

## **THE IMPACT OF CULTURAL DIFFERENCES ON AN AUSTRALIAN FIRM DOING BUSINESS IN CHINA**

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### **Abstract**

In the global business environment today, it is inevitable that activities are increasingly across cultures. As a major emerging market, China offers many MNCs great potential in their future growth.

This paper explores issues in cross-cultural management area in the setting of joint ventures in China. It investigates expatriates' cross-cultural abilities in adjusting to working and living in China and its impact on their performance. It further discusses the management style appropriateness and cultural differences in leadership styles and the impact of these issues on effective management in China for Western MNCs.

Using the method of a case study, this paper provides some insights from the point of view of the local Chinese staff working in Australia-China joint ventures. This is valuable for senior management since cross-cultural perspective is needed to be balanced rather than narrowly viewed.

It is argued that the qualitative method is most appropriate since the cross-cultural studies are complex and cases are generally large. Therefore, the qualitative method, in this paper a case study is considered most appropriate.

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# **THE IMPACT OF CULTURAL DIFFERENCES ON AN AUSTRALIAN FIRM DOING BUSINESS IN CHINA**

## **INTRODUCTION**

Business across continents has become inevitable for organisations whose activities are expanding internationally. In the twenty-first century, these international businesses must necessarily employ managers with the skills to manage across extremely different cultures. For many Western based businesses, operating in China have proved to be a major challenge of cross-cultural expertise. Cultural differences have recognised more and more by researchers and organisations as a major source of unsuccessful performance (Chung 2005; Zhou, Lu and Jiang 2005). The increasing numbers of foreign investments in China raises the issue of performance to an important level and adds to the situation a degree of urgency. In this paper, the case of an Australian business in China is studied to exemplify the impact of cultural difference on international business operations.

The challenge for the Australian managers (as for other nationalities) is to understand Chinese culture and use this as a basis for conducting business and managing Chinese staff in China. This cross-cultural competency directly affects the performance of many MNCs. Professor Andre Laurent of INSEAD observed: "Managers who readily accept that the cuisine, the literature, the music and the art of other countries run parallel to one another, must also learn to accept that the art of management differs in other countries." (Schneider and Barsoux 2003 p. 1)

This paper discusses some of the cultural obstacles that are related to operating an international business in China. Using the method of a case study, the paper unfolds some of the issues faced by the Australian managers posted there. At the same time, the paper also provides insights from the point of view of the Chinese staff in the setting of a joint venture (JV). Thus it provides foreign senior management with a wider perspective of the total picture of operations in China by sharing the view of the local China staff. This, for instance, is an angle which the senior management from the head office in Australia rarely has the opportunity to observe, but with it, they are able to generate a more balanced strategy. Research which only provides one side of the story can give expatriate management false perceptions.

## **LITERATURE REVIEW**

Cultural studies in business have steadily become more important, due to a growing awareness that culture is the key to understanding human behaviour, and hence cannot be ignored when conducting business across national boundaries (White, Haire, Rex and King 2003). Increasing global activities across borders intensifies the need for a focus on cultural factors. Thus we see that, in the past three decades of increasing international investment activities, a focus on culture has started to emerge within the academic research on commerce. These interests started with pre-existing anthropological studies and some cultural theorists like Hofstede began to dominant the human interaction side of business and management studies.

To understand cultural differences one must begin by understanding culture. Anthropological studies of culture began in the late 1800s, with a surge of interest between the 1930s and the 1950s (Miller 2005). An early definition of culture was proposed by Edward Tylor in 1871. He said: "Culture, or civilisation...is that complex whole which includes knowledge, belief, art law, morals, custom and any other capabilities and habits acquired by man as a member of society." (Kroeber and Kluckhohn 1952).

