in China over the shift of ownership until the end of 1999. He is still a Vice General Manager of the new company. Because the current Chinese VGMs speak English fluently, there has been no need for interpreters for four years now. There have been no permanent Finnish staff members since the end of 1999: as one Finn who had been involved since the beginning noted, 'The fewer Finns there are, the better it goes.' However, it was admitted that the strong Finnish input at the beginning was necessary to get the venture started.

The number of managers was reduced from the original ten to three. ZB2 is now under the direction of a management troika: the general manager and two other, former departmental managers. Responsibility is divided among these three, although there is also a fourth manager responsible for administration. Following the changes the management style changed from that used in the state-owned system, and has functioned in an excellent manner - an opinion that is shared by the Finnish and the Chinese managers.

It was self-evident that the Chinese GM would continue as General Manager in ZB2. Board meetings became the most important channel in managing the company. The Managing Director of the Finnish owner R continues as the chairman of the board and is the highest decision-making authority. The board consists of three other Finns, including the VGM of ZB2, and the Chinese GM. Two Chinese VGMs attend the meetings but are not members of the board. All the changes, except the decision to withdraw the expatriates, were made by the Chinese managers without interference from the Finns.

There was a brief period of high expectations in terms of how the management would change when the ownership was to be transferred totally to the Finns. There was some change but in the opposite direction than anticipated: the Finnish managers did not participate in the decision making more than before, but actually gave more responsibility to the Chinese management. The more power they gave to the Chinese operating management, the better everything functioned.

6.8.2   The New Operations

There was one big change in the production after the shift of ownership: a high-tech product, a textile sensor, was added to the range. Sensors are manufactured on a contract basis for a subsidiary of the Finnish owner R. As it is much more technical than knitwear, it has led to changes in the machinery

and in the training and production methods. It is so far manufactured as clothes, but the aim is to develop the production method further and to automate it. The second factory enlargement will accommodate these products. The new factory building was under construction in December 2004

The Chinese management has also started private-label production and sells the products to other foreign companies. Sales of these products accounted for about 25% of the total production in December 2004, and the Chinese handle it totally independently. Three of ZB2's new customers were found through an on-line trade fair in which the company and its products are promoted.

There has been a big change in the material flow. No materials or machinery are delivered from Finland now, and most materials are purchased locally in Mainland China and Hong Kong. Some special chemicals are bought directly from Italy or from local representatives. The Chinese management has also handled investments in machinery independently, and made the strategic decision to buy locally on the full-price principle. Final products are still delivered to Finland first.

Quality control has changed as well. Finnish controllers used to spend a few weeks in China on a regular basis checking the quality, but the need has diminished. In order to maintain the quality the Finnish owner R suggested the introduction of a quality system, and the Chinese management took responsibility for acquiring the certificate. Within half a year the factory was in such a condition that it could be audited, and within one year a certificate attesting the attainment of the ISO 9001: 2000 quality management standard was granted. The Chinese management also took actions that have resulted in their being awarded the German Öko-Tex standard 100 (Oeko-Tex 100) certificate for environmentally friendly products on two occasions so far. At the moment, the auditing process for SA 8000 is underway: this is a standard for socially responsible employment practices, i.e. attesting that the products have been produced under proper labour conditions[29] (SA 8000 Info, 2004). This certificate has been requested by customers.

The configuration of the company presented earlier has changed into the one presented in Figure 10. A, B and C represent the new customers ZB2 has managed to acquire in addition to its Finnish owner R. It is not as vulnerable as it was, and R does not carry the sole responsibility for acquiring customers.

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[29]   According to the standard, the company must not support child labour or forced labour, it must offer a safe and healthy working environment, avoid discrimination and respect employees' rights to join trade unions. The staff of the company and its suppliers must not be required to work more than 48 hours or more than six days a week. The wages must be at least equal to the legal or industry minimum.
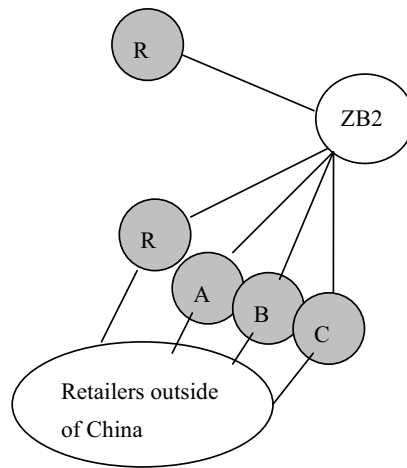
Figure 10.   The Configuration of ZB2.

The major changes after the shift in ownership were the enlargement, changes in the organisation and the transfer of responsibility to the Chinese management. Board meetings have become the tool for drawing strategic lines. The understanding of numeric reports and modern management practice has improved significantly on the Chinese side, communication is direct and problems are discussed and solved openly. The Chinese managers stated that it was much easier to make decisions than in the JV period, mainly because CF was no longer involved in the decision-making. What has not changed is the efficiency. One department reached the standard long ago, but the other is still having difficulties, mainly for reasons to do with staff turnover. Other companies 'steal' workers by offering them higher salaries. Training new workers takes time, and affects quality and efficiency.

The environment has also changed dramatically in the seven years. It now looks like a huge construction site. What used to be fields are factories and other buildings. The bumpy path that ran by the factory became a four-lane road, which later expanded into an eight-lane highway. An entire new and modern city with 80,000 inhabitants has grown up nearby in only ten years.

6.8.3 A Message for Future Entrepreneurs: Chopsticks, Patience and Understanding

The Finnish and Chinese managers were asked to give their recommendations to companies planning to invest in China at the time (2004-2005). The responses reflect their learning experiences during the previous ten years.

The very first comment (with a smile) from the Chinese General Manager was: 'If you can use chopsticks you can save a lot of trouble'. This is related to the Chinese tradition of eating and drinking together in order to get to know each other and to make friends. The comment also reflects the importance of being truly interested in the target country and its culture, and not only focused on big profits. Sincerity and honesty in a relationship are essential according to Confucian principles, thus learning to use chopsticks is a minor gesture with a deeper meaning. Besides, as he said, it makes life much easier in China. Another prerequisite was to understand the reform policy: as the situation in various parts of the country is different, it is necessary to get the local picture as well. Getting to know each other and learning from experience was also considered important. By knowing each other it is possible to find a lot of things to do together, communicate better and reduce misunderstandings.

Two other Chinese managers mentioned the very same issues: knowing the situation in the area, the economic-reform policy and the partner. The better the project fits in with the economic policies, the more beneficial it is. Understanding the difference between various regions in China is also crucial: the coastal areas, especially Shanghai and Hong Kong, benefit most from governmental subsidies, and transportation and other facilities are much better there. The county in which ZB is located is inland. It is a so-called open area, and a different policy is applied. Another thing to bear in mind is that if the intended project is the first joint venture in the area, the investor must be aware of the local attitude. People would regard the new company as being similar to state-owned enterprises, and making changes would require a lot of time. Getting to know the partner is essential because the foreigners need to co-operate with them all the time. The ability to speak Chinese was seen as advantageous in terms of facilitating operations, but not necessary.

According to the Chinese managers, staying long enough in China, making friends with the Chinese and learning Chinese customs and regulations helps a lot. It is difficult to succeed alone. However, foreigners need to be careful in terms of whom to trust. It is better not to be too anxious. 'There are many ways of reaching Beijing [Rome], is the Chinese version of the saying implying that there are many ways of solving a problem. Finns tend to be stuck with their good ideas and are not willing to change them. However, sometimes change is needed.

Companies established earlier face the same problems as all companies in the world: the need to modernise technology, to face competition successfully, and to create new ideas. Previous competitive edges in China might have disappeared through the learning process: high quality is no longer specific to some companies, and is more the rule than the exception.

The Finnish MD emphasised the need to consider one fundamental issue: whether the company will invest in China or operate on a contract-manufacturing basis. If the aim is to invest in China, in-depth investigation is required, and careful partner selection is just as important. More important than the written contract is mutual understanding of the objectives of the joint project. He also stressed the need for knowledge of the area due to the big differences between provinces. He questioned the need to transfer basic manufacturing processes to China any more, and shared the opinion of the Chinese GM that the quality level was high in China. It was thus easier to buy the final products rather than to make them, and it would be better to *invest in networks of people*.

The cost structure also varies a lot. Salaries in the bigger cities are increasing, and in the Finnish MD's opinion there will be and already is a shortage of highly skilled employees. For example, the annual salary of a controller can vary between one million and one-and-a-half million RMB, and a company can take on 90-130 workers for a year (average monthly salary 900 RMB) for the same amount. The labour costs for workers are not increasing as quickly. Workers who come from the countryside face particular difficulties: they are only granted temporary work permits and their wages are very low - although more than they earn at home. Other costs, such as rents for flats, are also increasing.

6.9   Conclusions

The aim of this chapter was to describe the path of one Sino-Finnish joint venture and to reflect on its experiences with regard to various aspects of joint ventures in China and internationally. There is a large body of literature concerning the motives for forming a JV. These motives fall roughly into three groups: 1) cost reduction, including economies of scale, access to resources, sharing risks and expenses; 2) risk reduction, including sharing the responsibility for a big project, easing political tensions and combating global competition; and 3) synergy, i.e. joining forces in research or marketing and learning from each other. Having similar objectives or vision in terms of the task of the JV is also important. Forming a JV in developing countries is mostly driven by the attraction of a low-cost labour force, government policy

and legislation, the skills of the partner and the availability of the necessary assets or attributes. Exploiting vast resources, low labour costs and earning profits from the huge Chinese domestic market have been among the major incentives for foreign enterprises to invest in China. The primary objectives of the Chinese government in attracting foreign investments have been to bring in foreign capital, advanced technology and management skills, and to encourage urban construction.

The main motives of the Finnish partner R in looking for a JV partner concerned lowering production costs. Former experiences in contract manufacturing in China also influenced the decision. On the Chinese side, the need to expand to a new industry, and the need for new technology and management style were the driving forces. Government policies initiated and facilitated the process. These motives appeared to be very representative of the average case. In terms of similarity of objectives, however, there were some differences: the Finnish company was clearly heading towards foreign markets while the Chinese partner, supported by the law and government regulations, also emphasised selling on the Chinese market..

According to the results of previous studies, the most important partner selection criteria concerned the complementary nature of the parties. The assets and skills they jointly possess force them to form a JV because they could not achieve their goals alone. It was also suggested that the JV configuration should be symmetric and the products identical in order to maintain balance and avoid opportunistic behaviour. Partners in China normally complement each other, as stated earlier, but in order to find the right partner from among the multitude of alternatives it is necessary to know the connections behind the companies, the links to the governmental level, the potential level of financial support and the quality level before making an agreement.

Joint-venture negotiations are normally very long. Several authorities are involved in the negotiations, especially in China. Looking for consensus among all of the parties involved takes time. Guanxi is needed in order to get into contact with the right people and to get started. The CEO should not be sent first, but mediators or lower-ranking employees should do the preliminary work. Giving face to others is important: a gentleman can control his behaviour and does not insult or criticise other people openly. Negotiations are often interrupted for lunches or banquets with a view to building up friendship and easing the atmosphere. The negotiations between R and CF proceeded according to the book. The first contacts were made by a consultant and a government representative, and the Finnish managing director and the Chinese general manager met later. Negotiations were long and involved a lot of eating and drinking. A government representative was involved from the first stage.

Control and equity need to be kept separate: control can be gained through ownership arrangements or bargaining power. Conflicts normally arise from the differing interests of the partners and the space left open for opportunism and cheating. Organisational learning will change the power structure during the life cycle of the JV, and may also lead to the rewriting of the agreements or certain hostile arrangements. Mutual forbearance could prevent potential conflicts. The conflicts in Sino-Western JVs are often due to a lack of understanding of the partner's culture. Negligence of the underlying principles, which the partner is not willing to expose and prefers to give excuses for, often leads to severe misunderstandings and has a negative effect on the performance of the JV.

The ownership structure of ZB was 25% Finnish and 75% Chinese, and both partners participated actively in its management (shared-management JV). As the majority owner the Chinese partner CF could assume control, although under the partner contract the Finnish partner R held control over a strategic asset, determining the prices and customers. This gave it relatively strong bargaining power, which was further strengthened by its holding of the chair in the board of directors: it is normally held by the majority owner. The setting was a fertile growth base for intra-company disputes. However, the major conflicts in ZB concerned the daily operations: the implementation of efficiency and quality-control systems, salaries and the work ethic. Some strategic issues, such as entering the Chinese market, visions for the future of the company and recruitment principles were frequently discussed. The complexity of the decision-making also provoked disputes. No tendency to engage in opportunism in order to gain more power was reported. Bigger disputes were taken to the board of directors and the ultimate decision-making power rested with the Finnish chairman of the board: his authority was never questioned, although negotiations could be tough. This illustrates the hierarchical structure of the JV as well as the mutual trust that had developed between the top managers.

Stability in a JV calls for co-operation and forbearance. Co-operation is said to be efficient when a given amount of mutual forbearance generates the largest possible amount of mutual trust. Loyalty, forbearance and patience are essential for co-operation in China. Performance assessment takes several forms: financial, operational and effectiveness measures as well as more qualitative measures such as perceived achievement of objectives, and JV duration and survival. In the Chinese context it should be remembered that China is a developing country, and managers should avoid comparing achievements and criteria with those of Western companies: insufficient infrastructure and the lack of skilled labour lower the performance regardless of the actions of the managers. According to both the Finnish and the Chinese

managers, ZB was a successful venture. The company was functioning a very short time after its establishment, and the break-even point was reached after nine months of full operation. The initial problems were overcome, the quality was good and the efficiency reasonable. Both parties were satisfied with their share of the venture.

A JV can be terminated by dissolution or acquisition. It is dissolved mainly if it has reached its objectives, i.e. if it was meant to be temporary, or if it fails to reach the targets. The reason for the termination of ZB was not a lack of success, but rather the modernisation of the Chinese partner CF. It was no longer clear who would be sitting on the board of directors. Termination by acquisition was decided by mutual agreement without the need for long negotiations. The operations continued and actually improved in the new company ZB2.

In terms of motives, partner selection, negotiations and control, and conflict issues, ZB was very similar to other JVs in China and internationally. However, it deviated from the average in the termination phase and in the establishment of the new enterprise in three significant aspects. It was terminated not because it was unsuccessful, but because the Chinese partner was no longer capable of being a partner. It was not dissolved because it was very important to the Finnish partner and the Chinese managers. The more control the Finnish owner R had over the company (100%), the more decision-making power it delegated to the Chinese operating management. Radical improvements in organisation and operations took place after the shift in ownership and in the delegation of power. The change in the Chinese managers' communication style from indirect to direct was also significant. This is further discussed in the following chapter. It would be interesting to know whether similar change goes on in other joint ventures as well, but this requires further investigation. Conclusions cannot be drawn on the experiences of one company, but as stated at the beginning, this company can be used as one example.

7   THE CULTURAL IMPACT ON MANAGERIAL COMMUNICATION

This chapter investigates cross-cultural communication between managers in the ZB joint venture in China. The results show the connection between various cultural elements and the communication. Several quotations from the interviews are used in order to give insights into the daily operations and the kinds of issues and problems the managers are dealing with. The patterns and changes in communication are also introduced.

7.1   Material Culture

Differences in material culture did not give rise to as many problems as one might have expected. The Finns hardly ever gave negative comments about the environment or about living and working in a developing country. On the contrary, they took the assignment more as an adventure and a personal challenge. In contemplating the differences between Finland and China they also re-evaluated their own values and priorities. They respected what they had in Finland more, and no longer took it for granted. The Chinese, especially those who had visited or lived in Finland, liked Finland and respected Finnish technology, the strong work ethic and the honesty. In their opinion, both Finland and China possessed strengths, and through co-operation China was able to reach international standards.

The stories below relate to the construction and start-up phases of the JV during the years 1995-1997. The county in which ZB is located has developed rapidly since 1997. New motorways, four-lane highways and bridges have been constructed. Old houses have been torn down and new ones built. The fields behind the factory have been transformed into roads, houses and factories. The new town about 15 km from the factory has grown and developed much more quickly than the town in which ZB is located. According to the Finns, it was easier to build a new town than to re-construct the old one.

Certain features of the material culture and attitudes towards them caused problems in the beginning. These features included the climate and building to take account of it, the infrastructure, and the quality of materials and

technology. I will introduce these aspects through the eyes of both the Chinese and the Finnish managers.

7.1.1 Problems in Construction

The construction of the factory was the responsibility of the newly established JV. The importance attached to the positioning of the building on the site caught the Finns by surprise. According to one Finnish manager:

Positioning a Building

> …in Finland we aim at dealing with facts whether we are right or not … in China they mix everything else in the issue. A typical example is how to position a building on a site, in what direction the doors should face in the factory building, and in the opinion of the Chinese opinion it has to be this way, because it's windy in China and the dust shouldn't get into the building. But this isn't the case, and the real reason is that evil spirits enter the building; it cannot be this way, and has to be that way. Belief in history affects cold business facts, which is not the case with us [in Finland] any more.

The phenomenon described here is called feng shui, 'the cosmic breath', literally translated as wind and water, and which was discussed earlier in Chapter 3. Harmonious surroundings and a house facing south are considered to bring fame and fortune to the persons living or working in it, and it is regarded as the optimal location on the site (Craze, 1997, 77). However, the Chinese managers did not accept this reasoning. According to them, the use of expensive interior decorators was a waste of money. The factory was facing south for practical reasons. The view was more beautiful, the building was warm and it was more convenient to live in.

What caught my attention in the factory in 1997 when I compared it with other Chinese factories I had visited was the cleanness of the building, the sparse furnishing of the offices, and the number of people working in the office of the General Manager. The building was probably facing south, south-east or south-west. A road passed by it, and did not run towards it. The factory was surrounded by a fence and peaceful countryside with cornfields. The factory site was also very clean and well organised. When I returned to the factory seven years later in Dec 2004 the surroundings had changed completely: the factory itself had doubled in size and a new extension was under construction. Trees and other vegetation had been planted and a water fountain stood at the main entrance. The area was more beautiful and peaceful than before.

As stated earlier, the machinery for the entire factory was transported from Finland to China, and Finnish blueprints and layout were supposed to be used in order to ensure fluent production and material flow. The layout plan and the blueprints were sent to China in advance. When visiting the factory later, the Finnish managers noticed that pillars had been built inside the factory and that the whole layout had had to be re-designed. This happened because the Chinese construction law defined the distance allowed between pillars. Nobody had told the Finns about this, not even when the plans were drawn up jointly. The Finns were not able to check the construction instructions because they were in Chinese.

This is a good example of how a different communication style and government regulations affect the material culture. The optimal layout, which had been tested in Finland, was not suitable in China. The Chinese law and Chinese principles were more powerful than the Finnish experience in this case. Another Finnish manager commented about the construction phase that building a factory was subject to Beijing orders and Chinese principles, which made no sense to a Western manager. A central office issued building instructions and they were contrary to the Finnish practice. However well founded the reasoning that this was not the most efficient way to build, the Chinese partner stated that the factory was built according to Chinese principles. It remained unknown why the pillars appeared on the site. What was significant was that the Finns were not told about the changes. The Chinese referred to the problems in the beginning by stating that if the Finns had been aware of Chinese policies, many misunderstandings could have been avoided. The factory was enlarged after 1997 and the site is now in full use. There were no references to difficulties in the construction of the extension.