Kluckhohn defines culture as: "(1) the total way of life of a people; (2) the social legacy the individual acquires from his group; (3) a way of thinking, feeling and believing; (4) an abstraction from behaviour; (5) a theory on the part of the anthropologist about the way in which a group of people in fact behave; (6) a store-house of pooled learning; (7) a set of standardised orientations to

recurrent problems; (8) learned behaviour; (9) a mechanism for the normative regulation of behaviour; (10) a set of techniques for adjusting both to the external environment and not other men; and (11) a precipitate of history” (Geertz 1973, p4). This is perhaps the longest description of culture available. Geertz (1973 p. 5) himself defines culture “purely as a symbolic system (the catch phrase is, in its own terms), by isolating its elements, specifying the internal relationships among those elements, and then characterising the whole system in some general way – according to the core symbols around which it is organised, the underlying structures of which it is a surface expression, or the ideological principles upon which it is based.”

Hall (1976), whose theory is widely used in business studies today, explains: “Culture is man’s medium; there is not one aspect of human life that is not touched and altered by culture. This means personality (sic), how people express themselves (including shows of emotion), the way they think,... how problems are solved, ...as well as how economic and government systems are put together and function.” He further suggests that culture has three characteristics: it is not innate, but learned; it is shared; and in effect, it defines the boundaries of different groups.

Harris (1975) states that “A culture is the total socially acquired life-way or life-style of a group of people. It consists of the patterned repetitive ways of thinking, feeling, and acting that are segments of society”. Miller (2005) states that “Culture, as all learned and shared behaviour and ideas, is found universally among human beings.”

Hofstede (1997 p.5) used an approach to the complex concept of culture by handling behaviour and customs separately, referred to them as culture (one) and culture (two). “‘Culture’ is a catchword for all those patterns of thinking, feeling, and acting .... Not only those activities supposed to refine the mind are included in ‘culture two’, but also the ordinary and menial things in life; greeting, eating, showing or not showing feelings, keeping a certain physical distance from others, making love, or maintaining body hygiene.” His attempt is nevertheless oriented towards individuals, and is clearly guided by his training as a psychologist.

Another major theorist of culture in the context of business and organization studies, Trompenaars (1993), borrowed a very short description of culture from Hofstede “culture is the way in which a group of people solve problems”.

As culture has come to be recognised more and more in recent years as a powerful undercurrent in international business, the concept that “business is business” has also been challenged (Schneider and Barsoux 2003). Liu and Mackinnon (2001) have summarised the vast amount of definitions of culture within business studies into three themes: 1. sees culture as a psychological concept; 2. sees culture as a tool that bonds a group of individuals together; 3. sees culture as a framework to analyse behaviour. For the purpose of this paper, all three themes are considered, in order to guide foreign organisations to success in China, which is a market with great potential but extremely difficult to tame.

More and more, multinationals recognise the importance of cultural difference when it comes to managing organisations in different places. Lawson (2002) suggests that without recognising these differences, the efforts of Australian managers wanting to work with managers and employees from various Asian societies, have not met with much success. In fact comical situations often occurred when cultural differences were not recognized and observed.

Many senior Western managers believe that all practices that have succeeded in the West can be transferred to China. Literature suggests that this assumption has been counterproductive in the experience of many MNCs (Huo and Von Glinow 1995). This is because, while managerial techniques are designed to be transportable, they do rely on certain criteria for compilation and interpretation by people who apply these managerial techniques (Liu and Mackinnon 2001). For JVs and MNC subsidiaries, having Western expatriate managers who apply Western management principles is expected and this results in Western leadership in JVs attempting to lead Chinese staff using Western principles.

Research on leadership has shown significant levels of cultural difference between Chinese and Western practice (Littrell 2002). Leadership theories from the West should equally be examined for their appropriateness before application in China (Littrell 2002). Most of the current leadership theories reflect Western industrialised culture. Leaders in Western societies are characterised as being individualistic rather than collectivist; stressing follower responsibilities rather than rights; assuming hedonism rather than commitment to duty or altruistic motivation; assuming centrality of work and democratic value orientation and emphasising assumptions of rationality rather than asceticism, religion or superstition (Littrell 2002). Clearly these characteristics are not particularly Chinese and would be difficult to fit into the framework of Chinese culture which is more collective, according to many definitions (Trompenaars 1993; Hofstede 2001). Leadership in the West fosters independence and empowers subordinates to experience autonomy and openness, which are generally accepted and preferred. On the contrary, in China, leaders are expected to be more authoritarian and tolerance of freedom is not regarded as good management practice (Littrell 2002). Moreover, withdrawing or replacing a leader has a much stronger group impact in China as it is a collective culture (Hofstede 2001; Littrell 2002). Management based on Western theories is not only inappropriate, but also is not understood by the local Chinese and will therefore cause management difficulties in the long run.

Managing JVs in China using Western expatriates is a popular practice but the issue of the cultural literacy of the expatriates posted to China is not called into question, despite the fact that the success of individual expatriate assignments will have a major impact on the success of the JV. The average cost per failure to the parent company has been estimated to be between AUD \$65,000 and AUD \$300,000 (Kaye and Taylor 1997). Among all expatriate assignments, studies show that 16-40 percent of expatriate managers end their foreign assignment earlier than scheduled and further 50 percent of the remaining group function at a low level of effectiveness (Kaye and Taylor 1997).

For expatriate managers to be successful, a combination of internal and external factors needs to be considered. Research so far suggests that expatriates managers' psychological disposition is a major factor in their ability to adapt towards new cultures (Kaye and Taylor 1997; Selmer 2000). Factors such as age, education level, prior cross-cultural experience and the managers' own culture have been considered as significant. However, results show that none of the above has major influence, which we were previously led to believe, for expatriates' adjustment to working within the Chinese cultural environment. Attitude, however, has been identified as a major factor contributing to their adjustment (Kaye and Taylor 1997). What is lacking in the research is a focus on the contributing factors which affect expatriate managers' attitudes and the levels of these effects at different times during their assignments. In the case material below, it will be discussed that even though a factor may appear to be small or unimportant, its influence on expatriates' attitudes could be quite significant.

Apart from the financial costs for organisations in the event of expatriate failure, there is the loss of tacit knowledge (Chow, Deng and Ho 2000; Haire, Chung and Hartel 2004), e.g. cross-cultural knowledge which is extremely valuable for organisations. As suggested earlier, cross-cultural management in China involves unfamiliar issues that are more prominent in the Chinese case, or unique to the Chinese cultural context only, for instance, trust, relationships (*guanxi* and *renqing*), face and social interaction (Littrell 2002) and motivation (Satow and Wang 1994). Expatriates gain enormous tacit, intangible, culture-driven explanations for the difference between Australian and Chinese organisations, once they have experienced working in JVs in China (Huo and Von Glinow 1995). Little research has been done on how this tacit knowledge has been and can be captured in order to leverage on the value gained through practical experience. Using a highly focused case study approach, it is the aim of this paper to capture some of this value for MNCs and hence help them to improve their performance in China.

## RESEARCH METHODS

An Australian MNC (Foster's Group) was selected as the object of the case study. It was decided that an in-depth case study conducted over time was the most suitable research method, due to the complexity of the topic. Three critical factors influenced the research design. These were (i) the lack of "cultural theories" (Hamel, Dufour and Fortin 1993) pertaining to cross-cultural factors in specific aspects of international business, such as management (ii) the cultural complexity and dynamics of the Australian-Chinese joint venture (JV) situation and (iii) the size of Foster's operations in China (Fielding and Lee 1998). In order to achieve the aims of the research, the design needed to be suitable for dealing with diversity among respondents, with real world events and with the factor of on-going complex relationships between respondents.

The case study as a method has many applications. For instance, when the data available is rich and vast, using the case study approach may help one to delineate parameters for the scope of the study (Punch 1998). A case study also explains the causal links in real-life interactions that are too complex for a quantitative survey to cope with. It can describe an interaction in detail and the real-life context in which it occurred. It explores those situations in which the interactions being evaluated have no clear, single set of outcomes (Yin 1994). Case studies can best capture the dynamics of a complex research situation (Morse and Richards 2002). Therefore it is argued that the case study approach is the most suitable in cross-cultural studies, where the variables and complexities of interrelationship are not only numerous but unpredictable in many instances.