The climate in the province is very different from the climate in Finland. It is very hot in the summer, about 44°C, and the humidity is around 90%: in winter the temperature might fall below 0°C (Field notes 1997). The Chinese managers were surprised that the Finns were very eager to seek warmth and the sun. They sat outside reading a book, while the Chinese wanted to sit inside and did not go out without an umbrella or another form of sun-shade.

The Chinese were even more surprised when the Finns wanted to build a sauna in the factory - hot weather outside and even hotter inside, 80-90°C (Field notes 1997). The sauna caused unexpected problems to the Finns as well. As stated earlier, at the very beginning during the start-up phase there were often interruptions in the energy and water supply without prior notice The Finns had just arrived in China and the temperature was 39°C in the shade for nine weeks. They were sitting in the sauna when suddenly the *supply of electricity and water was interrupted*. Of course, the air-conditioning did not function either. Working for three days without electricity and water was quite

a shock to the newcomers. The Finns learned to respect a well-functioning infrastructure, which they had taken for granted before. From 1997 on there were hardly any interruptions in the energy supply. The factory has a generator and water tanks of its own to ensure that the processes will run in case of a sudden breaks in the water and energy supply.

These attitudes and preferences in terms of warmth and cold might sound trivial. However, they led to quite complicated situations that affected the production in the factory. The next episode is a compilation of three stories.

In the winter the temperature in the factory could fall to 0°C. The sewing girls had to warm their hands around a hot mug of tea. Cold fingers, thick cloth and stiff oil in the machines made it difficult for them to work, which led to low efficiency, poor quality and lower salaries. In the Finnish managers' opinions, the workers could not be treated this way and investment in a heating system was necessary. The managers agreed in a board meeting that there should be some renovations in the summer. In the Chinese partner's opinion the capacity of the steam-power station on site was sufficient to provide the required amount of steam for *heating*, and the next time the Finnish and the Chinese top management met the factory was as cold as before. The reason for this was that there was not enough steam to share between two departments. After checking the situation the Finns noticed that this was not the case. The next explanation was that the quality of the coal was so poor that it did not produce enough heat. This was not accepted by the Finns either, because they paid 30% more for the coal compared with Beijing prices in order to get the best quality. As a result, heating was arranged.

The Finnish manager continued that the real reason for the difficulties was that no one had mentioned government regulations that prohibited the heating of buildings south of the Jangtze River. It was his impression that heating required a special permit from the authorities, which was probably the responsibility of the GM. The Chinese managers never explained the complication directly to the Finns. I was given an indirect explanation in the interview. One Chinese manager was talking about the same episode, and said that the Finns thought differently from the Chinese. The Chinese always thought about *air conditioning* first while the Finns prioritised heating. He said that of course they agreed with the Finns, but also complained about spending a lot of money on useless heating. [The heating did not work properly at first, Field notes 1997] The agreement reflected the power position in this case, because the investment required the initiative and decision of the Finnish chairman of the board. However, the Chinese manager was hopeful that the Finns would agree to install air conditioning the following year [1998]. The upstairs offices of the managers were already air-conditioned in 1997, and having an office upstairs was even regarded as a status symbol because of the

air conditioning (Field notes 1997). The Chinese manager did not mention government regulations concerning heating. I had heard about such regulations earlier on another occasion in Guangdong province. Again, the Chinese offered several explanations for why heating could not be installed. The issue was so important that it required the involvement of the top management, and was also related to the organisational hierarchy, which is discussed later. There is no heating in the factory even today [2004]. The Chinese managers confirmed that the common practice was not to use heating south of the Jangtze River. However, this is not a government regulation and companies have the right to heat their factories if necessary.

7.1.2   Choosing a Supplier

Another episode in which the material culture played a significant role concerned the choice of supplier of yarn. The Finnish and the Chinese managers were in the factory evaluating the quality of the knitwear, which was not satisfactory. The GM insisted on buying from the same supplier, but the FVGM wanted to buy from their old supplier because of the better quality. The GM insisted on the other one, although he admitted that the quality was not good. The situation developed into a major disagreement. The parties managed to discuss the issue through and agreed to buy from the old supplier. All this took place downstairs in the factory in front of the workers. Afterwards the discussion started again upstairs in the office. The GM again insisted on buying from the current supplier because it was closer and the price was the same. The FVGM refused because the distance was only 40 km. The GM reasoned further that the terms of payment were better. After one hour of negotiation they agreed on buying from the old supplier. An hour later the negotiation started again although the decision had been made twice already. Finally the FVGM brought the whole department to a halt and left for the yarn factory himself.

This was a very complicated situation in which the initial reason for the confrontation was purely the material. The quality was not good enough and therefore the quality of the output would have been second-rate as well. On the one hand, aiming at international quality standards was one of the main objectives of the JV, and compromising on quality would have jeopardised the whole venture. On the other hand, the GM was put in a very difficult position by being confronted openly downstairs in the presence of the workers. The Chinese prefer good and controlled behaviour in front of others. The easiest way out of the situation without losing face was to agree at first and to continue the discussion upstairs behind closed doors. Another question of

interest is why the GM tried to negotiate the issue several times and insisted on buying material of poor quality even though he was aware of the outcome. He referred to the inadequate knowledge of the Finns about the local situation in the interview. The dramatic resolution of bringing the whole department to a halt did not help to restore the relationships, and it also affected salaries. It was an example of what happened when the minority partner overruled the Chinese superior. This was possible under the terms of the JV contract and because the Finns were the providers of the new technology and experts in it.

There was another story about a similar dispute. The FVGM and the departmental managers had been arguing about the material to be used in production. The departmental managers were told that certain reactions in the materials and chemicals would result in poor quality. The Finnish manager wanted to buy the chemicals from abroad and the Chinese manager insisted on buying from a Chinese company. The meeting lasted for three days. The Chinese manager insisted on doing it the way it had always been done. The Finnish counter-argument was that that was why they came to China to teach them. Agreement was reached.

The parties were arguing about a technical matter. In the Finnish manager's opinion pushing the decision through was the only way to reach an agreement. He did not have the patience to continue the negotiations for months. The Chinese argued that the Finns were in China and that things should be done the Chinese way. The Finnish manager interpreted this as reluctance to change old state-owned-enterprise practices according to which quantity was more important than quality. His attitude conveyed the message, 'We come and teach you', which the Chinese consultant warned against in the pilot study. A more suitable approach would have been, 'Let's do it together'. However, the FVGM also put the blame on himself. He wondered whether he was totally wrong for the job and not able to manage the project because simple things like that caused so much trouble.

One Chinese manager claimed that the Finns were too careful in evaluating the quality of material if they were buying from China. In her opinion, it was a waste of time to check the accessories at the supplier's premises and it would have been much easier to test them in the factory. Discussing and making decisions seemed to work better between persons who could be considered friends. In the first episode the relationships were not the best possible. The second one was easier, but often in such cases the General Manager's opinion was reflected in the meetings with the departmental managers. One reason for insisting on purchasing locally was the EJV law (1990), according to which EJVs should prioritise purchases in China (as mentioned in Chapters 4 and 6). This was not said directly, but it was referred to in terms of the Finns not

knowing the policy in China. At present [2004], JVs are encouraged to buy both locally and internationally (Law 2001, art.10).

Quality issues were difficult in the early days of the joint venture. Despite all the disputes and disagreements, the Chinese and Finnish staff managed to reach European Union quality standards within one year. Later on, the number of Finnish quality controllers was reduced, and on the initiative of the Finns, the Chinese managers were awarded certificates of compliance with the ISO 9001 standard and the Öko-tex 100 environmental standard.

7.1.3 Conclusions

A total of twelve stories or reports represent the impact of material culture, which was far less than I expected. In each case the initiating incident was related to the culture: constructing a building, not following blueprints and layouts, the quality of materials and output, and also the climate, although it is not part of culture as such. According to the Finns, this kind of situation would not have caused any trouble in Finland. However, in China, the complicating factor in each case was related to values, social organisation and political life. Language mediated the indirect messages, and the Chinese way of avoiding negative expressions was misinterpreted by the Finns as reluctance to obey orders and to understand rational reasoning. As described in Chapter 6, the Finns did not find out very much about Chinese culture and politics in advance. Neither were the Chinese familiar with the Finnish management style. Understanding the background of both parties might have helped them to adjust to the situation more easily. The Finnish direct and the Chinese indirect communication styles are already evident in these episodes. There were instances in many of the other episodes of the Chinese giving several excuses without stating their real reasons.

7.2 Government Policy and Regulations

Political life is discussed under the heading 'Government policy and regulations' because party politics on the national level did not have a direct impact on the communication in ZB. In turn, reform policy on the national and regional levels enabled the establishment of the joint venture. The numerous rules and regulations were also considered to have a major impact on the operations in ZB. It is for this reason that bureaucracy, banking and the foreign-currency system, the influence of the trade unions and disputes concerning salaries are discussed in this section. To a certain degree, these

issues could have been introduced under other headings as well, but because they shared one thing in common, i.e. government regulations, they are discussed below.

7.2.1   Chinese Bureaucracy

In the opinion of the Finns, bureaucracy disrupted and hindered operations in the JV from the start of negotiations. As discussed in Chapter 4, various laws and regulations direct the establishment process of a joint venture. Company Law and the Law of Equity Joint Ventures is complemented by the Regulations for the Implementation of the Law, the Catalogue for the Guidance of Foreign Investment Industries, and the Provisions on Guiding Foreign Investment Direction. In addition to following the law, potential investors have to draw up various documents in Chinese and in English, and submit them to the authorities for approval. This makes the negotiations complicated and time-consuming as the Chairman of the Board observed. The Finns also stated that they were not told about the regulations. The Chinese managers, in turn, said that they should have known the rules.

National-level bureaus also have provincial branch offices. There are different ones for the silk industry and for foreign investments, and a special one for joint ventures in the county in which ZB is located The authorities interfered in many decisions and complicated actions. The episode concerning the pillars in the building was one example of the effect of government regulations. The Finnish managers did not get actively involved in dealing with the local and national authorities. Contacts were limited to dining together in order to maintain good relationships or to solve some more difficult problems. Relations with the authorities were the General Manager's mandate. Bureaucracy was a world of its own and issues were handled in the Chinese way. The Finns considered that the GM had done excellent work in this area because they did not have any problems with the customs authorities, for example, as many other joint ventures had experienced.

The Chinese managers were aware that the system was in transition. Reform was rapid, but there were two systems in operation: some things were done according to the new system and some others according to the old system, and therefore difficulties occurred and the companies were not able to start operations as quickly as they would have liked to. The Government was working on making its procedures more fluent, but this would take time. Government policies favour foreign investments, but also set restrictions on the operations. Foreign investors should therefore be familiar with the reform policies and the situation in the area in order to avoid misunderstandings.

7.2.2 Banking and Foreign Currency Control

The banking system also caused some problems. There was a major dispute between the Finnish and the Chinese managers over an invoice that had not been paid. Because the foreign supplier had not received the payment the goods had not been shipped and production was stopped. When the Finns asked for the receipt it took several days to produce it, or other excuses were given. There were other similar occasions. Spare parts had been ordered from abroad but they did not arrive. When asked, the person responsible for ordering them replied that they had not arrived, or that they had disappeared. The real reason was, however, that the customs duties had not been paid and the spare parts were held at the customs office at Shanghai port for several weeks. The Finns were wondering why the Chinese could not borrow money in order to pay the duties, for instance, because the amounts were relatively small. Delayed deliveries disrupted production.

One Chinese manager explained the difficulties by referring to foreign-currency control. If a company wanted to use foreign currency it needed a permit from the foreign-currency-control bureau. There was such a bureau in the town, but the application process could take some time depending on the amount involved. Without permission it was impossible to use foreign currency. He assumed that the Finnish managers did not know about this procedure. He also said that it had become easier to get foreign currency, but that it was still regulated [1997].

The Chinese manager was right in this case. According to the law in force in 1997, equity joint ventures could purchase from abroad with foreign exchange raised by themselves. An EJV had the right to open a foreign-exchange account with a bank or financial institution that was approved by the state agency for foreign-exchange control (called the foreign-currency-control bureau above), and thus given the right to handle foreign-exchange transactions. An EJV had to handle its foreign-exchange transactions in accordance with the P.R.C. regulations on foreign-exchange control. It also had the right to raise funds from foreign banks. (Law 1990, art. 8) These rules are also in force at present [2004] (Law 2001, art. 9) .

If ZB's customer(s) had not paid for the deliveries the company would not have earned enough foreign currency to pay the incoming invoices. Furthermore, it needed permission to use the currency because the Chinese government wanted to control the allocation of currency for various purposes. If the amount was large, permission was not necessarily granted, or it was delayed. Thus borrowing money to pay duty would not have helped at all. Additionally, Documentary Credit (D/C) is the most common method of payment when trading with China, and processing it is time-consuming.

From the communication perspective it was significant that the Chinese did not explain the system to the Finns, but gave many excuses for why the deliveries were late in order to save the face of all parties. The Finns for their part were not familiar with the government regulations, but rather accused the Chinese managers of inefficiency and lying. By avoiding discussion on this core issue both parties made the situation more difficult than it need have been.

7.2.3   Employment Regulations

The existence of trade unions and their presence in the factories was a surprise to the Finnish managers. Their role was not clear at the start. The Finns regarded their activities as a mixture of trade-union and party-political operations. They nevertheless provoked a lot of tension among the Finns, as the following episode illustrates.

The Chinese managers were trained in Finland, as mentioned in Chapter 6. After returning to China, one of them (Mr X) was assigned the responsibilities of VDM in one department. However, he did not take care of his responsibilities properly. The Finns tried to force him to work but did not succeed. The problem was also discussed with the GM, and as a consequence Mr X was transferred to administration. The Finnish top management shared the opinion that a person who was not up to the job was not needed at the factory. The Finnish FVGM finally made it clear that this person should be dismissed. One Chinese manager came to mediate in the dispute, took the FVGM aside and explained his official role as a representative of the trade union: the employee could not be fired. As a result, he remained employed, monitored activities, participated in meetings, and reported to the authorities.

The freedom to run trade unions is secured by law. The PRC Labour Law (effective from 1995) and the Trade Union Law (revised in 2001) are the principal laws that apply to all enterprises (Lock et al. 2003, 131-133), and EJV law has articles protecting the rights and interests of employees. The law that was in force in 1997 referred to this issue only vaguely: the employment and discharge of workers and staff are stipulated according to the law mentioned in the EJV agreement and contract (Law 1990, art. 6). The law that is effective at present is much more detailed: the employment, dismissal, remuneration, welfare, labour-protection and employment-insurance conditions must be specified in the EJV contract (Law 2001, art. 6). Furthermore, the staff and workers are to establish a trade-union organisation to carry out trade-union activities, and the EJV will provide the necessary facilities (Law 2001, art. 7).

The governmental authority the informants referred to was the labour and social security department in the venture's place of operation, which supervises labour recruitment in joint ventures and wholly foreign-owned enterprises (Yong, 2003, 220-222). The perception of party-political and trade-union involvement turned out to be close to the truth. Every time when people were laid off, a representative from this office, a general or vice general manager, as well as Mr X investigated the circumstances and the reasons. According to the Finns, there were no problems in most cases, unlike in other joint ventures. People were dismissed mostly because of frequent negligence at work.

The Finns complained that the Chinese managers had never told them about the trade unions and the true role of Mr X. They received the information indirectly. Had they known they would not have objected to his role or his presence. The Chinese, in turn, accused the Finns of not knowing the policy and the situation in the area. The outcome was that the trade union was allowed to operate in ZB and the managers negotiated with its representatives and those of the labour department.

7.2.4 Efficiency and Salaries

Efficiency and salaries were a constant cause of smaller and bigger disputes between managers and workers. Efficiency was a new concept to the Chinese. Although the salaries were lower, the Finns required high productivity from each worker, and this affected the numbers of people who should have been employed. The authorities insisted on taking on more, and the Finns wanted to keep the numbers down. Although it was agreed that the number of workers should not increase, soon the Finns noticed that the agreement was not being followed, and the issue was negotiated again.

As discussed in Chapter 6, the Finnish salary system was introduced in ZB. A system based on efficiency was different from the practice in state-owned enterprises. Salaries in China were based not on achievement, but on working hours and how long the person had been employed. A normal worker could earn more than his/her superior. Incentives based on results did not help in motivating the middle management, and equal salaries were normal practice. Workers discussed their salaries, and it provoked a lot of turmoil and accusation when those in one department earned more than those in another. The original salary system was not suitable for every department, however, and needed to be amended, often on the initiative and at the suggestion of the Chinese managers.

Working hours also caused problems. The Finns preferred working eight hours a day and five days a week. In their opinion, a 10-12-hour working day was too long. The workers needed to relax, otherwise they would be too tired to reach the required efficiency levels. The Chinese workers, supported by their superiors, insisted on working seven days a week, and on doing overtime in order to earn more. A compromise was reached in a board meeting: six working days per week and urgent overtime were permitted. This was the situation in August 1997. Since then the working hours have been extended to 10-12 hours a day and seven days a week, but because the quality was weaker and efficiency was lower, the system was changed again. At present [Dec 2004], the employees work six days a week.

Working hours and salaries are regulated by the Labour Law (1995). The law incorporates a minimum-wage requirement, which is determined on the provincial level. Employers pay living subsidies and provide medical-treatment allowances to Chinese employees. A bonus system for good performance is allowed by the law. Employers and employees also contribute to the social-insurance system. The standard working week is five days, eight hours a day. If a company wishes to deviate from the standard, it must be granted approval by the local labour administration. Overtime work is also restricted by law to a maximum of one hour a day and 36 hours a month. It is possible to exceed the limits, but this requires agreement between the employer, the trade union and the employees. Employees are entitled to annual leave, which normally does not exceed two weeks. Employees who live far away from their families are entitled to home leave of 20-30 days per year. The law also contains special provisions on discrimination and the termination of employment, as well as a strict prohibition on recruiting children under the age of sixteen. (Lock et al, 2003, 131-132; Labour Law, 1995)

In the ZB case, the Chinese employees and managers wanted longer working hours and working weeks, and the Finnish managers wanted the opposite. A compromise was reached through mutual consent: it ran contrary to Finnish practice according to which employees seek shorter working days. Dealing with the trade union was not a problem as soon as its existence and functions were clarified to the Finns. Given the Finnish traditions, working conditions, salaries and holidays were not a problem.

7.2.5   The strike

According to the Finnish Vice General Manager, there were never any problems with the trade union. This was not true, in fact. The problems with efficiency and the salary systems culminated in a strike in one department.

The factory produced the final product from the beginning, from yarn to finished garment. All the mistakes made in other departments accumulated in this finishing department. If the other departments could not finish a lot on time, or if it was the wrong colour, or had the wrong printing, or the accessories were late, the workers had nothing to work on. Additionally, there were not enough machines in the section. As a result, the employees could only work for short periods, put one piece aside and continue with another one. The work was interrupted several times, which lowered the efficiency and thus also the contract salary.

A Finnish manager described the situation as follows:

Strike

> There had been many discussions about how the salary was determined. We tried to motivate the workers to work harder and faster. They were quieter than the workers in the other departments, who used to complain much louder about salaries. It was one Friday morning when nobody showed up in the department. We [Finns] were totally surprised that they were able to plan a strike in secrecy and actually carry it out. Not even the departmental manager knew about it. It was agreed to discuss the salary system in the board meeting, which was in two weeks. Gradually the girls returned to work and on the Monday everybody was back. In the board meeting it was decided not to increase the salaries. After all, not many girls left after the strike, maybe about ten, although all of them were very good workers.