We chose to interview managers<sup>1</sup>, including expatriates, overseas Chinese and locals from Foster's Group Ltd, as it is a large Australian MNC which has achieved significant penetration into the Chinese beer market. The managers were from different cultures, with different educational backgrounds, different career experiences, and they were based in different locations. A series of depth interviews were conducted between 2002 and 2005 with executives, board members, senior managers and operational managers in both Australia and China. Respondents were current and former staff of the organisation. This approach provided a broad spectrum of viewpoints about the operation and aimed to achieve an unbiased contribution from all parties.

Interviews were conducted in Chinese and English, and sometimes in both languages, depending on what was deemed to be appropriate to the interviewee's ease of expression. A combination of two techniques was used in the research interviews: narratives and depth interviews.

This dual technique method affords the benefits of both the narrative and depth interview, ensuring that both quality data and a substantial quantity of it could be collected in the interview process. This method can be used when the research strategy focuses either on field studies or solely on interviews. Interviews should start with the narrative approach to allow respondents the opportunity to tell their stories. This is because the narrative interview technique provides data that other techniques do not provide (Flick 2002). This is because: i) the narrative takes on certain independence during its recounting; ii) people "know" and are able to present a lot more about their lives than they have integrated into their theoretical understanding of themselves and their lives; iii) there is an analogous relationship between the narrative presentation and the narrated.

Interviewees were invited to respond in as much detail as possible to all questions. This method allowed respondents the opportunity to express themselves freely, and a narrative style of data collection emerged on many occasions. Probing questions were also used to catalyse discussion. These focused on a wide range of issues relating to Foster's JVs in China, including why that form of market entry was chosen, how market research was undertaken in China, Foster's dealings with government organizations, human resources management and marketing issues, and so on. However for the purpose of this paper only the cross-cultural management topic is discussed. In particular, a range of questions were asked with a view to identifying the key elements of Foster's

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<sup>1</sup> The interviews were carried out by Mona Chung, who is bilingual in Chinese and English and culturally literate in both Chinese and Australian culture, having lived for extensive periods of time in both countries.

management practice. This interview approach was designed to collect comprehensive data for a large scale research project and thus the majority of the data, pertaining to other topics, are not presented in this paper.

The data was processed using NVivo - a qualitative research software. The approach selected was to focus on the data at different levels of aggregation. The first approach was to code segments of text within the narratives and classifies them using individual words and concepts. They were then abstracted according to a higher level of coding. The codes were then organised into categories according to their relevance to various topics, through reports generated by this tool, NVivo.

## **CROSS-CULTURAL MANAGEMENT**

In order to understand Foster's management activities, it is important to first understand its management strategies. Foster's Group Ltd is the largest Australian beverage company and the world largest wine company (Foster's Group, 2005). Its product range covers beer, wine, ready-made drinks and soft drinks. In the later 90s, the Board decided that Foster's should try to enter the Chinese beer market. It started with an aggressive approach, a JV brewery in Shanghai (SFBL), one in Doumen, Guangdong (GFBL) and later, another one in Tianjin (TFBL). SFBL and GFBL were both established in 1993 and TFBL was established in 1995. However, the lack of profitable performance in the following years led to an evaluation of the operations in 1997. As a result, by 1999, TFBL and GFBL were both sold off.

Foster's China operation was heavily focused on production, a decision based on Foster's' belief that China was backward technically. This is clearly demonstrated in the structures of all three JVs (Appendix 1 to 3). In addition, its initial heavy financial commitment on plant infrastructure shows Foster's' strong focus on production as the key to success. This financial investment ensured Foster's of a world class beer production facility in the heart of Shanghai. Research showed that frequent communication on operations between China and head office indicated a very close involvement between the Melbourne and China operations (MDT203; MDT1903; MDT3604)<sup>2</sup>. From the very beginning, Foster's focused on ensuring a team of people who were capable of producing products of international standard and with consistent quality, giving it the capacity to compete in an international market with other top world breweries. It was under such strategic guidelines that Foster's China management evolved.