One reason for the dispute was that the salaries in this department were calculated differently from those in the other departments. A contract salary linked with efficiency was difficult to justify and explain to the workers, and it caused a lot of misunderstanding. Even the DM had problems in motivating the workers. Salary calculations were more straightforward in state-owned enterprises (see Chapter 6). Efficiency has continued to be a problem (2004). The Finnish VGM admitted that they had had to give up demanding high efficiency in this department. However, cost optimisation was good and total costs had decreased. Efficiency had actually increased in other departments. Salaries needed to be increased in order to prevent skilled workers from leaving the company.

In terms of communication, it was interesting that notice about the strike was kept secret. Not even all the Chinese managers knew about it. The message flow seemed to have been blocked before it reached the bilingual English-Chinese level. Moreover, the dispute was so important that it was referred to at the board meeting.

7.2.6   Conclusions

Government regulations were given as reasons for several disputes, although the situation was not as difficult as might have been anticipated. The Finnish managers looked upon the regulations as obstacles, whereas the Chinese managers referred to them as reasons for not doing something. However, the Finns also recognised that the system was in transition, and that even if they wanted to operate quickly, it was not possible. As several authors have pointed out (e.g., Fang, 1997 and Björkman, 1994), the ability to deal with the authorities is crucial for the success of operations. What was significant was that the Finnish managers were not told about the rules and regulations. In this case, too, it was a question of 'nobody told us' – 'they should have known'.

7.3   Language and Communication

Direct and indirect communication styles, as well as negotiation styles, are compared in this section. Special attention is given to language skills and the role of the interpreters. Changes and patterns in communication are also introduced.

7.3.1   Direct Versus Indirect Communication

Both the Chinese and the Finns acknowledged the fact that there were differences in communication style. The Finns were considered very direct. Some of the Chinese managers were comfortable with this, and some had more problems accepting it. Disapproval was often due to the Finns' acting aggressively in giving negative feedback or asking for explanations. In many cases the Chinese felt they were being accused of something over which they had no control. However, the disagreements were only about work, and were not personal.

   The Finns who had behaved aggressively admitted that they were very straightforward and did not have the patience to accept explanations that appeared irrational to them. Sometimes they assumed that the Chinese were intentionally misleading them. This assumption was strengthened in view of the Chinese habit of having their own meetings in Chinese following their discussions with the Finns.

   The Finns were frustrated at the Chinese habit of talking around the topic but not getting to the point. The Chinese did not give the real reasons for the problems, but offered excuses in order to avoid negative communication.

Indeed, they insisted on doing things their way. They promised to do something as agreed, but did not act accordingly. They did not disagree with their superiors even if they knew they were right. Some of them had built friendships with the Finns, and they were more direct in giving feedback and understanding the Finnish culture. The Finns did not adopt the Chinese communication style.

A deeper investigation of five stories, all told by Finnish managers, will shed some light on this issue. In the first one the complication was that two new work groups had not started working as agreed.

Missing Work Group

> We were sitting in a meeting with all the managers present. I had heard a day before that two work groups that were supposed to arrive and start working wouldn't be coming. I asked for the reason and I was told that they had to work for the other company. After several questions the real reason was finally revealed: they had to work in the old place in order to receive all the pay they were entitled to when changing a job. The production plans were ruined. When I started asking why I hadn't been told about this I got several explanations that were not related to the point at issue. Had the persons responsible for this told me in advance that the workers would arrive one and a half months later it could have been taken into account in the production plans. I asked the question six times and didn't get an answer why I was not told. They were only passing the buck from one to another and nobody wanted to take responsibility. Finally I collected my books, left the room and slammed the door behind me. The Chinese started to talk amongst themselves. Finally a vice departmental manager, a woman, was sent to me to apologise that she hadn't told me. I said it's nice that you came but I know that it wasn't your fault. You were only used as a scapegoat. Someone else is responsible. Later on this incident caused problems in co-operation, passiveness and slowness in the activities. This is a good example of what it causes.

There were two disputes involved in this story. The first one concerned the reason why the workers did not arrive on time, and the second dispute was about why the Finnish manager had not been told about it. In both cases the Chinese managers gave several explanations. In the first case the reason was understandable to the Finn, only he should have known about it earlier. In the second case he lost his temper and left. The real reason why he was not told was never revealed, and only an apology was offered.

The Finns were constantly surprised by this kind of behaviour. Simple reasons and open discussion would have made the whole episode easier. This happened at the very beginning of the joint venture, when trust between the partners had not yet been built. The Chinese wanted to show that they could manage the operations. The fear of punishment might also have been a factor because production was disrupted. Admitting negligence in informing the

Finnish manager also caused a loss of face, and this should have been avoided. The aggressive behaviour of the Finn may have caught the Chinese by surprise. The Chinese managers also referred to the Finns as being straight. They said it directly if something was good or bad, while the Chinese were not so open, and were more careful in what they said. The thinking is different. Sometimes they could not accept direct confrontation, especially if the problem was not their fault, which is natural. One Chinese manager said that it did not matter if they were fighting because they could eventually negotiate and solve the problems together. It was said of the Finn that, 'When he is angry he is very angry and when he is great he is really great. Afterwards he's very nice. He's a good man, we only argue about work.' I also asked one manager directly why the Chinese cannot tell the truth directly, but give excuses instead. He said that maybe the manager did not know the answer or did not want to say anything negative about China and its people.

What the Chinese manager said about being careful with one's words accords with the Confucian principles of what a gentleman is: he should behave correctly and not lose his temper. Self-control is considered to be characteristic of a superior, as quoted in Chapter 3, and the Chinese avoid open confrontation. Sincerity is the aim of man, according to Confucius. (The Great Learning. The Doctrine of the Mean, 1999, 67, 84-85) The Finns also considered themselves to be honest and always truthful. Differences in perceptions of truth and honesty between the Finns and the Chinese were discussed in Chapter 3 in the context of values and attitudes.

The Steam Power Station

> The factory had been running for a while and certain routines had been developed. There is a small steam power station which produces steam for the manufacturing process. One morning there was no steam and we went to ask the person responsible for operating the station why. The real reason was that a valve was broken. It was embarrassing for them to say that it was broken and someone had gone to get a new one so it could be changed and the station could start to function again. The first answer was that it was raining and the workers had gone to the other factory of the Chinese partner. We didn't accept this explanation because it was odd that if it was raining in the morning, everybody was gone. Someone else was fetched and we asked a bit louder what the reason was. The second explanation was that there were no wood chippings to set the coal burning. Finally, when we banged our fists on the table and sent for the departmental manager, they explained the situation and told us that a valve was broken.

In this case the explanation was first sought from the workers operating the steam-power station. They were probably afraid of being punished for breaking the valve. As noted in Chapter 6, in some departments the workers

had to pay for the damage they did. Although the Finns did not approve of financial penalties, some Chinese managers used them. The workers could not be sure which policy would be applied in this case. In order to avoid a difficult situation and to gain more time they told the half-truth that the operators had gone to another factory, hoping that the Finns would accept this explanation. According to one Finnish manager, it was very common to fetch spare parts from the Chinese partner factory. The problem was resolved by a Chinese manager who was used to Finnish directness and knew that it was better to give the real reason immediately. Giving excuses would only have led to more severe disputes, as happened in the previous episode. The Finnish manager said that these kinds of situations were frequent. He had discussed it with the Chinese managers and had come to the conclusion that giving excuses was part of the culture. Believing them was another matter altogether.

Three Electricians

> The Chinese partner is a state-owned enterprise and obviously has an obligation to employ people. Nobody told us what the obligation was or explained what the government regulations were concerning how many people had to be employed in the various departments. Had they explained this we would have understood the situation. We realised at some stage that, in addition to the departmental mechanics and electricians, there were three 'general' electricians. We asked why three were needed. The answer was that because the factory was running in three shifts there had to be one electrician for each shift. We followed the situation and noticed that they were all on the day shift. We asked the manager again and he promised to investigate the matter and tried to get the men on the three shifts. It didn't work out and we asked for the reason once again. The next explanation was that we needed three electricians because the factory used high-voltage electricity. They are still there even though there isn't enough work even for one electrician. They sit in their department behind closed doors and sleep.

The Finnish manager gave one interpretation of the episode, which was the employment obligation concerning state-owned enterprises. Additionally, according to the Chinese managers, one of the reasons for establishing the joint venture was to bring new jobs to the area. This episode is also an example of a situation in which the Finns gave up insisting on change and the real reason remained a mystery.

A Car for the Weekend

> We needed a car in order to visit the next city. We asked for the company car and it was very difficult. Normally, when we asked for the car it was OK, when do you need it and how many people are leaving. This time we had to ask several times during the week whether we could have it or not. They gave us advanced warning that if something happened we could not

have it. Of course we understood that. There had never been this kind of talk before, nor has there been since, but in this case we were told that it might be difficult to get the car. We were due to leave on the Saturday morning and we got a message late on Friday night that the car had been in a crash and we couldn't use it. We asked the Chinese to order a taxi for us in the morning and everything would be OK. The next time we saw the car it was in the same condition as before, it hadn't been in for repair at all. All this happened after we had given negative feedback and someone had lost face. The Chinese gave us negative feedback by not letting us use the car.

In this case negative feedback from the Chinese to the Finns was given by complicating other matters. For the Finns it was no problem to use a taxi. They also realised that this complication was due to their previous, aggressive behaviour. Because the car was not damaged and the Chinese gave no other explanation for the episode it was also possible that the car had been promised to somebody else before the Finns asked for it. However, the episode happened immediately after the dispute and this had never happened before. Because the Finns had no further problems with the car either it could be assumed that the whole incident was due to a loss of face.

The Chinese tended to avoid negative expressions and to give alternative explanations for events. The Finns often understood these explanations as lying because they were not consistent with what had actually happened. It was the Chinese managers who had made friends with the Finns who often gave any negative feedback, opinions or explanations, as they were more comfortable with direct communication. It was also possible to get explanations from the Chinese managers who were not involved in the episode. They would explain that the work could not be done in that particular way or that it was not customary in China. The Finns learned to read between the lines and to build answers into their questions, saying, for example, 'If we do it this way, is it OK?' or 'Can we do it this way?'. However, communication had already become more open by 1997. The Chinese managers also pointed out that by discussing problems directly it was possible to solve them. It was very difficult for them to start working in a different manner than they had been used to. This is related to the quotation given earlier about the Confucian gentleman: a superior man acquires new knowledge by reviewing past experiences. This was also mentioned by one Chinese manager: the Chinese use experience when they do something. Even later it was difficult to make strategic plans according to a vision about the future because the Chinese managers made decisions based on the past.

The Chinese managers often used the Finns as backup in order to support their own decision-making or in resolving conflicts, as one Chinese manager illustrated in the following story:

Urgent delivery

> We have ten different groups [in the department]. For instance, last week we were making the same style and therefore we needed to use same machines. Some machines we only have three pieces and therefore cannot do much work. Some groups were arguing and girls were saying dirty words and we couldn't discuss with them. We had a very urgent delivery and finally we decided to discuss with the Finnish vice general manager and with Finland. We could do two shifts, one shift on day and one shift at night. Those who lived near here could come and we could solve the problem.

This is typical of a hierarchical organisation: all decisions are made by the higher-ranking officer. Taking responsibility and solving a problem with equal colleagues is difficult.

A sort of dual organisation, two parallel decision-making systems (Hoon-Hallbauer, 1994, 15-16), existed in ZB. The Chinese managers and workers had internal meetings and the Finns had no clear picture of the discussions that took place in them. Sometimes it was decided to act contrary to what had been agreed upon: for example, if people were to be laid off because there was not enough work the workers concerned would be placed elsewhere in the factory to do other things, and would not be dismissed. The working routines changed when the Finns were not there to supervise. Sometimes the meetings concerned holidays or work arrangements, and the GM often went to explain some issues. There were very many such meetings in the beginning and the Finns were quite suspicious about them. The Chinese managers explained that they had always had meetings with workers in the department. They talked together about what they should do and how they could work better.

The existence of a dual organisation was also evidenced by the efficient use of the grapevine, as one Finnish manager described:

Empty factory

> They didn't know I was coming because Finland had forgotten to send a fax about my arrival. I took a taxi at the airport and arrived at the factory in the afternoon. The factory was totally empty, there was nobody. All the rooms were cold. Everybody was on vacation. I was wondering what had happened. Then someone came and called for one of the Departmental Managers. The General Manager also arrived. We managed to heat the rooms and after the weekend everything started functioning as before.

Because the Finns were on holiday and they were assumed to be coming back later, a holiday was given to the Chinese employees without the Finnish managers being informed. The information did not reach the Finnish-speaking group at all, but all the others knew about it. Moreover, without the Finnish manager doing anything his early arrival was recognised and communicated to

the Chinese managers through the grapevine. It is not known whether the Chinese were going to have a longer holiday or just an extended weekend. No other explanation for the episode was given.

7.3.2 Negotiation Style

Various forms of the Chinese and Finnish negotiation styles are described in this section, different alternatives in striving towards a resolution are discussed, and various perceptions of an agreement are introduced.

7.3.2.1 Solution through Discussion

Many problems were solved through mutual consultation and negotiation and without a dispute. One Chinese manager described how a problem was normally solved between the Finns and the Chinese: a solution was discussed and both parties gave suggestions and an agreement was reached without any complications. Although the Finn was said to be very direct in saying what was on his or her mind, the Chinese manager could cope with it very well, and also found it easy to argue with the Finn. The Finnish manager also wanted the Chinese manager to give instructions to the workers directly, thus emphasising the Chinese manager's position. Together they were able to solve the problem. The Chinese perception was that there were many ways to Rome, as previously stated. In their opinion the Finnish solutions were not always the best for China. However, even though the thinking was different, both partners had the same goal and thus the problems could be solved. It was necessary to discuss the alternatives in depth, to explain the situation to the other partner, and to choose the best solution for implementation.

7.3.2.2 The Epsilon and the Knot Rope

According to one Finnish manager, the Chinese negotiation style was 'oriental' and resembled the Russian style. The Chinese managers talked very broadly about the issues and used symbolic language, while the Finns went directly to the point and felt that the Chinese were not talking about the right issue. Negotiations became very long and difficult to follow, which was frustrating for the Finns. One Finnish manager described the Chinese style as an epsilon: the Chinese talk about the issue, search for a collective decision, ensure that nobody loses face, and suddenly find a solution. They are also very

persistent with their goals in the negotiation, but give up rather than jeopardise the deal. They do not value immaterial rights very highly, unlike the Finns. Decision-making in China requires collective unanimity, while in Finland an individual can make the decision. The Finnish style is much quicker. When a question arises the Finns either test it or they already have information as to whether it is good or bad. If it is bad they either do nothing or try another solution, and if it is good, they continue. Ceremonies and personal chemistry, and relationships between negotiators, are very important, and formalities are observed more strictly than in Finland. Difficult issues should be negotiated behind closed doors in private before the actual meeting in order to facilitate the negotiation process. These backstage meetings are discussed later in this chapter. The Finns did not adopt the Chinese negotiation style except in special cases. They preferred straightforward negotiations and assumed that the Chinese partner would learn to understand the Finns and adopt their style.

If the Chinese negotiation style took the form of an epsilon, the Finnish style could be described as a knot rope (Figure 11). In Chinese negotiations all issues are open until a consensus about everything has been reached. In the background there is the principle about harmony between yin and yang. If one element changes all the others change as well. The involvement of several authorities in the negotiation process complicates the negotiations, however, and the recommendation is to ensure their support at various stages. In the final analysis, the establishment of a joint venture has to be approved by the provincial or governmental authorities, and they have the power to make alterations in the agreement signed by the negotiating parties. This confuses foreign managers.
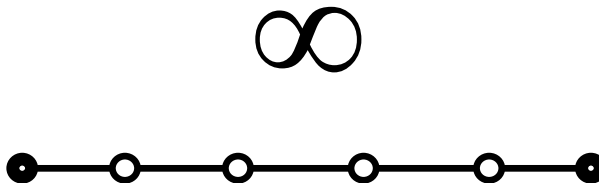
Figure 11.   The Chinese and Finnish Negotiation Styles – the Epsilon and the Knot Rope

The Finnish style of negotiation proceeds step by step. The aim is to discuss one item at a time, and once an agreement has been found the negotiators move on to the next item. This continues until all items have been agreed upon and the chain is complete. This style is clear and straightforward, but also

rigid. The aim is to keep previous decisions unchanged even if other factors change.

Regardless of the difficulties during the early years of co-operation, the Finnish and Chinese managers developed strategies for working towards a resolution in conflict situations. Seven basic patterns emerged in terms of how the managers reacted to a difficult situation and strived towards a resolution. *Backstage meetings* were used in order to avoid the conflict in advance, i.e. preliminary negotiations were held between the main negotiators. Thus the final and public negotiation proceeded smoothly without difficulties. Backstage meetings were also used in order to explain orders to the workers and commit them to the performance of the task. Many problems were solved through *mutual consent*. This became more and more frequent as time passed, and it was the prevailing strategy in the wholly foreign-owned enterprise. Alternatively, several *excuses* for not agreeing might be given. If possible, younger Chinese managers used other *Finns as backup,* especially in confronting Finnish managers. This is typical of the Chinese management style. Bargaining power was also used in the decision-making. During the JV era in particular, the Finnish minority partner exercised its bargaining power in terms of the critical assets it possessed, e.g., the right to set the prices, in order to *overrule* the Chinese partner. On less important issues the partners chose the strategy of *giving up* insisting on their way. Furthermore, *silence* was often used by the Chinese instead of a negative reply, according to the Confucian perception of a gentleman as someone who does not oppose his superior. Nevertheless, several cases remained unresolved, and the reasons why several disputes arose or other episodes occurred remained unclear to the Finnish managers.

Even if an agreement was reached, it was not necessarily final. There were differing perceptions of the meaning of 'yes' and 'agreement'. *Six 'shades' of agreement* could be identified. First, in the most favourable cases the agreement was final and the Chinese and Finnish managers acted accordingly. Second, the Chinese agreed with the Finns but other issues complicated matters: this was especially the case if accusations had led to a loss of face. Third, the Chinese agreed and acted as agreed at first, but gradually turned back to their old ways: this was normally a way of getting out of a difficult situation. Fourth, after agreeing with the Finns, the Chinese managers continued with their previous behaviour, the most common explanation being that the Finnish way was not possible or that it was wrong. Fifth, some time after an agreement had been reached the Chinese managers would start the negotiations again: this was the reaction to major issues when the Chinese side wanted to do it their way. Sixth, once the agreement had been made, nothing happened: in these cases the reason was usually a loss of face.

7.3.2.3 Giving Assignments

Giving assignments to workers with no command of the English language was difficult, as discussed earlier. The Chinese Departmental Managers and VDMs were used as mediators between the Finns and the Chinese. When workers were learning about the new technology a wide range of questions arose, and it required expertise from the Finns to pass on the instructions in an understandable form. Teaching careful quality control was hard because the workers did not know how to reach the Finnish quality level.

Constant supervision by both the Finnish and the Chinese managers was needed at first. Many chemical additives were needed to produce one shade of colour. The procedures were translated from Finnish into English and finally into Chinese so that clear written instructions and recipes defining the exact amounts and timing could be given to the workers. In the beginning every finished lot was inspected by the departmental manager. The need for care and customer awareness was instilled in the workers by explaining to them that the products were targeted for export and therefore they needed to be of good quality. The Finns also became angry if mistakes were caused by negligence, and the workers were thus scared of making mistakes.