## **FREQUENT CHANGE OF ORGANISATIONAL STRUCTURE AND MANAGEMENT PERSONNEL**

The research showed that Foster's organisational structures in China were sustained for only short periods. The first Australian GMs of Shanghai and Guangdong experienced unique management circumstances. Both started when, in the JVs, the Chinese party still had a relatively heavy involvement in the operation. Continuous negotiations were carried out by both GMs in an attempt to settle things in operational terms. They were required to jointly manage the breweries with their Chinese partners, who had very little understanding of the CUB<sup>3</sup> culture. Expatriates require a certain amount of time to adjust to their new environment. Similar to most Australian companies (Blackman 1995), Foster's assigned its expatriates on three-year postings. This was argued to be less than sufficient time for the expatriate managers to perform well, as they require a period of time to learn the culture as well as settling in to their jobs. In contrast, Japanese companies are

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<sup>2</sup> Due to a confidentiality agreement, no interviewees are clearly identifiable. The interviews are coded for the purpose of referencing.

<sup>3</sup> CUB (Carlton United Brewing) is one of the core businesses of Foster's. It is the brewing arm of Foster's in Victoria, Australia. It produces a large proportion of the Foster's new value. All JVs in China were breweries therefore a tight connection between CUB and Foster's China was established from very early days. Many expatriate managers were employees of CUB for many years.

noted for giving four to five year postings and do not expect their expatriates to perform until their third year (Copeland 1987). It would be fair to suggest that managers could not perform well until they had successfully adapted to the new culture.

Pre-departure training tends to reduce the period of adaptation for expatriates. It has been recorded that Japanese employees who received training took only a few months to adjust (Copeland 1987). Also it has been reported that a small number of very large multinationals have trained their staff by preparing them in China for a period of three to six months (Blackman 1995). These processes are aimed at reducing the period of adaptation for expatriates, so that they would be able to perform better in a relatively shorter period of time. In relation to assisting expatriate managers in adjusting to cross-cultural management environment, prior research has also demonstrated the most powerful correlation between inter-cultural sensitivity and training regardless whether the training was pre-departure or upon arrival in China (Kaye and Taylor 1997).

Foster's managers did not receive sufficient training to enable them to reduce their periods of adjustment significantly. Given that anything from nine months to two years has been mentioned in other research (Copeland 1987; Blackman 1995), an average of eighteen months as the period of adjustment would be a reasonable figure to work with. Therefore a realistic time that Foster's Australian expatriate managers in China might be expected to perform should be three to three and a half years at the earliest (eighteen months as adjusting time and two years to manage in order to produce results). It is therefore reasonable to suggest that managers who had held their positions for three years (and not all of them achieved even that duration) were just on the verge of starting to perform. This has been proven the case that several of the expatriate managers expressed by the end of their terms they learnt the system and were ready to move to the next step of meeting expectations (MDT3604). If sufficient time was allowed, expatriate managers should be expected to start producing results at three and a half years or at the end of a four-year term. As a matter of fact, the current GM in Shanghai has had four years of appointment in the early 90s. During the interview in Shanghai in late 2005 (at the time of the interview he was already in his current position for over one and a half years), he was confident in his ability to manage the brewery and comfortable in his position. The brewery has already seen significant signs of improvement as its production were returning to the brewery's historical high (SSR705). This calculation makes it reasonable to suggest that expatriate positions should be for a period of six years, as is common in Japanese JVs (Smith, 1994; Sim, 1977) to achieve any real results and this was also suggested by ex-executives at Foster's (MNN404; MSR504, MRG504,). The frequent rotation of managers simply created a series of repeated events and problems, where a trial and error approach was used each time.

Furthermore, difficulties in management caused by frequent changes sent a message of instability throughout the organization. The local employees' cultural interpretation of this short tenure approach was that Foster's was showing instability and insincerity about its intentions in China. This developed into concerns for them about the security of their positions. As job security is a major concern for a large proportion of Chinese employees, this resulted in low staff morale. The speedy sales of the Guangdong and Tianjin plants confirmed their concerns. As a result, when Shanghai Foster's was fully converted into a 100% subsidiary, some staff decided to protest against the decision in the hope of being taken back by the Chinese equity holder:

“整整一個月的時間，從開始宣佈到一直結束，整整一個月時間。員工鬧得很厲害，鬧到夜裡一點多。員工鬧是什麼概念呢？他為什麼鬧呢？因為有一個前因的問題。他原來是在一個合資企業，中外合作合資企業。原來有一個中方，一個外方，這麼兩方關係。獨資以後，中方完全脫離了，它把股權賣給了外方，所有的事情和中方沒有關係了。員工有一個擔心，他們擔心他們到了外資企業、獨資企業，將來後路什麼都沒有了，他有這個擔心。一個，將來公司想買斷，給一筆錢，那員工肯定希望錢給的越多越好，但公司又不可能無止儘給你錢，而且政府也不可能同意無止儘給錢，因為它在上海有一個平衡” (For about a month, staff protested. It started as soon as we announced the change of shareholding and it continued till the very end, for exactly one month. They protested strongly. Many nights they continued till 1 in the morning. The reason that local staff protested

was because it was a JV before. There was the Chinese party and Foster's. Once it became wholly owned, the Chinese party was out. All management issues were dealt with by Foster's only. If the wholly owned decides to sell, they would pay all their staff out. Local staff needed ongoing jobs. Even when they pay you out, it would not be an endless amount. Even the Shanghai government would intervene. Organisations must maintain a balance). (SCZ1103)

Furthermore, the locals also felt that the three-year posting was not long enough for a person to learn and understand how to manage the plants in a Chinese context. Learning a new culture and how to live and work in that culture was a relatively lengthy process. In addition, each individual had a different management style which took time to communicate to staff and for staff to adapt to. Thus, the short period of appointment allowed little time for employees and managers to adapt; for managers especially, it did not allow time for knowledge to be generated and applied. Furthermore, the little knowledge that was gained by each GM was lost when a new GM was appointed (Schuler 2001; Awad and Ghaziri 2004).

Another factor to consider was that expatriate managers were required to learn how to manage local Chinese employees. Again this was not a short-term learning process. For example, when staff went on strike when the fully owned subsidiary was established, rather than a JV, production was stopped for two weeks. The Chinese HR manager in Shanghai primarily dealt with the situation using a Chinese approach. "Australians did not know how to deal with labour movements. They could only offer more pay, but they did not understand that money was not the only motivation. Eventually the event did not last for very long. We did it differently. We did home visits instead of purely offering money." (STYF203) This culturally-different approach is identified by McDonald (2004) and can only be applied if management has the knowledge of how to manage the local staff.

## LACK OF CONSISTENCY

Tianjin joint venture was the only one that had only one GM from 1995 to 1999 (from the start of the JV until its closure). Shanghai now has its sixth GM in eleven years of operation; this is an average term of less than two years per GM. Guangdong had four GMs between 1993 and 1999, which is on average of 1.5 years.

Movement of personnel provided instability in ways of new culture, new structure, new ways of doing things and new knowledge. Each time when a new GM was designated, new systems were introduced and new management styles brought in. Not only did the GM need time to adjust to the position, staff also required time to adjust to the new systems and styles.

For many of the Chinese staff, stability was extremely important. 508 Chinese staff (according to the official number from party A) (MDT0093) who came with party A (the Chinese JV partner) to the Shanghai joint venture were accustomed to the state 'iron rice bowl'<sup>4</sup> employment system (Zhu and Dowling 1994; Zhu 1995; Warner 1997), and many did not wish to join the JV for fear of losing this stability. When the JV was first established, staff were given the choice by the Ministry of Light Industry to choose to remain in the JV or to leave. All who stayed made the choice due to expectations of a better future. Instability indicates threats to this expectation of a better future.

“当时留下来的员工还是对富士达报有很大的信心” (SCZ1103) (The employees who decided to stay with the JV had a great deal of confidence in it.)

“因為總經理經常換嘛.....企業那個時候，不管怎麼樣，都是非常有凝聚力的。大家都是在一塊兒擰成一塊兒的，不會一下子散掉。包括Sebastian 來，他剛來也會做一些他的CHANGE但是不管怎麼

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<sup>4</sup> An old Chinese HR system which provided Chinese employees with stable jobs and income, however the system did not provide motivation for staff to perform above average. At the time, once they were given the jobs, they had the jobs for the rest of their employment lives.