By 1997 the required quality level had been reached. Each new worker was trained in how to use the machines and incorporate the chemicals into the process. However, checking and double-checking were still needed later on in order to ensure that the workers understood the instructions correctly. Once they had learned to take the initiative and to work independently the need for constant supervision disappeared, and it was enough to leave a short message that something had to be done.

Giving assignments to the DMs was not problem-free either. In many cases the Finns forgot that what was simple in Finland might be complicated in China. They readily accused the departmental managers of not carrying out their duties carefully. One example concerned the booking of a plane ticket. It was ordered in time, but when it was needed the agency said it was not available: there were problems with the booking system. Independent decision-making was difficult at first, too. The departmental managers were reluctant to disagree with their superiors, as mentioned earlier, and the Finns considered it better to give them direct orders rather than alternatives.

7.3.3   Language

Language skills, the role of the interpreters, and changes in communication are discussed in this section.

7.3.3.1 Language Skills

Not all of the Finnish and Chinese managers shared a common language, as mentioned in Chapter 6. All of the Finnish managers except one spoke only Finnish and English, and the other one, who joined the management team in 1998, spoke, in his own words, trivial Chinese. The Chinese departmental managers used the English they had learned in China and during their training period in Finland. Five of them spoke English well enough to negotiate. The Finns commented that very few Chinese managers in general spoke English. When asked, some of the Chinese and the Finnish managers said that, of course, speaking Chinese would have made things easier, but admitted that Chinese was difficult to learn. Nevertheless, those having even a few words of Chinese were respected by the locals, and were able to manage their personal affairs independently. The Finns were so busy at the beginning of the assignment, however, that they did not have time to study Chinese even if they wanted to. English was and still is the common language between the partners, which means that neither one has the advantage of speaking their native language.

It was to be expected that inadequate language skills would cause problems in communication. New technology and management thinking were transferred from Finland to China, and even with a good knowledge of the shared language it would have been difficult to pass the explicit and tacit knowledge from one party to another. It cannot be assumed that both English and Chinese contain the terminology required in the transfer of Finnish technology. Furthermore, the words are more likely to translate better into English than into Chinese because English is frequently used in the transfer of technological knowledge. This is what Holden calls the stickiness of language. (Holden, 2002, 69-70, 250-254, 264)

Orders and instructions were translated in two phases. The Finnish managers and controllers first translated everything from Finnish into English for the departmental managers. They in turn translated the instructions from English into Chinese and passed the information on to the workshop supervisors. The supervisors shared the information with the group leaders, whose job it was to explain the task to the workers. The workers were trained during test runs. The Finnish controllers gave the Chinese workers direct instruction on the technical details. According to the Finns, they asked a lot of questions in order to learn about the new technique and the quality-control issues. Due to the lack of a common language, some Finns adopted a very practical and simple way of teaching the workers: non-verbal language and a few words of Chinese, which the Chinese managers also appreciated. The instructions were sometimes written in Chinese. According to the Finns, all

the workers could read Chinese, but not necessarily write it. If instructions were given orally, writing them on paper caused problems to some workshop supervisors. The English skills of the DMs were not fully developed during the first two years of the joint venture either, and pure translation mistakes occurred in the coding and decoding of messages. These mistakes, combined with a multi-level communication flow, probably provoked some of the problems in communication.

One difficulty on a personal level among the Finns was that there was hardly anyone to talk to in their free time. They found very few people in the town who could speak English well enough. Getting acquainted with the Chinese was easy, however, and some managed to make good friends among Chinese managers. Still, it was difficult to find people to chat with about all kinds of things. One reason for this was the language problem, and another was the fact that the Chinese also had their families to take care of. Some of the Finns were managing very well in China by using English, a few words of Chinese and non-verbal language. They socialised mainly with each other and with other expatriates or Chinese-speaking managers in other cities.

7.3.3.2 Interpreters

On many occasions it was impossible for the managers to communicate directly with each other due to inadequate language skills on both sides. Interpreters were needed both in the daily operations and in negotiations between managers. Three kinds of interpreters were used: a Finnish-Chinese interpreter (outsider), English-Chinese interpreters (outsiders) and Chinese DMs translating from English into Chinese and vice versa.

The interpreters both facilitated and hindered communication. Using the DMs was easy, especially when the issues under discussion were minor or acute, since they were familiar with them and had direct information about future plans. However, according to the Finns, this also had a counter-effect in that unfinished strategic business discussed between the partners spread among the Chinese workers and created resistance before the decisions had been put into practice. However, it cannot be said that the DMs were responsible for the information leakage as there were many other people, especially in the board meetings, who could have passed it on.

Another problem arose related to the hierarchy: it was not possible to discuss difficult issues privately with the GM. Using an in-house interpreter led to a loss of face because negative feedback could be given in front of and mediated by a subordinate. Discussing strategic issues was also extremely difficult because the Chinese top management had to depend on their

subordinates in making decisions. The aim of the joint venture was not only to transfer modern technology but also to introduce a new management system. The departmental managers had already been trained in Finland, but due to his other commitments the GM did not participate in the training. This led to a difficult situation again because he had to learn from his subordinate. Even sending faxes was difficult because they were translated by in-house interpreters: it would have been much better to discuss the strategies thoroughly before making them public in order to avoid misunderstandings. All these problems put the GM in the difficult position of going against the Chinese concept of hierarchy.

It was therefore decided to use outsiders as interpreters, and they had to undertake not to discuss company affairs with other outsiders. The interpreter came to the factory once a week and all issues were discussed privately among the top managers. The situation improved immediately. Translation directly from Finnish into Chinese removed one stage (English) and thus diminished the number of potential translation mistakes. The interpreter helped the Finns to avoid clashes by explaining various aspects of Chinese culture. According to the Finns, things would have been even more complicated without the help of the interpreter. On the other hand, the interpreter did not speak the local dialect and sometimes it was impossible to follow what Chinese managers were saying to each other in Chinese. A Chinese interpreter was used in the board meetings. Although there were problems in the beginning, huge progress had already been made in this respect by 1997. Other interpreters were introduced later on, but none have been used since the year 2000. Chinese Vice General Managers translate when necessary.

7.3.3.3 Radical Changes in Communication

The following episodes describe managerial communication between the Finns and the Chinese during the termination phase and at the start of the new wholly foreign-owned enterprise.

Workforce turnover

> I discussed this with the [Chinese] production manager and I asked why the production for the last season was late. It is a good sign that she openly admitted that about 40% of the workers had left during the past couple of years. They had hired new workers but neither the efficiency nor the quality was high enough.

The interviewee talks about another problem, the increasing difficulty in recruiting skilled personnel. In terms of communication it is significant that

there had been a change from indirect to direct, and the previously noted 'nobody told us' and 'they should have known' notions had disappeared.

Termination negotiations

> We have had a joint history for long enough for the Chinese to be able to talk about problems directly. What they had discussed with local politicians I don't know, but clearly we had reached such a level of mutual understanding by 1999 that we could talk directly. Discussion was not the typical Chinese circular style, and they had adopted our way of thinking and the model of fast decision-making.

The Chinese had also adopted the Finnish reporting and calculation systems and there were no problems dealing with numerical information as there had been in the beginning. The gap in knowledge of modern business and terminology had been filled by the end of the life cycle of the JV. The management style had become a Finnish – Chinese mixture: the Chinese style was used with the workers but communication with the Finns always followed the Finnish style[30]. The people the Finnish top management were dealing with were more relaxed than before. The issues under discussion were much easier to handle, the use of rhetoric had decreased and there was more direct factual conversation: the Chinese negotiation style had changed from the epsilon to the knot rope.

7.3.4   Conclusions

There were dramatic changes in managerial communication. At first the Finnish directness clashed with the Chinese Confucian-style indirectness, as anticipated. The Finns easily reacted strongly if excuses and explanations were given. The existence of a dual organisation showed in the lack of horizontal communication and the reluctance to take responsibility, for example. Inadequate language skills caused a lot of work and misunderstanding. The Finns were suspicious about the Chinese meetings, although according to the Chinese it was only a question of clarifying the assignments. A surprising finding was that using interpreters became a face problem. Originally the Chinese negotiation style could be described as a circulating epsilon and the Finnish style as a straightforward knot rope with the decisions being made one at a time, but things had calmed down by 1997. By the wholly foreign-owned stage the Chinese had adopted the Finnish communication style: the

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[30]   Verified by the Chinese managers in 2004.

termination negotiations were clear evidence of that. Language turned out to be as important a cultural element as I originally anticipated, and the biggest changes had occurred in this area.

7.4   Values and Attitudes

This section discusses perceptions of truth and honesty, the work ethic, and religion and philosophy as the basis of values and attitudes.

7.4.1   Religion and philosophy

Philosophy is important in China, just as it is in any other country. According to the Chinese managers, the thinking is somewhat different, and softer, in China than in Finland. If problems are seen from both sides it is possible to solve them. In terms of religion China is now a free country. There are many Buddhists, especially in the countryside, and also many Protestants. Confucianism is very strong. People's behaviour is Confucian in that they give many presents, even money, but they do not talk about it. Confucianism is not on the school curriculum, but is taught as a tradition by parents. It is a mixture of many things, the most important of which is to love and care. Additionally, as discussed earlier in the context of material culture, feng shui is related to Taoism in particular. Sometimes the Chinese refer to these traditions by saying, 'according to Chinese principles', or 'it is not customary in China'. However, it needs to be borne in mind that Chinese principles could also refer to legislation or simply to common practice in companies, for example: which of the two does not always become clear.

These were almost the only comments about religion and philosophy that arose in the interviews, and not even these came up spontaneously as I had to ask about them. However, the Chinese style of narrating was rich in concepts and ideas from Confucianism in particular. Words such as honesty and sincerity, friendship and learning are among its key principles reflecting the behaviour of a superior man. As one Chinese manager said in the above, Chinese people do not talk about Confucianism but they behave according to its principles.

Culture and thinking are different in China. Education is important because through it children adopt the thinking. The Chinese managers noted that because the people working for the factory had the same aims, the fact that they had a different way of thinking did not matter: if everybody did their best,

the factory would be successful. Sometimes the Finns considered an issue to be very simple but in China it might be very difficult, and vice versa.

7.4.2   Truth and honesty

The question of truth and honesty provoked a lot of discussion among the Finns. One Finnish manager described the situation as follows:

Various Shades of Lying

> It is interesting that in our culture lying is rude. We have been taught since we were little boys that one must not lie. In China there are various perceptions [about a lie]. There is a small lie, a bigger lie and a whopper. The small lie and the bigger lie might be initiated by the other party when they force the Chinese to give an answer. Because they cannot give a negative answer, they lie. It is not seen as a big sin if under duress they give a false answer in order to save face. The other party has to realise that it is not true. How could we understand that because it is not part of our culture? There is also another thing: if the Chinese person doesn't know the answer he/she still gives a very thorough reply. Lying based on ignorance is not lying.

A Chinese manager verified this when he was discussing the issue with another Finnish manager. The Finn asked why he received answers that were not truthful. The explanation was that, according to the Chinese culture, one has to know the answer. If one does not know he or she gives some kind of explanation instead, and that is not lying. A person is lying only if he/she says something that he/she knows to be untrue.

If the Chinese did not keep their word, for example if they did not follow the instructions although they had promised to do so, the Finns perceived it as lying. Reactions to this kind of episode were discussed in the context of direct and indirect communication. In most cases the episodes involved solving problems in the manufacturing process or in other work-related operations, not on the strategic level. Moreover, if the question was very narrow and limited, the reply was also limited: various issues that may have influenced the situation were not mentioned and therefore the answer lost its value as well. Other Chinese managers referred to the same issue by saying that the person may not have known the answer, or knew but could not explain it in English. The Chinese were also reluctant to say anything negative about China or the Chinese people.

The Chinese managers emphasised the fact that Chinese people were honest and friendly towards foreigners. The Chinese perception of the Finns was that they were hard working and honest. Co-operation with them was also honest

and sincere, and the partners respected each other. Seen in the light of the above definition of a lie, it is a question of saving face and maintaining harmony between partners. The Finns became used to this quite early on: if various excuses or 'lying' had no impact on the operations they ignored it but if it was disruptive further explanations were asked for and corrections were made.

One Chinese manager emphasised the need to have written contracts when dealing with Chinese people because oral contracts could easily be broken. This is not in total accordance with Chinese practice: contracts are written but they may be broken if it is beneficial. The Chinese also have a contradictory attitude towards laws and regulations: they follow them or ignore them when it best suits their purpose if they feel that they can get away with it. Their official behaviour is a sort of survival technique to stay out of trouble. Additionally, according to Confucian principles, they would rather follow the requests and suggestions of their superiors than the law. (De Mente, 1995, 93-94) As mentioned earlier, a Confucian gentleman does not go against his superior. This ambivalent attitude towards regulations probably lay behind the Chinese manager's comment.

7.4.3   The Work Ethic

Chinese workers were considered to be hard working and enthusiastic by both the Finnish and the Chinese managers. According to some Chinese managers, the work ethic of the Finnish workers was superior to that of the Chinese: they worked without supervision and helped each other. This was only partly true in China: the Chinese needed more rules. The Chinese manager compared the Finns and the Chinese at traffic lights:

Traffic Lights

> In traffic lights Finns see red light, no cars, nothing, only themselves, I think maybe most of the Finnish people will wait there for the green light. But in China I think most people will see if there's no policeman, they will go.

This also applied to the workers. Chinese workers were often too eager to start working and earning money. They often forgot that, in addition to making a certain number of products within a certain time, they had to reach the required quality level as well. If not constantly supervised, they tended to cheat in order to produce more. The quality was poor at first because the workers were not careful enough and did not follow the instructions. Achieving good quality required constant supervision and reprimand as

quantity was considered more important. Taking the products to pieces if there were mistakes was a good lesson in quality control. Many mistakes were made during the night shifts because nobody was supervising the workers. Special arrangements were introduced in order to maintain supervision. Teams were set up so that workers could supervise each other, and the salary system was changed in order to reward more careful work. The workers were responsible for cleaning their own working areas, but dust and dirt were everywhere. The girls put their beautiful shoes and straw hats in a plastic bag in order to keep them clean, but did not care about the condition of the machines, the materials and the final products.

The workers were too hasty in repairing and cleaning the machines, for example, which led to breakage, material loss and poor quality. Making the products was very complicated, even for the Finns, and everything had to be done in exactly the right order. Every season some tiny details changed, such as the prints, the buttons or the colour of the stitching. If the final product looked like the old one, the workers rushed into production before checking and as a result the garment did not fit or because of wrong details it had to be taken to pieces. The workers tried to cover up their mistakes by saying that another manager had approved the work, or by darning the holes, for example. They knew how to do things properly, but they tried to cheat hoping that the Finns would not notice. They also thought that the quality checks on the materials to be used in production were too detailed and a waste of time.

The departmental managers understood how to achieve good quality. They were able to monitor certain operations and were strict about them. On the other hand, the workers did not like the supervision: the notion of equality among Chinese people has a counter-effect when a manager is supposed to supervise and reprimand the workers. The workers could say that the manager has no right to give orders. However, partly through fear of punishment, the workers at least tried to look as if they were doing something, although there was nothing to do. Monitoring the manufacturing process in certain departments required only occasional action from the workers at night, and in the meantime they read the newspapers and / or slept.

Sleeping at work was a general problem at first. The Finns found it very odd, as is evident also in the following.

Sleeping

> They can sleep in total peace there. If there is no work to be done they put their hands on the table, head on the hands and sleep and we had to wake them up. They had no inhibitions. This doesn't happen any longer as we have reprimanded them, but it's part of the culture. We are not totally in the countryside, but I'm sure if we go deeper into the countryside it's much more common. Efficiency is not very familiar to them and it shows in this

way. Normally there are enough workers to finish what was set as target, but there are so many people that some of them also have time to sleep. That is a problem.

The Chinese found the Finnish style strange, and were surprised when all newspapers were also forbidden.

No Newspapers

> In China some traditions are different. For instance it is very normal in China that you can read newspapers when you work. When the joint venture came here they thought it is strange so we stopped it.

It was the heritage of state ownership that the workers could sleep at work: because the working hours were 14 to 15 a day, the workers were entitled to have a 'siesta' at noon (De Mente, 1995, 84-85, 124-125). They could have lunch and have some free time, as well as read newspapers. Many said that they thought this company would be like a state-owned enterprise. According to the Finnish managers, salaries should be based on work and results, and not on just being present. However, some of the jobs mainly involved monitoring the machines at regular intervals, with nothing to do in the meantime, and in the workers' opinion they could quite as well sleep if their alarm clock woke them up in time. The Chinese workers complained about having to pretend to work if there was nothing to do. Sleeping and reading newspapers was forbidden by the Finns at a very early stage of the joint venture and has not occurred since then.

It was not the lack of the will to work that caused problems: in fact it was the contrary. The employees wanted to work too many hours, as one Chinese DM stated.

Free Weekends

> It is very normal to work overtime in departments like ours. In nearly every factory you work full-time on Saturday and Sunday, but Finns told us it's impossible, because you need rest, relax. So the workers want, if they have enough time and enough work they like to do it because they get a lot of money. If they rest one month, twenty-two, twenty-one days, it means just less money. It's very normal, so we always have this kind of clashes in our department. Now we have a new compromise. We have solved this problem, because if it is urgent we can work overtime, if not urgent, just Sunday off. Saturday is normal workday. We think that our work situation is a little different from Finland. I think Finns can understand it but still they are so worried about the health of the workers.

On the whole, after all the initial problems, the factory was running on schedule and the quality was good in 1997. A couple of years later there were

radical changes in the work ethic following the acquisition, as one Finnish manager recalled.

Changes in Work Ethic

> We noticed a cultural difference that we didn't expect. When the last permanent Finn left the joint venture they started to operate the factory the way we had tried to all along. They acquired the ISO 9000 quality system, which is working properly. Tidiness improved significantly, or actually radically. There was one practical thing: at the time when I was there they almost came in on their bicycles, spat on the floor and so on. At present [2004] nobody, not even the GM or our MD, enters the department with shoes on. Shoes off and slippers on. It changed immediately when we left. The organisation became better. We tried to lay off people but they always referred to the law that so and so many people need to be employed. The number of managers and idlers was reduced significantly and operations were not disrupted. They couldn't make these changes while we were there in order not to lose face. Now they could show that they can manage all by themselves.

There were also differing opinions about punishing the workers for negligence. The Finns preferred constant supervision and reprimands. Poor quality also affected the salaries in some departments, and this was considered to be adequate. Some Chinese managers used financial sanctions: if a part was broken, a machine was dirty, or output was of poor quality, the cost of the damage was deducted from their salary. According to one Chinese manager, this system was used widely in Chinese companies, but the Finns did not approve of it. However, persistent negligence resulted in dismissal for some workers, and this served as an example to the others.

Punishment

> I heard about that [punishment], it was wrong. I wasn't here but another Finnish manager was and he tried to fix it. He called me in Finland, too. In one department a machine was broken because of negligence. The worker hadn't fixed a part properly, started the machine and it broke down. They deducted the price of the part from the worker's salary when they had to order a new one. Now he's no longer working here. I don't know why.

In one department the punishment was automatic, and was based on supervision.

Napkin pants

> They were making napkin pants. However, the holes for the feet were too small. The garment couldn't be worn by the child because the feet didn't fit into it. They had to take 1,000 pairs to pieces and do them again.

Financial punishment was reduced, as suggested by the Finns. Constant supervision and reprimanding were in extensive use. The introduction of a quality-control system reduced the need for supervision as each work group had its own quality controller.

7.4.4   Conclusions

Perceptions of truth, honesty and lying deviated dramatically between the Finnish and the Chinese managers. The Finns expected absolute truth and the Chinese preferred a 'modified truth' in order to save face. Neither the Finnish nor the Chinese managers discussed religion and philosophy unless specifically asked, even though they form the basis of all values and attitudes. The attitude of the Finns towards the workers was contradictory: on the one hand they praised them as hard working, and on the other hand they accused them of being lazy and not careful enough. They were also more concerned about the health of the workers than the Chinese management, and wanted them to have free weekends. However, the workers went on strike in order to secure the right to work longer hours and thus earn more money. The Finns did not approve of the Chinese punishment practice.

7.5   The Social Organisation

The social organisation includes the relationships between the managers, between the managers and the workers, as well as between the managers and outside operators such as local and national government representatives and banks. The focus in this section is on hierarchical issues, taking responsibility and decision-making. Questions of face and guanxi are also discussed, and brief comments about the relations between the Finnish and Chinese partners are given.

7.5.1   The Hierarchy and Decision-making

According to the Finns, the most striking difference between the Finnish and the Chinese management cultures concerned the hierarchy and the ability or willingness to take responsibility. In particular, several of them mentioned the difficulty of dealing with the hierarchy within the JV. Middle managers had the right and also the obligation to make independent decisions but they frequently referred to the general manager for final approval. Responsibility

for the operations was also invested in the GM and not in the middle management, which the Finns often interpreted as fear of taking responsibility or of making mistakes. Decision-making power is based on professionalism in Finland, not on rank as in China. However, according to one Finnish manager, the situation in Finland was similar to that in China about a decade previously: the highest-ranking manager made the decisions no matter whether he/she had expertise in that particular area.

In spite of their criticism of the hierarchy, and of the slow decision-making process and the problems it caused, the Finnish managers unanimously gave all credit to the Chinese GM for his ability to manage the operations, especially in dealing with the local and other authorities. In particular, at the termination phase it was he who initiated the acquisition. ZB did not have as many problems with the authorities as the other JVs reported, such as with the customs or in drawing up city plans, and the attitude of the county authorities was flexible and supportive.

Lower-ranking managers did not openly disagree with their superiors in negotiations and meetings, including board meetings. Within the board of directors the final decision-making authority was always accorded to the Finnish chairman of the board.

In addition to feeling the need to seek approval from the GM, the middle managers also had problems adjusting to independent decision-making and taking responsibility. Moving from a SOE management culture with a strict hierarchy and top-management decision-making required a lot of learning and a change in attitudes. However, the new style was adopted as quickly as within 18 months of the start of operations. The following two stories serve as good examples of the impact of the hierarchy and of attitudes to taking responsibility. Both events happened in the construction phase and were narrated by the Finnish VGM.

The Lamps

> We have several departments and departmental managers. In Finland the departmental manager is in charge of all operations in the department. During the construction phase lamps had to be installed in one department. I explained to the departmental manager how to do it and what should be built first in order to install the lamps. He said that it was not his responsibility. Building the ceiling was the building engineer's responsibility. The building engineer was fetched and the DM told him what to do. The engineer said that it was not his responsibility to install the lamps, and that he was only in charge of building the ceiling. An electricity controller was in charge of lamps. The electricity controller said that he was responsible for the lamps but that someone else had to construct the scaffolding first. After that the responsibility for building the ceiling shifted to the building engineer, and then he was responsible for installing the lamps.

> We had been discussing this problem for four, five days because the people responsible for the task were not present. Finally I overruled everybody and forced them to do as I had planned by saying that whoever was responsible for this task, I would take full responsibility. After that the task was completed. This was a really good example. Elsewhere the DM solves this kind of problem alone and he/she is responsible for it. The DM delegates the tasks to other people.

The underlying assumption on the Finnish side was that because the Chinese DM had been trained in Finland he had fully adopted Finnish management practices, including independent decision-making and delegation power. However, the people in charge of the construction were not employees of the JV. Many of them came from the Chinese parent company and the DM did not have direct authority over them. Additionally, being in charge of building and managing the first JV in the county would be a challenge to a young person anywhere in the world, and in China it is even more challenging due to face consciousness as well as the punishment practices for making mistakes. The same applies to the other people involved in this episode. Working elsewhere may also have been a reason for the absence of the engineers and controllers, which caused delays in the construction. Impatience on the Finnish side increased because there was a strict deadline for finishing the construction phase. A task that would have been very simple to accomplish in Finland turned out to be difficult and time-consuming in China.

The Drain

> In another department we had a Chinese guy responsible for assembling. Technicians had been hired from the Chinese parent company and he was in charge of supervising them. Every time when some materials or parts were missing we said okay, this is your responsibility. We showed the papers indicating what you have to do and it is your responsibility to acquire the material without questions. We have agreed upon this in an assembly meeting, who takes care of what and when. Every time when something was missing and I asked why, he said it was not his responsibility, it was the electrician's or somebody else's responsibility and they had not brought a lamp or wire or drain.

> Once we didn't get a drain and they were passing the responsibility to each other. The assembly was in danger of being delayed. Nobody took the responsibility. They knew where to get the drain but no-one went to get it. Then I saw some stainless-steel plates in a corner. Because nobody went to fetch the drain I said now we'll bend these plates into a drain. So we did. You can imagine how big an entity this factory is, with many departments, a power station and a water station, which we have constructed. There are no real obstacles to doing things. People know what they have to do but they don't do it and are afraid of taking responsibility.

More or less the same interpretation applies to this event as to the previous one. The final reason why nobody wanted to fetch the drain was not revealed. Several Chinese managers commented that this Finnish manager was short-tempered and ready to take dramatic actions. However, he was also given credit for his achievements. On the other hand, the FVGM was also responsible to the board of directors and both partners for constructing the factory and having it running according to the set standards in time. Most of these tensions had already eased by the summer of 1997, when I interviewed the managers. Both the Finnish and the Chinese managers agreed: 'Everything is going much better now!'

Horizontal communication was almost non-existent between peers at first, especially among the DMs and VDMs. As mentioned earlier, the majority of decisions were confirmed by the GM. The departmental managers gave orders or co-operated across departmental borders reluctantly, as the following episode indicates.

The Forklift Truck

> A forklift truck was out of action. I asked why the material was not on the shelf and DM said that the forklift truck had broken down. We cannot lift the goods. I said that in my opinion last time, when I was here about one-and-a-half months ago, the truck was broken down then and why hadn't anybody fixed it. Just like I said last time, the material needs to be sorted and put on the shelf, but nothing has happened. I asked what's wrong with the truck and he said there was something wrong with the wheel and also something else. I said it should be fixed and will you take care of it. He said it wasn't his responsibility. I asked whose responsibility it was because you use it in the department. He said that they didn't have a mechanic in the department and another department used the truck as well. They have a mechanic. I asked why he couldn't agree with the other DM that he would order the mechanic to fix the forklift truck. There was no progress until I discussed it with the other DM. They couldn't discuss it between them. This is linked with taking responsibility. If they take it, the responsibility needs to be defined precisely, that this truck is your responsibility, if it's broken down you'll fix. …Next time I was there it was fixed.

Similar behaviour was reported among the VDMs. If there was a problem, peers avoided discussing it between themselves, but referred the issue to the next manager in rank, whether Chinese or Finnish. One department in particular was problematic because it was divided into two sub-departments. According to the Finnish system, the VDMs were equal. In China one was higher in rank and therefore the 'lower' ranking VDM was reluctant to give negative feedback to the other, even though he or she had the right to do so.

Co-operation between the different departments and sub-departments was also difficult. In order to secure a fluent production flow the DMs and VDMs

were encouraged by the Finns to talk together but the communication was not very effective. This was also true of the workers. In Finland a sewer can discuss matters directly with other managers even in different departments, but not in China. In ZB, Finnish managers have the right to contact anybody regardless of the hierarchy, but the Chinese managers referred the issues to their superior. Assignments were also given according to the hierarchy. This behaviour was one reason why everything took a long time at first.

Hierarchical concerns, the reluctance to take responsibility and the tendency to communicate vertically were not only dependent on the mutual relationships between the managers because the same problems occurred in all departments. A couple of years later most of the expatriates were gone and a new FVGM started working at the factory. Clearly defined responsibilities were still required and hierarchical decision-making prevailed.

Pallets

> In the beginning [1998] we were changing the layout of the factory a little. The location of the pallet shelves was changed. It seemed to be an insuperable problem to move the shelves. It was not possible for the DM to say to the workers that the shelf should be moved in order to improve the material flow. In Finland small improvements like this are made 'on the shop-floor level' but in China it was a big project that had to be discussed with the GM. Maybe they were testing in the beginning how the operations were managed [with me].

When a new manager joined the company the hierarchical structure was tested again. This involved weighing up who was the highest decision maker, and also whether the newcomer had gained the trust of the Chinese General Manager. Afterwards no problems in this area were reported.

Whose machine?

> As long as we brought material from here [Finland] we always had some problems. It was about sharing the responsibility. If we bought a machine, transferred it and installed it there [China], their attitude was that it is your machine, it's your responsibility that it functions. But if they had bought the machine, or had suggested that it should be bought, it was a matter of honour that there were no problems or at least they wouldn't tell us. Anyway, this has worked very well.

Defining the scope of responsibility facilitates co-operation and speeds up the decision-making. When the JV started responsibilities were not so clear and the SOE culture and the Finnish management culture had not fully merged. The strong influence of the SOE hierarchical tradition was reinforced by the fear of punishment, and the young age of the middle management led to

a reluctance to take responsibility and the need to seek approval from higher authorities, either Chinese or Finnish.

Communication between the DMs and the workers was also different on the Chinese and the Finnish sides. The Finns gave direct orders while the Chinese always collected the reasonable ideas put forward by the workers and established a rule as to how the work should be done. According to the Chinese DMs, it was easier to convince and commit the workers to the task if they could participate in the decision-making. The Finns, in turn, commented that the Chinese were having their meetings again and the Finns did not know what was going on there. They had an agreement in terms of how to proceed and the Chinese changed it in their meetings. The Chinese comment on this was that the Finnish way was not always suitable or even possible.

In the early years of the JV the Finnish managers made the decisions and the Chinese implemented them. However, the Finns thought the implementation was slow and difficult. There was a need for constant supervision. After the acquisition more decision-making power was transferred to the Chinese operating management. Even if the Finnish company R had full ownership it did not wish to dictate the decisions and wanted to commit the Chinese operating management to them as well, in which they succeeded well. However, making drastic changes in the operations that were based on vision and not history was still difficult, even in the WFOE era.

7.5.2   Face Considerations

The Finnish managers had many problems in managing the operations without damaging the face of the Chinese managers. New technology and new ways of doing business easily led to open confrontations. According to the Finns, in many cases the 'Chinese way' did not function in practice, and they had no other alternative than to force the decisions through. It was difficult to find a balance between the Finns and the Chinese and to protect the face of Chinese managers simultaneously. However, it seemed to be somewhat unclear to some Finns who was actually losing face in the disputes. What was interesting was that the Finns were constantly talking about the face system, but no Chinese manager mentioned it unless I specifically asked. Face-consciousness was linked with the direct and indirect communication styles, as well as with giving excuses and not telling the truth. According to the Chinese, it was better to give an excuse than openly to insult someone. The Finns tended to be too aggressive in communicating negative feedback to the Chinese managers.

However, one Chinese manager commented that most Finnish managers had changed a lot and had become more sensitive to face issues [1997].

Giving negative feedback to a manager in front of his subordinates was considered insulting and lead to a loss of face, as the following story implies, as narrated by a Finnish manager.

Avoiding Contacts

> I said to one departmental manager that you need not do all the work, you can delegate part of it to people who are capable of doing it. You only supervise. I explained his duties clearly. Now [1997] he has delegated all his tasks to others. … I got heavy criticism because I didn't always remember to check whether there were subordinates nearby. One of our managers came [to a board meeting] and the GM discussed it with him. I got the feedback that I give too hard feedback and I should not do it in front of subordinates. We agreed that I would have a meeting with the DM alone and we'd go through the issues. I told him that I give strong feedback every time I come here because you haven't accomplished your tasks. … After this he started to take more responsibility … but he is afraid when I go there. … If possible he avoids me in order not to receive an order or strong feedback.

The Finns learned the meaning of face gradually during the early years of the JV. Consultants and indirect feedback were used in order to reduce the number of open confrontations. Personal characteristics combined with the urgent need to run the factory on schedule made the Finns forget how to approach the Chinese managers. Culture shock may also have had an influence on this kind of behaviour.

Sometimes the situation was the opposite, and a Chinese manager was reprimanded even though he was correct. This is illustrated in the following quotation from a Finn.

A Safeguard

> But he [Chinese manager] still always waits and asks when I'm coming back next time. It's a sort of safeguard. He [the Finnish superior] is an expert in another field but doesn't know about this [department] and he doesn't take it seriously when he [the Chinese DM] says how things should be managed. It's difficult when he [the Chinese DM] is accused of not knowing what to do even though he's right. But when I'm here he's safe and he uses me as a backup in saying what is correct. Sometimes he's called me in Finland about bigger problems to get [support].

Referring to another Finn was a commonly used way of solving a problem. In this case, the Finnish manager who was narrating the story ranked lower than the superior of the Chinese DM. However, he was an expert in the area,

just as the Chinese manager was. The Finnish superior talked about the same episode and complained that the Chinese DM was reluctant to obey his orders and was not capable of doing the job, and therefore lost face. According to the above account, the situation was actually the opposite. As discussed before, a Chinese person is not willing to confront a superior and insist on his/her way despite knowing he or she is right in that case. As a result, the Chinese DM does nothing because by following orders a mistake would be made. Using backup is a good way of strengthening authority. In fact, the Chinese manager saved the face of the Finnish superior by not confronting him, but not making the mistake either. The Finnish superior understood the situation in this case in totally the opposite way. After all, he praised the DMs for doing good work.

7.5.3   Friendships and Guanxi

Personal friendships are important in conducting operations in China. The role of Departmental Managers as culture-shock reducers between Finland and China is crucial for the successful performance of a JV. Relations with locals as well as with the Finnish headquarters are also discussed in this section.

7.5.3.1 The Importance of Personal Friendships

It has been frequently stated that good relationships are important in doing business with the Chinese. This was also emphasised by the Chinese and the Finnish managers in the JV. Getting to know each other and making friends facilitated operations. The following quotations are from the narrative of a Chinese departmental manager.

Friendships

> Maybe Finnish people have good systems or maybe they have good control systems, good management systems, but if they don't know Chinese business, if they don't know Chinese laws, it doesn't matter, they can do nothing. ... If you do things in here then you should know the customs, you should know some laws, you should know how people think. Then it's easier. Otherwise you're only anxious or angry and that doesn't help things. … when you know each other friendly you can do things much easier.

> When you come to China to do business, then it's better to stay in China for some time and have meetings with Chinese people and make friends. It's all over the world [like this] I suppose. But I think it's even more important here.

The above quotations emphasise personal friendships, not only knowing each other. Such friendships had already developed between the Finnish and the Chinese managers by 1997. Spending evenings together further strengthened the relationships. Through mutual friendship it was possible to transfer cultural knowledge and to speak more openly about the differences and how everything functioned. Conversely, if the mutual relationships were not very friendly but were characterised by aggressiveness and avoidance, working together became much more difficult. In Finland this would have been resolved more easily because of the short power distance: the subordinate can criticise the decisions of superiors. Power distance is long in China and open confrontations are not acceptable, which also accords with Confucian principles, as discussed in Chapter 3.

Top-management relations were very good, and mutual trust had developed and was acknowledged by both parties. The Finnish MD described the relationships between him and the Chinese general manager by saying, 'I trust him and he trusts me'. The Chinese GM specifically mentioned good relations with the Finnish top management and the warm and 'thankful' relations with the Finnish consultant. The Chinese VGM described the company as a 'healthy new baby who had inherited the best parts from both parents'. Given the importance of the family in Chinese society (see Chapter 3), this is a telling statement in that it compares the relations within ZB with the relations between family members. The initial mutual ignorance had first turned into mutual forbearance, which carried the JV and its people over the difficult first years. Mutual trust had already started to develop, and strengthened until it prevailed in the managerial relationships.

7.5.3.2 Middle Managers as Cultural Shock Reducers

The relationships between the Chinese departmental managers and the local people, and especially the workers, were somewhat problematic. On the one hand, the Chinese tradition and the demand for equality undermined the authority of the departmental managers. The Chinese workers expected them to behave according to the Chinese practice, and openly criticised their decisions. On the other hand, the Finnish managers pushed forward the implementation of the Western management style, which was very different from the SOE style. The bi-lingual departmental managers acted as cultural shock reducers. They took the worst pressure from the Finnish side and tuned it down before passing the information on to the subordinates. They often did this by calling meetings with the workers in which they explained and justified

the reasons for the decisions. The Finns saw these meetings as 'secret meetings' because they did not know what the Chinese were talking about.

The departmental managers also reduced the cultural pressure in the other direction. They were the first to receive complaints from the workers and they had to explain their demands to the Finnish management. As mentioned previously, the Finnish way was not always the best possible, even impossible sometimes, given the local circumstances. The GM's authority was never questioned. The middle managers found themselves between two push forces, from the Finnish staff and from the workers, and this, combined with the overall authority of the GM, meant that their hands were often tied. Sometimes they were unable to complete the tasks due to the contradictory demands of the JV partners and preferred to transfer the decisions to higher authorities. According to the Chinese culture, the DMs did not give direct explanations either, but assumed that the Finnish managers were familiar with the local business culture. This led to the above-mentioned 'nobody told us – they should have known' situation. The Finns complained that no one had told them about the prevailing situation, while the Chinese managers said that Finns should have familiarised themselves with the local conditions. Misunderstandings occurred because of a lack of communication.

Due to the prevalence of diffuse relationships (Trompenaars and Hampden-Turner, 1998, 81), family and business life are mixed in China. Company issues are discussed at home with relatives and neighbours. This and the Chinese family and friendship orientation make it difficult to justify difficult decisions that might harm relatives and friends. China is a particularist culture according to which looking after close people is a person's obligation and rules should be bent in their favour. (Trompenaars and Hampden-Turner, 1998, 31) Diffuse relationships also led to a change in behaviour in the DMs after they came back from Finland.

Moreover, as previously mentioned, the DMs were very young to take responsibility for starting the first JV in the county. Failure would have led to a loss of face and reputation among all Chinese managers in the eyes of local people and also in higher governmental levels. Seen from this perspective, the role and capability of the middle management was crucial in laying the foundations of the JV success. Achieving a balance between the two cultures and being simultaneously loyal to the Chinese and the Finnish management, as well as to workers, family and neighbours, was not easy. The Finnish managers, in turn, struggled with introducing new technology and management practices according to a tight schedule, and with transforming the SOE culture to conform to Western ways. The fact that the difficulties and misunderstandings of the early years of the JV were overcome is indicative of

the high commitment of all of the managers to the project. A lot of forbearance has been required to reach the current situation.

7.5.3.3 Relations with Locals

Guanxi, the Chinese network of relationships, was discussed in Chapter 3. Neither the Finns nor the Chinese used the term guanxi, but good relations with local authorities were emphasised by both partners. However, the Finns spoke more about relationships and the Chinese about friends.