樣我覺得也是可以的”(SLML1103) (“GMs were changed frequently.....but there was a kind of united feeling between all the staff. Despite everything, it (sic) was united. The employees said they were in it together. We were united, could not break up. Even after Sebastian<sup>5</sup> came, he made some changes. It was still o.k.”), an ex-Shanghai staff member commented.

Changes in senior management often resulted in changes of other personnel, including sales and marketing people and interpreters. This caused a series of further unexpected reactions in other areas.

“Every time when the GM was changed, the sales and marketing manager was changed. They made no effort as they were all in their positions for relatively short periods of time.” (STYF203)

In a market like China, where relationships play an important role, short periods of employment did not allow relationships to be built with customers and/or distributors. In a market where brand loyalty was yet to be established, much depended on relationship building over a long period of time. As mentioned previously, such inconsistencies resulted in low staff morale, creating a challenge for the staff as well as for customers. Customer service could not have been well cared when staff were in constant change which further affected the possibility in building the brand name. This was then led to an opportunity lose which then resulted in opportunity costs.

Other international companies have done things differently, a difference which was generally appreciated by the staff involved. KSB, the German JV mentioned previously, had a German GM who got on well with the Chinese. When he was due to depart, after three years, Chinese staff petitioned the head office to allow him stay. His contract was eventually extended for three terms and he ended up staying in China for a total of 9 years. After leaving KSB, he set up his own consulting firm in China and planned to stay there on a more permanent base (SLML1103).

## **DIFFERENCES IN MANAGEMENT STYLE**

Different management styles are well covered in the literature (Robbins, Bergman, Stagg and Coulter 2000; Schermerhorn, Campling, Poole and Wiesner 2004). One major strategy of foreign investors for attacking the Chinese beer industry was to introduce modern Western management systems. The acceptance of Australian management systems which were being introduced into the Chinese systems was clearly acknowledged by interviewees in the course of this research. “I believe that the Australians have brought very good management systems and good training to the Chinese.” (STYF203)

Foster's attempted to engage managers from different backgrounds. Three major groups of personnel were employed to manage the JVs: overseas Chinese with good language skills and limited cross-cultural skills; expatriates of Anglo-Australian backgrounds with no Chinese language or cross-cultural skills and Australian expatriates with a background of working in Asia/China as well as with language skills.

In comparing all three groups of managers, the research provided findings of different styles amongst the three groups of managers. One GM was from a Singaporean Chinese background and with a European qualification, (he completed his MBA from INSEAD). His practical experience was largely based on working in Singapore in SMEs. Although he had worked for Heineken in Asia, Mr Luk commented that he had learnt most of his management skills from his father who had a depth of experience in small private enterprise. “My management styles are very open, I let people come into my room and talk to me, very strict but open.” (MTP504) Mr Luk was primarily responsible for the Tianjin operation, which was recognised as a successful operation by many management staff (MBL1104, MKJ904, MMK1204).

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<sup>5</sup> For confidentiality reasons, all real names have been removed from this paper. All names used are pseudonyms.

However, Luk's open style of management appeared to be highly hierarchical and structured something which was not always appreciated by the Chinese staff (SLML1103). In a situation where the manager's style was not appreciated, Chinese staff would simply keep away (SXR1103). The implication of this was that no further communication was carried out to encourage discussions of different opinions.

It did appear however that he adjusted his management style according to the people he was managing. "In Tianjin it was a guessing point because Stewart Luk was very much a sales and marketing type and I was the technical guy. In terms of position it was really a ... (sic) but he was more than happy to leave all running of the brewery operations to me and he wouldn't interfere at all, not much. He never got away with it and he would look after the sales and marketing and it worked fine, because there was no conflict of interest." (MRG504) In Shanghai, his style of management was also accepted by other expatriates (BBP504). In this case it could perhaps be accepted that it was an effective style.