The Finnish managers left the local relationships to the Chinese General Manager because he had all the necessary connections. He was a very powerful person in the area and on higher levels. In the opinion of the Finnish managers he could handle the relationships better than the Finns. However, it was important for the Finnish managers to meet local authorities and to join in celebrations and other festivities. They were given local passports as a symbol of good co-operation, and the Finnish MD is an honorary citizen of the county. According to one Finnish manager, even the establishment, and specifically the location, of the JV was partly due to personal relationships and the need to bring new technology into a developing area.

When I asked the GM what were the most important things a foreign manager should know before coming to China, he said, laughing: 'If you can use chopsticks you can save a lot of trouble.' As discussed in Chapter 3, the Chinese often have lunch or dinner with their partners in order to facilitate negotiations and to build or maintain relationships. Eating and drinking together is considered to strengthen friendships. People look happy, eat good food, talk business and get to know each other. The Chinese traditionally eat with chopsticks, although foreigners are usually given the opportunity to use a knife and fork. Nevertheless, being able to use chopsticks also reflects an interest in Chinese culture, which in turn is seen positively. However, a guest who is clumsy with chopsticks tends to focus less on the general discussion and to isolate him/herself from the party. According to Huang et al. (1994, 210-211) and De Mente (1995, 208), eating should not be work, i.e. the cook does all the work and cuts the food into small pieces.

The following quotation describes the feelings of the Finnish managers during the initial negotiations about the JV establishment.

Eating and Drinking

> We can work without eating and drinking for twelve hours. In China you cannot break the holy lunch hour. They are very upset if they cannot go and eat. And eating, you know, a lunch break lasts one-and-a-half hours. It is

clearly like this. We have no alcohol during working hours in any market-economy country. We don't have time. In China it is [the use of alcohol] extensive and hard on the kidneys during negotiations, lunches and dinners.

Wine is an intrinsic part of banquets. However, there are differing opinions about how much Chinese people drink during meals: Huang et al. (1994, 210-211) argue, for instance, that the Chinese do not drink as much alcohol as the Europeans. Nevertheless, the continuous toasting in banquets with many guests may lead to very difficult situations in which people get drunk, and it may be wise to limit one's drinking to small sips.

The celebration of the establishment of the JV clearly illustrated the Chinese attitude towards ceremonies and to building guanxi, as well as the already established good relations among the top management. The following story was narrated by the Finnish MD.

Celebration

> When we had drawn up the contract after several days of hard negotiations and the contract was signed, the 'high society' of the whole county had already been invited to a banquet in a hotel. The whole staff of the Chinese partner company, which was an industrial enterprise, had also been invited, 200 people. It was very important that I should drink a toast with all of the Chinese people, 300 altogether. I said to the Chinese partner that if I toasted with everybody I'd have acute alcohol poisoning. He said never mind, he'll walk right behind me with a bottle of mineral water in his hand and pour mineral water for me while all the others drank alcohol. And I drank a toast with everybody, it was important. Ganbei, it is a Chinese 'skol'. We don't have this kind of celebration in Finland. I was also surprised at the number of speeches. I gave a speech, of course I had to, and the local television was there. I was told exactly with whom I had to toast three times, who was a very important person, with whom I should toast once. There were huge banderols on the walls in honour of the co-operation; you know these red banderols with white text. Every time we do something important there's always a ceremony like this. We have them as well [in Finland] but on a much smaller scale.

Smaller festivals and celebrations were also organised for all foreigners working for joint ventures in the area, including Christmas and New Year festivals, and the foreign managers and the local authorities discussed important issues during these celebrations. There were special clubs for JV companies in the bigger cities, but in a small county such as the one in which ZB was located meetings were arranged in the form of smaller 'get-togethers'.

7.5.3.4 Relations with the Finnish Headquarters

Basically, relations with the Finnish headquarters were good, at least on the top-management level. However, difficulties on the operational level did arise, and the information flow was interrupted several times. The expatriates and some Chinese managers felt that they had been forgotten in China.

Forgotten unit

> They think that we have the information, which is not true. Nobody notices that it has been forgotten. It feels a bit like we are here far away and forgotten.

Headquarters sometimes did not send any information at all, or only parts of it, and it was sometimes inaccurate. Occasionally the Chinese factory was accused of making poor-quality goods although the products concerned had been manufactured in a totally different company. Reprimands were given easily if there was the smallest mistake.

Unjustified accusations

> When a sample comes from Finland it doesn't help if there is a small piece of paper in Finnish saying that the stitching is the wrong colour or something else. We have always said that the sample must look exactly like the final product. They [in Finland] don't understand how these people don't know if it [the sample] is not exactly the right one, and how can we expect them to know?

At first, when all the materials were shipped from Finland, deliveries were often late or missing. After an investigation it was noticed that the goods had been shipped to the wrong address, or that there were mistakes in the documents. Accessories were often sent in part shipments, which meant that the workers could not work at full speed and efficiency because there were always some parts or accessories missing. This, in turn, led to interruptions in the production and to lower salaries, as discussed earlier. Sometimes the post office sent the goods to the wrong address, and there may have been problems with the computer system. It should be mentioned that all the communication between the JV and the Finnish headquarters was by telephone or fax. Email was introduced several years later, and this made communication much easier.

7.6   Conclusions on the Impact of Culture on Managerial Communication

The material culture provoked far fewer complaints and problems than I expected, and most of the problems were related to the construction phase or to technical questions in the production. Government policies and regulations prolonged the JV negotiations, and interference by the local authorities in the operations was frequent. The Finns were not familiar with all the regulations, especially at first. The Chinese, in turn, expected them to know, which resulted in the 'nobody told us' – 'they should have known' situation. However, according to the Finnish managers, relations with the authorities were handled well by the GM. ZB consequently had fewer problems with the laws and regulations than other JVs.

Language and communication turned out to be as problematic as I assumed at the beginning. It was not only the fact that there were several languages and inadequate language skills on both sides, but the use of interpreters was also difficult. In-house interpreters involuntarily caused a loss of face because the GM was dependent on subordinates in the decision-making. As a result, outside interpreters were used which allowed private discussions with the GM. The Chinese communication style was indirect and the Finnish style direct, as described in the section on stereotypes in Chapter 3. Due to the differences, the styles also clashed. During the course of the JV the Chinese style became more direct and the Finns learned to adjust their communication to each situation.

The negotiation styles were also different. The Chinese style could be characterised as an epsilon, where the discussion goes round until suddenly agreement is reached. The Finnish style was more like a knot rope, proceeding step by step and sticking to decisions. Later on the Chinese managers adopted the Finnish style in their managerial communication. The grapevine was an efficient way of communicating information among the Chinese managers and workers. Certain language loops emerged in which information circulated. Some general issues were discussed on all levels of the organisation, but more critical questions were contained within the language loops. There was a Finnish-speaking loop, two bi-lingual loops (Finnish-English and English-Chinese), and a Chinese-speaking loop: information about the strike only circulated within the Chinese-speaking loop in the interests of secrecy, for example, and never reached the bi-lingual loops.

There were clear patterns in terms of how the managers coped with conflict and strived towards resolution. In many cases agreement was reached by mutual consent or via a backstage meeting in which the most difficult issues were resolved before the actual meeting. The Chinese often gave excuses in

order to get out of a difficult situation, used Finns as a backup, or reacted with silence rather than disagreement. Even if an agreement was made it was not necessarily permanent. There were six shades of agreement: agree and act accordingly, agree but thereby complicate other issues, agree and act accordingly at first but go back to the old procedures, agree but start negotiating again, agree but do not change the old behaviour, and agree but do not act.

Values and attitudes focused on the concept of truth and honesty, as well as the work ethic. Religion and philosophy, or aesthetics, were not discussed unless specifically asked about. The social organisation, personal friendships and the management of relationships, guanxi, were seen as fundamental for the JV success.

The results confirm those of previous studies in many areas. New elements brought up in this research included the characterisation of negotiation styles or patterns in striving towards a resolution, and the six shades of agreement as well as the existence of the language loops. The role of interpreters turned out to be more important than expected, and the role of middle managers as cultural shock reducers was critical for the JV success.

8   CONCLUSIONS

The theoretical and empirical findings of this research are presented in this chapter in the light of the results of contemporary research. The contributions of the study to JV theory, communication theory and cultural theory are discussed in the second section, and the methods used in collecting and analysing the interview data are assessed. The final section covers the managerial implications, the limitations and the need for future studies.

8.1   Empirical Findings

The empirical findings are discussed from the JV, the cultural and the communication perspectives.

8.1.1   The Path of the ZB Joint Venture

The aim of this research was to investigate managerial communication in daily operations in a Sino-Finnish joint venture. An equity joint venture was selected because when both partners actively participate in the daily operations the different communication styles will most probably clash.

The ZB path was followed in the chronological order including the following aspects, as suggested by Parkhe (1993, 231): motivation base, partner selection, control and conflict issues, and performance assessment complemented by JV negotiations, construction and installation as well as termination. JV negotiations and termination were relevant for the purposes of the research in general. The reason for describing the path of the EJV was to give a setting to the communicative events. It also showed in which respects the EJV under scrutiny represented the average and in which respects it deviated from other Sino-Western JVs. From the results it was possible to draw conclusions about the applicability of the unique decisions in other JVs. Furthermore, the research brought up issues that are rarely investigated and discussed in contemporary literature.

This study revealed nothing new about the motivation base and partner selection in establishing a joint venture. The main motive of the Finnish partner for establishing a JV in China was cost reduction. Low production and

labour costs are generally regarded as one of the main motivators in investing in China (Shapiro et al., 1991, 216-217; Woodward and Liu, 1993, 85), and also internationally (e.g., Hennart, 1982, 168-169; Contractor and Lorange, 1988, 10-19; Harrigan, 1986, 15-23). On the Chinese side, the need to acquire new technology, to learn Western management techniques and to create new jobs in the area were the main motivators (Woodward and Liu, 1993, 83; Law 2001, art. 5). The Finnish partner was a medium-sized, high-tech private enterprise in the garment industry with international experience while the Chinese partner was a state-owned enterprise in the chemical industry with no experience of foreign operations. This was the first joint venture for both partners. The relationship could be characterised as mutual ignorance, which has been typical among JV partners in China (Shapiro et al., 1991, 229): the partners knew nothing about each other before starting the negotiations.

The partner contributions were complementary. The Finnish partner supplied the JV with the technology, machinery, financing, training and staff, while the Chinese partner was responsible for financing, dealing with officials, staffing and the practical arrangements in China. The JV bought the land and was responsible for building the factory. Complementary contributions have been suggested to facilitate JV success (Harrigan, 1986; Geringer, 1988; Beamish, 1988; Zettinig and Hansén, 2002), as has an equal amount of international experience (Buckley and Casson, 1988, 37-40). In terms of international experience the partners were different from each other.

The configuration of the JV was a modified buy-back arrangement on the Finnish side and downward integration on the Chinese side, in other words it was asymmetric. Buckley and Casson (1988, 83) suggested a buy-back arrangement, but in this case the positioning of the partners in relation to the JV was not identical. After the termination of ZB the company was reconfigured due to the buy-out of the Chinese partner. Reconfiguration is suggested to result from an intra-company learning process (Büchel et al., 1998, 34). The use of consultants facilitated the partner selection, which is recommended in starting business in China (Melvin, 1995; Shapiro et al., 1991, 229). JV negotiations followed the same procedure and were subject to similar problems as reported in other studies on IJVs (Harrigan, 1986, 30-41; Contractor and Ra, 2000) and Sino-foreign JVs (Luo et al., 2002; Reuvid, 2003; Neunuebel and Sapte, 2003). It could be concluded that the establishment process of the EJV under study followed the normal procedure.

In terms of control and conflict issues the JV deviated from the average. The ownership of the EJV was split 25/75, with the Chinese partner holding the majority. The Finnish partner secured its influence on the operations by holding the chair in the board of directors and possessing the ultimate authority in the decision-making. Moreover, the minority partner held control

over the most critical assets, including the right to determine the prices, and through that also the customers. This was also set out in the JV contract, which accords with the suggestion put forward by Root (1987, 152-153) and Walsh (1991, 87-88).

Fey and Beamish (2000, 139-162) note that IJVs with similar partners tend to have fewer problems than those with dissimilar partners. The ZB partners were complementary, suggesting success, but their objectives were to some degree opposite, indicating potential problems. Both partners participated actively in the management of the JV. This arrangement was characterised as a shared-management JV by Killing (1983, 20-22). The Finnish partner was satisfied with its minority share because it wanted to keep the investment limited, although the establishment process and the management of an EJV is more complicated than that of a WFOE, as reported by Vanhonacker (1997, 130-136). Vanhonacker noted further that all future foreign investments would be WFOEs unless the Chinese partner's contribution was significant. In 2003, 62% of foreign investments were WFOEs and 29% EJVs (FDI in China, 2004; Statistics of Utilisation, 2004; China Statistical Data, 2004). A clear shift from EJVs to WFOEs is detectable, although it is not as dramatic as assumed by Vanhonacker.

Many studies report conflicts in JVs that are based on the dictating tendency of the majority owner, on attempts to gain more power by the minority owner, or on attempts to cheat (Harrigan, 1986, 183-185; Parkhe, 1991; Buckley and Casson, 1988, 34-40): in other words there are problems of harmony and coherence (Büchel et al. 1998, 69-72). Problems like these were not reported in the case company. Most of the conflicts concerned investment and managerial questions in the daily operations (the translation problem referred to by Büchel et al., 1998, 69) and the exploitation of bargaining power in overruling the majority partner. The most common conflicts reported in Sino-foreign JVs are connected with disregard of the face system, a lack of knowledge about the Chinese area in question and employee welfare, a lack of patience and guanxi, and an arrogant or colonial attitude on the part of the foreigners (Björkman, 1994, 38; Hoon-Halbauer, 1994, 12-18). The conflicts in ZB mainly concerned the concept of efficiency, salaries, decision-making, the work ethic, disregarding the expertise of the Chinese in local affairs, and a lack of patience among the Finns. Guanxi was not a problem: it was taken care of by the Chinese managers. Neither were the Finns accused of arrogance or of neglecting the welfare of the employees - on the contrary. The first two years were the most critical on the ZB path. The relationship was characterised by mutual forbearance (Buckley and Casson, 1988, 34-37).

Both partners were satisfied with the performance of ZB. Assessment was mainly based on the evaluations of the key persons, i.e. the chairman of the

board and the GM. Geringer and Hebert (1991, 249-263) regarded single-respondent evaluation of performance as just as appropriate a method as the other, more objective measures. Yang and Lee (2002, 100-105) reported the most important success factors for JVs in China, which included a long-term business-development strategy, an employee-oriented management approach, well-defined operational policies and technology appropriateness. All of these applied to ZB.

However, regardless of its good performance, ZB operations were terminated. The main reason for this was that the interest of the Chinese partner was fading due to the modernisation of SOEs, indicating the impact of politics on managing JVs. The initiative for the acquisition came from the Chinese majority partner. The minority partner bought out the Chinese partner by mutual consent. The negotiations were mostly conducted by correspondence, and the Chinese GM took care of all the practical arrangements as well as of the establishment of the new wholly foreign-owned enterprise.

There are basically two ways of terminating a JV: acquisition and dissolution (Kogut, 1988, 170-171; Freeman and Browne, 2004, 170-174). About 50% of foreign-funded enterprises in China have been terminated or have ceased operations (Statistics of Utilisation, 2004; Invest in China, 27.9.2004). Statistics on the termination rate of JVs were not available, but it should be noted that in many cases the enterprises never actually started operations, unlike ZB. The highest risk of termination is in five-to-six-year-old JVs (Kogut, 1988, 169-185), and ZB had reached the age of six. A JV in China can be terminated after a fixed duration or, in the case of heavy losses, through mutual consultation, mediation or arbitration, or in a Chinese court (Law 2001, art.14). Freeman and Browne (2004, 177-178) argue that a disguised exit, more precisely pseudo-de-escalation, is the most probable strategy for negotiating dissolution between Asian and Western partners. The leaving partner expresses the desire to change the relationship indirectly, such as by reducing its investment but leaving the dissolution option open. This was not the strategy applied by the ZB managers, however. They rather adopted the strategy of a negotiated farewell, in other words the leaving partner (Chinese) discussed the issue openly and without hostility with the other partner. This indicated a change in the communication style of the Chinese managers.

After the acquisition the Finnish owner gave more decision-making power as well as independence to the Chinese management. As a result the operations became much more efficient and the Chinese management took more responsibility. In this respect the decisions ran contrary to what is reported in other studies: full ownership is acquired in order to gain full

control over the operations, or to continue operations if the other partner exits. The reason for acquisition may be that a new and better partner has been found (Freeman and Browne, 2004, 170-171; Kogut, 1988, 169-185). In this case, full ownership combined with almost full delegation of power resulted in better performance. The ZB2 configuration had also changed into a partial buy-back arrangement (Buckley and Casson, 1988, 83) supported by new foreign customers. The ongoing phase could be characterised as one of mutual trust.

8.1.2   The Impact of Culture on Sino-Finnish Managerial Communication

Managerial communication was analysed in order to explore how culture related to communication, and to identify potential patterns leading to desired or undesired outcomes as well as the cultural elements connected with the patterns. In order to do this the plots in each individual sequence were analysed as the narratives of managerial communicative events unfolded. Combinations of similar plots formed the patterns.

The definition of culture used in this research dates back to the mid-1990s when the research design was drawn up. Contemporary definitions and new lines of research are discussed in the theoretical findings. An essential element of culture is that it is learned, not innate: it is a set of symbols and meanings and it is passed from one generation to another. It is typical of one group, and not of another, and it influences behaviour in predictable and uniform ways. This definition is based on the one suggested by Terpstra and David (1985, 5): it is intentionally broad in order not to 'containerise' the qualitative data too much. The elements of culture (material culture, language, education, aesthetics, values and attitudes, religion, social organisation and political life) were based on the definition in Terpstra and Sarathy (1991, 96-128).

The reason for choosing this definition was that it would facilitate the inclusion of language and political life in the elements that were presumed to be important. Furthermore, the elements provided a practical tool for identifying how culture influenced the managerial communication. Given the huge amount of research on culture, and the shortcomings, some more recent and more specific definitions and elements were excluded. Those suggested by Terpstra and Sarathy also allowed for the building of quite extensive cultural stereotypes by incorporating results from several studies.

Potential cultural clashes in managerial communication were anticipated according to the stereotypical features: direct (LC) and indirect (HC) ways of communicating, individualism vs. collectivism, different perceptions of truth

and honesty, diffuse relationships and gossip, perceptions of time, for example. Cultural stereotypes help in the planning of negotiations and the anticipation of potential problems (Gudykunst and Kim, 1997, 110-119; Saville-Troike, 2003, 194), but they may also be harmful and strengthen prejudice (Scollon and Scollon, 1995, 155).

Managerial communication was analysed as a process that was based on the fundamental model devised by Berlo (1963) and complemented by Lewis' (1987) frames of reference, more specifically cultural frames, as well as types of managerial communication (Mead, 1995). Managerial communication was understood in terms of motivating, negotiating and disputing. The aim of the research was to examine how culture related to it, and to identify patterns in the communication between Finnish and Chinese managers. Patterns were seen as consistent ways of communicating leading to either a desired or an undesired outcome. Desirability was seen from the narrator's point of view because the outcome of communication does not necessarily please both parties. Both parties may understand each other perfectly but one may oppose the proposal. If one party succeeds, the other perceives the outcome as undesired.

The most important cultural elements (the ones that most frequently appeared) related to communication were, as was assumed in the beginning, values and attitudes, social organisation and language, thus forming the core that influenced almost all activities. Confucianism, individualism, collectivism and equality among people were particularly important. Even more attention was paid to social relations, such as the face system and guanxi. It was notable that the Finns frequently talked about face, but the Chinese did so only once when specifically asked. Another interesting finding was that the use of an interpreter turned out to be a face question. The word guanxi was not mentioned: the Finns referred to relationships and the Chinese to friends. Both considered friendship and contacts to be very important. Indeed, Confucianism emphasises friendship and trust, as well as hierarchy (The Great Learning, 1999, 66). Trompenaars and Hampden-Turner (1998), Worm (1997), Bond and Huang (1987) and Tang and Ward (2004), for example, reported similar results. The need for good relations seems to have persisted although values have changed.

Religions and philosophies were mentioned only if specific questions were asked, but they formed the value base that was indirectly expressed in the narratives. Inglehart and Baker (2000, 19-49) argue that, according to the evidence of the World Value Survey, massive cultural change and the persistence of traditional values can co-exist. The influence of Protestantism, Confucianism and Communism on societal values has endured despite economic development and modernisation, for example. Economic

development, in turn, has had the effect of making values more rational, tolerant, trusting and participatory. Both forces were evidenced in this study.

Political life was found to be important, but not as dominant as expected. Chinese local, regional and national politics affected communication by hindering the decision-making, for example. The impact of Finnish and European Union politics was not mentioned, but their influence was indirect via EU and WTO policies. Education and the material culture were equally important and exerted most influence on communication during the earlier years of the JV. Aesthetics was not considered important at all, probably due to the fact that all the designs were made in Finland and the final products were targeted to foreign markets.

Good relations between the top managers laid the foundation for the venture, and helped in overcoming the difficulties. However, the position of the middle managers as *cultural shock reducers* was critical for the success of the JV as they were in charge of the daily operations. The bi-lingual Chinese managers in particular took the cultural pressure from both the Finnish side and the Chinese side, and smoothened and modified the communication and the operations. This was complicated because the middle managers had to consult the Chinese GM on all questions.

Both top-down and bottom-up vertical communication flows were quite efficient, although time-consuming at first due to the nine organisational levels and the three languages involved. Sino-Finnish managerial communication involved six levels of managers: the Board of Directors, the General Manager, the Vice General Managers, the Controllers, the Departmental Managers and the Vice Departmental Managers. This reflects the findings of previous studies that Chinese companies are hierarchical (see e.g., Trompenaars and Hampden-Turner, 1998). Vertical communication was also distorted by serial transmission (Timm, 1986, 100-101) due to the need for several translations, the inadequate language skills, and the new technological vocabulary. The number of organisational levels was reduced during the WFOE era, and Sino-Finnish managerial communication then involved only three levels: the Board of directors, the General Manager and the Vice General Managers.

Horizontal communication among peers was almost non-existent. All decisions were referred to the GM. The existence of the grapevine was evident in ZB: it was fast and efficient and carried a lot of information, including what was supposed to be confidential. A dual organisation (Hoon-Halbauer, 1994) existed, i.e. Finnish and Chinese. Backstage meetings were held mainly in order to clarify orders to the workers, to discuss how to solve problems or motivate the workers, and to formulate rules together. This indicated collectivism, but also raised suspicions on the Finnish side. The dual organisation also showed in language loops: information circulated in a

Finnish-speaking group, in an English-Chinese group, or only in the Chinese-speaking group, depending on the case. If the managers wanted to keep something secret, the native language was used. What was significant was that, occasionally, all bi-lingual groups were bypassed (Finnish-English and English-Chinese) in the communication network.

Three sets of *patterns of communication* were revealed concerning the negotiation style, the resolution of difficult situations, and the Chinese perception of an agreement. The Finnish negotiation style was like a knot rope: decisions were made one by one until the final one was reached. The Chinese style resembled an epsilon in which all questions remained open until the end, when everything was fixed. These results contained nothing new. Paik and Tung (1999, 103-122) reported similar findings in their study of Korean, Japanese and Chinese negotiation styles. The 'Ping-Pong Model' of the Sino-Western negotiation process (Ghauri and Fang, 2001, 306-308) also demonstrates the back-and-forth bargaining feature. The Finnish communication style turned out to be very direct and low-context, and the Chinese style indirect and high-context, as suggested by Hall (1989, 91). These findings find support in Gesteland (1999, 173-174 and 308-311), Worm (1997, 184-191) and Laine-Sveiby (1991, 17-18). There was also evidence of the Chinese negotiator as a blend of 'Maoist bureaucrat', 'Confucian gentleman' and 'Sunzi-like strategist' as characterised by Fang (1997, 250), as the following description of the patterns implies.

Cultural understanding increased in the areas of conflict resolution and agreement patterns. Clear patterns emerged among the Finnish and the Chinese managers in terms of reacting to difficult situations, and perceptions of what constituted an agreement differed significantly. The following seven *patterns* reflected how the *managers coped with conflict and strived towards resolution*:

- by mutual consent (in many cases)
- in a backstage meeting (the most difficult problems were solved behind closed doors before the official meeting)
- by giving excuses or explanations (against Chinese custom, government regulations, irrelevant reasoning)
- by using Finns as a backup (against other Finns or Chinese managers)
- by remaining silent instead of expressing agreement
- by referring to the partner contract (Finnish managers) or to the board of directors (both)
- by giving up

The increasing amount of resolution by mutual consent indicated that the managers developed the ability to manage co-operative conflict dynamism to mutual benefit, as suggested by Tjosvold et al. (2001, 176-177).

In conflict situations the Chinese partner normally kept quiet or agreed, which the Finns understood as a final decision. However, *six shades of agreement* emerged: the Chinese partner

- might agree and act accordingly
- might agree and act accordingly but raise complications on other issues
- might agree and act accordingly but change the behaviour later on
- might agree but start the negotiations again at a later date
- might act in a different manner
- might agree but do nothing

As far as types of communication are concerned (i.e. motivation, negotiation and dispute: see Mead, 1993, 200-276), the division was not very useful. Motivation was hardly ever mentioned except when the informants were talking about their personal motivation. Disputes were extensively narrated. Some managers, depending on their role in the company, described the negotiations. What the interviews did reveal was a new type of communication: giving assignments. It was crucial for reaching the desired outcome that the assignments were communicated in a culturally correct manner, especially during the first years of the venture. The manner of giving assignments became more Western and direct later on.
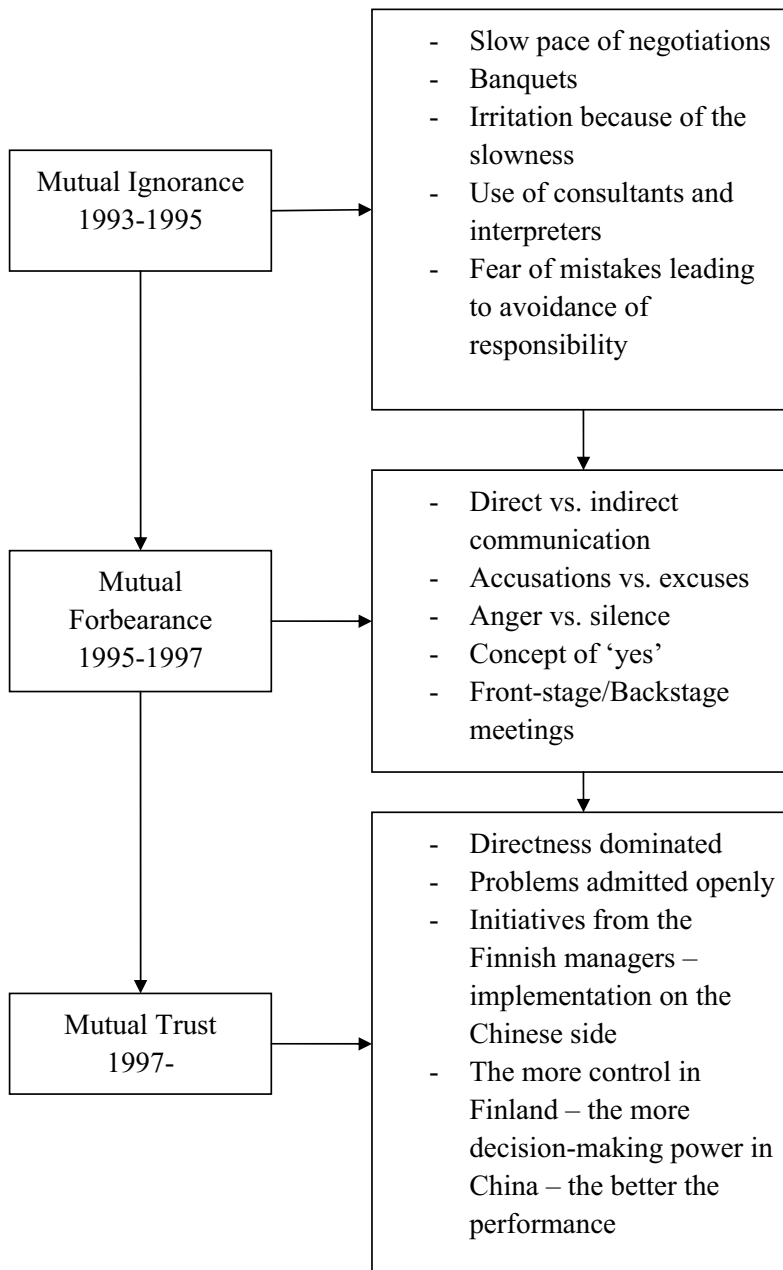
Figure 12.   Changes in the Relationships and in Sino-Finnish Managerial
            Communication

   The changes during the ten years of co-operation were quite dramatic. The
communication style changed together with the development of the partner

relationship (Figure 12). The relationship was characterised as *mutual ignorance* (Shapiro et al., 1991, 229) at the very beginning: the partners did not know one another, the language, the local circumstances or how to work together. The problem was tackled by using middlemen, i.e. consultants and interpreters. Mutual ignorance was manifested in the communication, in the slow pace of negotiations on the Chinese side, and in irritation because of the slow progress on the Finnish side. The first personal friendships began to develop very early on. The JV was carried over the critical years by *mutual forbearance* (Buckley and Casson, 1988), indicating that both partners were committed to the project. The last years of the JV and the operations of the new company were characterised as *mutual trust* (Buckley and Casson, 1988, 34-40).

In sum, the aim of the research was to answer the question of how culture related to managerial communication in a Sino-Finnish JV. The unfolding of events was analysed and alternative interpretations were given to the resolutions. The interpretations were based on the informants' own comments in their stories, on their comments on other events, and on the literature. The most significant cultural elements influencing communication were values and attitudes, language, and social organisation. The role of the middle managers as cultural shock reducers was crucial in communicating up and down in the organisation in a culturally correct manner. Three kinds of communication patterns were found: the epsilon and knot-rope negotiation styles, different ways of coping with conflict, and the six shades of agreement. Furthermore, several language loops were identified within which communication flowed. There were two bi-lingual loops (Finnish-English and Chinese-English), a Chinese loop, and a Finnish loop that did not include any Chinese-speaking people. A Finnish-English-Chinese language loop emerged later on, but the informants did not elaborate on its functions.

8.2 The Theoretical Findings in the Light of Contemporary Literature

This research combined culture theories, communication theories and joint-venture theories in a longitudinal study covering the whole life cycle of a joint venture. It even stretched beyond the JV era in order to describe the change in managerial communication and operations. The results also reflected the changes in the Chinese economy and society during the past ten years. Most previous studies have been cross-sectional and have investigated either cultural issues or joint-venture operations.

Drawing conclusions from one case company is possible if the results add new elements to old theories, as noted by Fang (2001). The path of the JV was used in order to contrast the operations and decisions with other Sino-foreign joint ventures and with IJVs. If the case company's operations matched general performance it could be inductively reasoned that the results of this research could be generalised, at least to some degree. In any case, the stories and patterns could be seen as examples of the implications of culture for communication. Although the ZB path is intended to be background material, it contains solutions that are worth considering as such.

8.2.1 Contributions to Joint Venture Theory

The major contributions of this research to JV theory include its SME focus, its longitudinal nature, and the fact that it covers the whole life cycle of the JV and beyond. Small and medium-sized enterprises have started to look at China as a potential target country for foreign investments. However, the literature deals mainly with MNCs and their operations. It is possible for an SME to establish and run a successful production plant in China if the previously discussed preconditions are fulfilled. There was another Sino-Finnish JV close to ZB in the same industry, but it failed. Unfortunately it was not possible for me to investigate the reasons for the dissolution, but the implication is that success is not automatic even if the preconditions are identical.

There are hardly any studies covering the entire life cycle of a JV from the first negotiations to its termination. This research goes even beyond that, thereby shedding light on the WFOE that was established simultaneously with the termination of ZB. By comparing the JV and the WFOE it was possible to pinpoint the differences and changes in management and communication. Because of its longitudinal nature the study also captured the changes in Chinese politics concerning foreign investments. The ZB path pointed out phases that are rarely investigated: construction, installation and termination. Motives, partner selection, JV negotiations, control and conflict issues, and performance assessment are thoroughly covered in contemporary literature, as mentioned earlier. This research highlighted the means by which a minority partner can gain almost full control over the operations by carefully drafting the partner contract. The results gave new insights into the configuration of IJVs.

The construction and installation phases have not attracted much attention in the literature, possibly because they are regarded as temporary. However, if the foreign partner participates in these phases, as was the case in ZB, different management cultures already start to merge and clash at this stage.

For future development it is crucial to succeed in combining the cultures and the learning. Brannen and Salk (2000) considered the problems in a Japanese-German IJV from the cultural perspective, and covered the construction and installation phases but not partner selection, JV negotiations or termination. Büchel et al. (1998, 35-38) investigated the formation stage in terms of motivation and negotiation, but also ignored construction and installation. The termination phase, including the reasons and the resolutions, also warrants more attention in the literature. This research showed that, regardless of good performance in a JV, termination is an option - possibly motivated by the modernisation policy of SOEs. Furthermore, the combination of full foreign ownership and almost full delegation of power to the Chinese operating management led to significant improvements in performance.

Learning in JVs has been the focus of contemporary research. Learning in Sino-foreign JVs was investigated by Liu and Vince (1999, 666-675), for example, who emphasise cultural issues and argue that improving JV management depends on collective learning.

In terms of location, a foreign investor needs to be aware of 'map illusion'. It is argued by the Chinese government that favourable policies are applied to open coastal areas and other development zones. However, the costal area is very narrow. Being 40 km from the sea makes all the difference in that different policies are applied. It has also been recommended that companies should locate close to each other in order to have a strong influence on local policies. From the SME perspective this is not necessarily an advantage. SMEs may not be regarded as important players in areas with many foreign-invested companies, whereas in more remote areas with flexible land policies, lower costs and fewer foreigners they might get their voices heard more and succeed better. Being the only foreign company in the city may be an advantage because success can also turn into a face issue. Additionally, Chinese government incentives will be largely directed to central and western provinces in the future. This will increase the interest of foreign investors due to the lower labour costs, but it will also involve problems with the infrastructure, language skills and the further cultural differences that emerge in rural areas.

Finally, an interesting comment from the Finnish Managing Director is worth noting. In his opinion, there is no longer any reason to transfer basic industry to China. It would be more rational to invest in networks of people and to buy the final products directly from Chinese companies. Quality is high in the garment industry at least, and benefiting from low labour costs no longer requires heavy investments and control through equity ownership. This is a comment made by one person, but one who is highly experienced in international affairs. I have followed the operations of the Finnish partner for

over 20 years, and they seem always to be in the frontline of the industry, a few years ahead of the mainstream. It is therefore worthwhile considering the implications here. Should the stages model (Luostarinen, 1982) and the network approach to internationalisation be seen as circles?

8.2.2 Contributions to Cultural Research

When I embarked upon this project research on culture was characterised by the almost unquestioned building blocks of Edward T. Hall's (1989) *Beyond Culture* and Hofstede's *Cultures Consequences: International Differences in Work Related Values* (1980). Several other studies were published in the 1980s and 1990s, coinciding with the expanding international operations of companies. That state of the art was the starting point of my research as well. It is therefore natural that the original conceptual framework reflects the knowledge that prevailed in the mid-1990s. However, instead of applying only one cultural framework by a given author I decided to adopt a wider perspective concerning the definition and elements of culture, and to combine the knowledge of the research area that existed at that time and implant it inside this framework. There were several reasons for this.

First, I wanted to include language and political life according to my preunderstanding that they are important in Sino-Finnish communication. Secondly, after evaluating several cultural approaches I had to exclude them because of certain shortcomings in terms of the research question. Models of organisational culture were not suitable because they did not support a cross-cultural approach, and the ZB organisational culture was not yet fully developed. I also rejected Hofstede's model because of the lack of comparability between Finland and Mainland China as well as the confusing nature of uncertainty avoidance and the fifth dimension. However, Hofstede's dimensions were not incorporated into the framework as the 'ultimate truth', but were supported by other studies. Thirdly, because this study is qualitative in nature, categories and typologies should arise from the data. The conceptual framework should not be a container in which the data must fit. Therefore the framework, which includes the communication process, is as wide as possible and subject to amendment. The definitions, the process and the elements may not be very elegant, but they serve the purposes of this research well. Moreover, if the conceptual framework has to be modified according to all current research trends, it would become a never-ending task. It is for this reason that I have brought in the contemporary element at the end of this report and not at the beginning. I was also curious to see whether the 'old theories' were still valid.

There is always a risk with longitudinal research that later studies will cover the research topic and that new concepts and even paradigms will emerge. This applies in part in this case. 'Older' cultural theories have been seriously challenged, and new concepts, approaches and layers of culture have been developed. Hofstede's works have been subject to major criticism concerning his methodological decisions, such as the use of questionnaires and his data analysis, and even the existence of national cultures has been questioned (McSweeney, 2002, 90-105). Serious doubts have been expressed about the fifth dimension for being philosophically inappropriate and methodologically incomparable with the original four dimensions (Fang, 2003, 347-364; McSweeney, 2002, 106). I excluded the fifth dimension from this research in 1996 when I started writing the conceptual framework, although it should have been relevant for my research purposes. The main reason for the exclusion concerned the inconsistencies in the polarities, which did not make sense according to my preunderstanding of the Chinese culture. Moreover, Finland was not included in the research, and Finnish and Swedish cultures are not identical even though they are close to one another.

The whole concept of a national culture has been questioned, and it has been argued that such cultures will disappear unless they become more adaptive (Bird et al., 2003; McSweeney, 2002; Osland and Bird, 2000). A new layer, global culture, has been introduced as a new group of people working in global organisations has emerged. These people are said to have more in common with the other members of this group than they have with the people from their national culture. Bird and Stevens paint quite an ideal profile of a representative of the global culture: educated, connected, self-confident, democratic, flexible. I wonder whether this profile represents a global elite and not wider groups of people involved in international operations. Bird and Stevens continue that these people have one foot in the home culture and the other in the global arena, and belonging to the global-culture group might evoke tensions in those who are outside. According to this definition, the managers in ZB are now members of this global culture, whereas at first only some Finnish managers could be said to belong to it.

Leung et al. (2005, 357-378) seek new advances for future research on culture. Their suggestions also stem from the emerging global culture. They argue that culture is a dynamic and multi-level construct, with global culture on the most macro-level because it is created through global networks that cross national borders. Cultural change is speeding up. Globalisation also calls for the rethinking of self-identity and the ability to understand when culture matters and when it does not. The authors also recommend the development of experimental methods to investigate culture, and emphasise the need to take

socio-economic and political variables into consideration. This supports my decision to include politics, for example, in the cultural elements.

Thus, global culture has emerged as a new cultural layer. The question remains whether it should be positioned on the top of the hierarchy (larger than national culture) or whether it is more comparable with organisational or management cultures.

Osland and Bird (2000, 70-71) suggest a model for cultural sense making, arguing that culture is embedded in the context. Making sense is a cycle of sequential events that begins with noticing cues about the situation and drawing inferences based on identity and experiences. The next step is to select schema, i.e. appropriate behaviour, which reflect cultural values and cultural history. This model makes sense to me because this is how the data analysis and interpretation of communicative events proceeded and how the patterns should be applied. I used different words: weak signals instead of cues, interpretation instead of making attributes, appropriate resolution or reaction and action instead of selecting schema, and cultural frames of reference instead of cultural values and cultural history. The authors introduce the idea of value trumping, i.e. in a specific context certain values take over the others. They also argue that stereotypes are best guesses of what to expect and that using them leads to black-and-white interpretations. This is certainly true if they are taken as the absolute truth, but this is misuse. In any case, the managers in ZB behaved very closely according to the stereotype patterns. Value trumping could also be seen in their behaviour: they switched frequently between the Chinese and the Finnish cultural schemas depending on to whom they were talking. In later years the Finnish schema became more prevalent in managerial communication among the Chinese top managers but not with the subordinates. It is upon this basis that I argue that this research, both methodologically and in terms of results, also meets the requirements of cultural research suggested by Osland and Bird, even though the terminology is different.

Sackmann and Phillips (2004, 370-390) also call for a new approach and a shift of paradigm for identifying culture in the new work and research context, and suggest a multiple-cultures perspective (MCP). MCP is a collective and socially constructed phenomenon that may emerge whenever basic sets of assumptions or beliefs are commonly held by a group of people, such as by people communicating over the World Wide Web. It is based on a definition of culture that corresponds to the one I have used in this research. The inclusion of political, technological and social forces in the model, the focus on interaction between cultures, the use of interpretive, inductive methodologies, the 'insider's view' and field-based data-collection methods, and the recognition that conflicts in organisational and individual identities

reveal the nature of shared understandings bring MCP very close to the research approach used in this study. The authors conclude that cross-national comparison is outdated and does not fit in with current and future work realities. They claim that culture can no longer be regarded as a substitute for a nation. Nevertheless, they still use tools from the cross-cultural research tool-pack.

Inglehart and Baker (2000, 19-49), as quoted above, argued that traditional values are persistent, i.e. religions and philosophies connect people cross borders. In countries where over 90% of people share one religion, one language and the same national background in common, such as Finland, national stereotypes are still useful. Furthermore, Confucianism, Taoism and the written language connects Chinese people worldwide. Therefore, it is possible to analyse cultural impact on communication between the members of these groups through the stereotypical lens. Moreover, the strong influence and persistence of religions and philosophies justifies the great number of pages dedicated to these issues in this research.

Recently published doctoral dissertation by Ramström (2005, 145-169) compared Finnish, Swedish and Overseas Chinese firms in terms of managing their business relationships. He paid special attention to learning, adaptation, trust, commitment, social relationship and social bonds. He found, among others, some contradictions concerning the concept of foreignness and argued that being a foreigner had no impact on building business relationships in South East Asia. His study is a valuable contribution among studies of operations of the Nordic firms in Asia.

New winds are blowing in cultural research. What is the contribution of this study to future research and to theory building? Seen in the light of contemporary research, many of the old perceptions and cultural elements still prevail. The Finnish and Chinese managers behaved according to the stereotypes several years after the establishment of ZB, which suggests that stereotypes are useful in predicting behaviour if used carefully. Values and attitudes influence the social organisation, and are reflected and mediated through language. No extensive new theories emerged, but insights into certain aspects of managerial communication were deepened. Three sets of patterns were discovered. The first concerned the negotiation style (epsilon or knot rope), which is not new but was significant in that it has prevailed until recent times. Through mutual learning the biggest differences vanished. However, if a foreign company establishes its business further away from towns and cities where people are not used to dealing with foreigners, the old reactions might surface. The second set of patterns concerned how the managers coped with difficult situations, and the third set comprised the six

shades of agreement. Furthermore, the role of middle managers as cultural shock-reducers was significant.

8.2.3 Contribution to Communication Research

The field of communication theory is also in a state of turbulence. Brannen (2004, 593-616) challenged the traditional code model of communication by arguing that it is inadequate because encoding and decoding do not entail comprehension. Transferring linguistic signals does not ensure the transfer of meaning either: meanings shift because they are interpreted in different cultural contexts. Her conclusion is that the model fails in terms of describing both the contents and the process of transmission. However, she does not take the modifications to the model into consideration, such as the cultural frames of reference, communication skills and semantic nets suggested by Lewis (1987, 57), for example, and introduced in Chapter 2. Frames of reference and semantic nets in particular influence how the meanings are shared. Words and other signs do not carry meanings, but reside in people. Brannen (2004, 593-616) seeks the benefits of foreignness and develops a conceptual model of re-contextualisation, in other words the process through which company assets take on new meanings in new cultural environments by means of semiotics. In her view, language is a major carrier of how such assets are perceived and received in the new environment.

The model of cross-cultural management and knowledge transfer developed by Holden (2002, 271-277) was briefly discussed earlier in this study, and it would now be appropriate to set the results against this framework. Holden suggests that cross-cultural management should facilitate participative competence, which in turn affects interactive translation as used to facilitate knowledge sharing in projects. Learning from experience improves cross-cultural management and leads to better results. The underlying assumption is that many people participate in cross-cultural communication, and that it is not only between two people. Participative competence refers to the ability to actively interact in multicultural environments so that knowledge sharing is possible and learning experiences are professionally enhancing. The noise (ambiguity, inference and lack of equivalence) disturbing the process needs to be combated, a process that is smoother if there is a supportive atmosphere. Communication was presented as one-to-one process in this research because that is its basic function. Of course, several people participate in the interaction, but the more people who are involved the more the message transfer is distorted by serial transmission. Distortion is caused by noise.

Holden's model applies to ZB very well. By learning the vocabulary and each other's communication style the managers increased their participative competence, which in turn helped the interactive translation and thus the knowledge sharing. The atmosphere was supportive from the beginning, although there were setbacks because disputes occasionally disturbed the relationships and the learning process. An example of shared knowledge was the learning of Finnish accounting and management systems, which significantly improved communication and the management of the venture.

8.3 Methodological Considerations

Methodologically the research was challenging. A narrative approach to managerial communication in Sino-foreign JVs has not been used before in the way I conducted it, in other words as multi-phase qualitative analysis. The data was collected through narrative interviews conducted in Finland and China in 1997 and 2004. The informants were asked to tell stories about communicative events between managers. A pilot study was conducted first in order to test the method, and it showed that it was possible to conduct narrative interviews in China, despite my own reservations. I was prepared for vague and indirect answers, and was positively surprised by the directness of many Chinese managers.

There were other alternatives for the research approach, including normal interviews and in-depth interviews with top management. Participant observation would have given more insights into the life of the company and the managerial communication, but observation alone would not have been enough because it does not allow for the retrospective collection of episodes. The use of questionnaires would not have been very practical in terms of collecting the episodes with plots: it is easier to tell a story than to write it. Furthermore, I was working full time outside of the academic world, had two small children, and was financing the research mainly from my personal funds. Staying in China for six months or a year was not an option. Living at the factory for one week for 24 hours a day in order to conduct the interviews and make observations was an excellent compromise between my academic ambitions and my personal life.

I selected the case company by opening the 'back door', in other words in order to ensure access to the JV in China I contacted a Finnish company with which I had been co-operating for several years. The JV proved to be an even better target than I originally expected: it was located outside of the big cities and was small enough to enable me to interview all of the managers from the top level to the departmental level.

A major contribution to the qualitative methodology was the development of the analytical tool by combining components from the analysis of the biographies with thematic field analysis and the plot analysis of stories. The development of the methodological tool and the analysis was time-consuming, but it made it possible to capture the elements of culture as well as the unfolding of the communicative events, as was intended. The problem of face and ethical considerations must always be considered if one single company is used, and if it is easily identifiable.

The pilot study turned up key words that appeared again and again in the interview text. They proved to be very useful in analysing the final interview transcripts, and new ones emerged during the analysis. They helped in the categorisation and in summarising the transcripts. The interview sequences were further analysed from the transcripts and re-categorised in order to form the JV path and to reveal the cultural elements in communication. Interpretations were made from four different perspectives: that of the narrator and of the other actors in the event, my own interpretations, and earlier studies on the subject. This led to an analysis in which the empirical data was mixed with the academic material. As the abstract level rose further, communication patterns were revealed.

The biggest problems concerned the inadequate language skills and the theoretical framework. On the one hand, serial transmission may have distorted the messages, but on the other hand there were so many stories that the major issues came up anyway. The cultural elements functioned quite well, but the types of managerial communication, i.e. motivation, negotiation and dispute, were not good or sufficient. Most events concerned disputes and negotiations. Motivation was mentioned only a few times, and giving assignments and feedback turned out to be crucial. There were several events dealing with communication in general. These required adjustment to the analytical tool, which was easy due to its flexibility.

In evaluating how well I succeeded with the analysis, I would like to adapt Elias Lönnrot's words[31] (Kalevala, 1940, I-IV) when he had completed the Finnish national epic Kalevala in 1849: I have completed this to the best of my ability and have tried to combine all the stories to depict the life [of the JV]. There was a lot of personal judgement in terms of organisation because one narrator rarely told more than a few stories. The order in which they are presented may not please all readers. The narrators may have changed and improved their stories in the course of time, but now that they have been collected together in one book, the book gives a more complete picture than any of the narrators could have produced alone.

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[31]   A free translation from old Finnish by the author.

8.4   Managerial Implications

This research is particularly aimed at managers who are considering starting operations in China. Interest is also growing among SMEs, in which knowledge of the Chinese business culture may not be readily available, and they may gain insights into managerial communication in daily operations, especially with regard to where the biggest problems are. Managers confront problems in China just as the managers of ZB did. They are in the middle of the situation and do not know what has happened or what to do. The stories told in this book will help them to assimilate with the actors, and by reading the alternative interpretations they will be able to analyse the situation and focus on issues that otherwise might have been ignored, such as silence. It is thus easier in real life to identify weak signals, especially negative ones, and to act in time and in an appropriate manner, which is why the communication patterns were identified and described in depth. Furthermore, the research describes the path of the JV from the beginning to the end, and offers some unique decisions and concepts to be considered, as well as an overview of the establishment process. Each chapter is a complete entity, in other words it can be read in isolation from the other chapters.

The message for the future given by the Finnish and the Chinese managers carries the results over to the present time and also validates them for the near future. Although the research was based on one single company, conclusions can be drawn from the results. Managers can compare the decisions with the performance of their own company, and consider the suitability of the resolutions made in ZB. Those who are starting operations will find valuable information about the practical everyday problems, which often lead to the extension of timetables and changes in operations.

The Chinese culture is in transition, as is the economy. However, if a foreign investor establishes business outside of the big cities in order to benefit from lower costs, the same problems will most probably recur.

8.5   Limitations and Future Studies

The results of this study are based on one relatively small company. Further investigations are needed in order to ascertain whether the communication patterns hold in other circumstances. Further evaluation of the present performance of ZB would also be beneficial. The overall arrangement of the research report could have been done differently, too, but in my opinion it now serves the potential audience best. Future studies should also focus on the autonomy of a JV or WFOE, in other words on whether full ownership

combined with full delegation of decision-making power leads to as favourable an outcome as in this case. The Managing Director's comment about going back to basics and exporting and importing goods from China might also be of interest to FDI researchers.

Testing the patterns and the method in other JVs in China, as well as in other countries, is a challenging possibility. Expanding the research in other areas of China or abroad would also be an interesting proposition.

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Appendix 1   The Establishment Process of a Chinese-foreign Equity
                Joint Venture

(Reuvid, 2003, 212-218; Neunuebel – Sapte, 2003, 139-156; Law 1990, art. 3;
Law 2001, art. 3; Regulations for Implementation, 2001, art.7)

1. Memorandum of Understanding (MOU) (Letter of Intent - LOI in
   some sources) negotiated and signed jointly by the parties.
2. Project proposal prepared by the Chinese party, the MOU/LOI and a
   preliminary feasibility study sent to the examination and approval
   authorities for approval.
3. Permission to continue or disapproval of the project.
4. Feasibility study drafted and signed jointly by the parties (business
   plan optional).
5. Negotiation the EJV contract
   o articles of association
   o technology licence
   o export agency agreements
   o other attachments
6. EJV application including appendices submitted to the examination
   and approval authorities for approval.
   o application for the establishment of the joint venture
   o feasibility study report
   o joint-venture agreement, contract and articles of association
   o a list of candidates for the chairman and vice-chairman of the
      board of directors and the directors
   o other documents specified by the examination authorities
7. Decision to approve or disapprove within three months. Required
   modifications have to be made within a given time limit before the
   procedure can continue. An Approval Certificate is issued for
   approved projects.
8. Registration with the SAIC for a business licence within one month
   of the receipt of the Approval Certificate. The date of the issuance of
   the business licence is the formal establishment date of the EJV.
9. Registration with customs, tax, State Administration for Foreign
   Exchange and other authorities within 30 days of the issuance of the
   business licence.
10. Start of operations.

Appendix 2   Interview Order

0. IC0	Consultant	2 Oct 1996
1. IF1	Director of Administration	19 May 1997
2. IF2	Production Manager	20 May 1997
3. IF3	Managing Director	22 May 1997
4. IF4	Vice General Manager	5 Aug 1997
5. IC5	Managing Director	6 Aug 1997
6. IC6	Vice Departmental Manager	6 Aug 1997
7. IC7	Vice Departmental Manager	6 Aug 1997
8. IC8	Departmental Manager	6 Aug 1997
9. IC9	Departmental Manager	7 Aug 1997
10. IC10	Departmental Manager	7 Aug 1997
11. IC11	Vice General Manager (Adm.)	7 Aug 1997
12. IF12	Controller	8 Aug 1997
13. IF13	Controller	8 Aug 1997
14. IC14	Vice Departmental Manager	8 Aug 1997
15. IF15	Controller	8 Aug 1997
16. IF16	Production Manager	21 April 2004
17. IF17	Vice General Manager	10 May 2004
18. IF18	Managing Director	10 May 2004

Validity check in China 20 Dec 2004.

Informants: Chinese General Manager, two Chinese Vice General Managers.

All of them were also interviewed in 1997.

Appendix 3   Example of an Interview Summary

I 2   20.5.1997

Nro/in	Seq	N S	N R	N A	D Code	Name	Theme M	L	E	A	R	V	S	P	Type of M	N	D	G	O	JV Phase M	S	C	P	Key words
M	1		1		IF2Se1N1R1	Interpreter 2		1	1							1								interpreter, dialect, Chinese talk together
M	2		1		IF2Se2N2R2	Promises, Promises		1					1				1		ga					face, excuses, promises not kept, childish
M	3	1			IF2Se3N3S1	Missing Work Group		1				1	1				1							escaping responsibility, why not tell truth, excuses, face, childish, slam door, scapegoat, apology, poor co-operation, slow action
M	4		1		IF2Se4N4R3	Negative Expressions		1				1	1			1								no neg. expressions, not customary in China, don't keep promises
M	5	1			IF2Se5N5S2	Steam Power Station	1	1				1	1				1		ga					excuses, avoiding responsibility, fist, valve broken
M	6			1	IF2Se6A1	Steam Power Station2		1									1							ridiculous excuses part of the culture
M	7		1		IF2Se7N6R4	Consensus		1				1				1								no disagreement w superiors, smiling, his master's voice, hierarchy
M	8	1			IF2Se8N7S3	Weekend Car		1				1	1			1								no negative expressions, face, slow action, excuses
M	9	1			IF2Se9N8S4	No Money		1				1	1				1							excuses, fraud, big row
M	10			1	IF2Se10A2	No Money 2		1				1	1				1							excuses, lying, no negative expressions
	11		1		IF2Se11N9R5	Friends		1				1	1					1						friendship, understanding, leaving Chi culture behind, honesty, feedback
	12	1			IF2Se12N10S5	Union Man 2		1						1		1								party, spy, do nothing, avoiding responsib. indirect info
	13	1			IF2Se13N11S6	Forklift Truck		1				1	1				1		ga					responsibility, independent dec.making, do nothing
	14	1			IF2Se14N12S7	Complete Del of Resp		1				1	1				1							do nothing, avoiding responsibility, delegation of tasks, big row, top level feedback, personal conflict
	15	1			IF2Se15N13S8	Three Electricians		1						1			1							state-owned company, obligation of employing people, not enough work, sleeping
	16		1		IF2Se16N14R6	Sleeping at Work 1		1				1	1			1								sleeping, work moral, state-owned company
	17		1		IF2Se17N15R7	Sleeping at Work 2		1				1	1	1			1							sleeping, work moral, state-owned company, efficiency
	18		1		IF2Se18N16R8	Corruption		1				1	1	1				1						relationships, corruption, brotherhood, officials, quotas and licences, state corporations
	19		1		IF2Se19N17R9	Laos		1				1	1	1				1						bribery, customs officers, not in China
Total	19	8	9	2	0		1	15	1	0	0	12	13	5	0	4	14	3	3	0	0	0	0	
Cum	32	11	11	4	6		2	21	1	0	0	17	19	8	0	5	19	3	3	0	1	3	6	

Appendix 4   Chronology of the Joint Venture ZB and Wholly Foreign-Owned Enterprise ZB2

1993	First visits to Finland	six persons; GM, VGM, officials, consultant
	First visits to China	MD, controller, consultant
Dec	Business licence	
Jan	Establishment	In China
1994	Training in Finland	Four Chinese departmental managers
	Construction in China	Chinese partner
1995	Training in Finland	Continues until summer
	Construction in China	Continues, Chinese partner
July	Installation	Finnish managers, mechanics, Chinese staff
Jan 1996	Test drives	Finnish managers, controllers arrive
March	Full production	
Dec		Profit/loss ±0, quality at required level
1997	Full production	
May	*Interviews in Finland*	
Aug	*Interviews in China*	
	End of start-up phase	Changes in the Finnish managerial staff
1999	Enlargement	Major changes in organisation:
		IF2 leaving, continues with Finnish parent R
		IF17 as replacement
		Number of employees reduced in China
		Several dismissals and promotions among Chinese managers
	Termination of JV	IF17 leaving, continues in R and as vice gen. manager in ZB
		Expatriates leaving
2000	Establishment of WFOE	No permanent Finnish staff
		New board of directors, MD continues as chairman of the board
	New organisation	Chinese management 'troika'
		Permanent local Chinese workforce, nobody living in dormitories
	Layer print in use	
2001		No interpreters used
	ISO9001:2000	Certified
	Öko-tex 100 standard	Certified
2002	Websites published	
	Online trading	Products promoted on a web-based trade fair, new customers beside R
	New technology	New high-tech products
2003	Öko-tex 100	Re-certified
2004	SA 8000 standard	Adaptation process ends 2005
April	*Interviews in Finland*	
Dec	*Validity check in China*	

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