This suggestion can be confirmed by Luk's personal description. "You need to be very experienced in China as I said yesterday. If you are not, you are seeing (sic) as very different. You must be able to understand the culture; what it takes, what culture you must be able to communicate. You see as a General Manager, you need to communicate with a lot of people below you." (MTP504)

What was understood by the head office was that this leadership style was appropriate at times, for example, he worked extremely well in a team with Zhen Sun in Tianjin. When he was relocated to Shanghai, it was for a different purpose; to put discipline and a framework into place was the primary objective from the head office (MBL1104).

"We took Stewart Luk out of our Tianjin brewery and brought him down into our Shanghai brewery, for lots of reasons. We believed strongly in a localisation policy. We reduced from about 17 or 18 expatriates across three breweries down to two or three and now virtually none. We, also, we wanted someone with a strong administrative history and background in the role rather than an operational person like a brewer or a marketing person. We wanted someone who was sort of a seasoned old wart hog and who was not going to get pushed around by the Shanghai mafia in our business and so Stewart was sort of the solution for those needs." (MPM204)

Contrary to this, the Anglo-Australian managers with no language skills and little training in cross-cultural skills appeared to have enjoyed the most successful period of management (SLML1103, SQY203, SWXY203). They managed to form more comfortable mutual relationships with their local employees (SWXY203, SQY203, STYF203). Their management styles were accepted as different, as Australian and not Chinese, but as long as the person made attempts at cultural links, he was accepted.

It appeared that expatriates who made an effort to learn Chinese and study the culture was much appreciated by the local Chinese. Many concessions were made for them to help them to improve their cultural understanding; it was the level of effort that was appreciated. Was it due to the fact that the cultural gap was so large that the locals did not expect the Australians to make any real inroads into mastering Chinese language and culture? "我是這樣認為的。一個外國人你要擔任總經理的話，我覺得一定要學習中國這邊的.....，我了解到的老外，相對很多都是學中文的，哪怕學一些簡單的也好。" "(In my opinion, for a foreigner, if you want to be a general manager, you must learn Chinese culture.....among most of the foreigners I know, they all try to learn some Chinese. I think it is good even you just learn a little.)" (SLML1103) In other words, the acceptance measures for Anglo-Australian managers and overseas Chinese managers were different. The expatriates' willingness to use the host's language has been observed to have a greater influence on successful adjustment than does the actual level of fluency in the language (Brislin 1973).

Leadership styles certainly varied between individuals. Some maintained a more superficial relationship in the belief that different operational systems were able to be introduced (MBI604)

while others believed that having closer relationships with the local Chinese would help the JV operation to run more smoothly (MNB504).

Gavin Atkinson is one of the expatriates who worked in China in the early days. "I managed my team differently from how Michael had done for example. Michael chose to get quite close to them personally and that was his way of doing it. Michael was trying to start up the venture, start up the brewery and he had a different task from what I had. I saw it as my job to teach them how to manage, managing them as people, for me, I didn't adopt any particular style to do it differently for the individuals, but I was fairly open with them in terms of my own personality, and what my expectations were of them and I'd tell them if they done things wrong, I'd tell them if they had done things right and put some systems in that were probably new to them" (BBP504). It did appear, however, the very mature and culturally sensitive approach was the most appreciated the style by the locals.

At the beginning of the JV different views were expressed by local employees (MZJ3604). However, staff felt that there was no really action taken addressing their suggestions and concerns. In Shanghai, staff stopped putting letters into the suggestion box after a while. No expressions of resistance to the management changes from the Chinese staff at any stage. The differences were in the speed of accepting and taking up the changes (MSR504; BHA124). In some cases, staff suggested that they only did what they were asked to do when the expatriate managers were there physically observing. As soon as the managers left, they revert back quickly to their way of doing things (ZYXMC1205). One of the expatriate managers who were interviewed in Australia in 2004 commented on how some of the changes he tried to implement nearly ten years ago were still not carried today in Shanghai when he visited them there (BHA124).

What is worth noting is the cause and effect of different leadership styles and how the process of management was affected. As discussed previously, the leadership styles of expatriates with no language skills were all accepted without obvious opposition from local staff. The leadership styles of expatriates with language skills and cultural skills were questioned at times and certain overseas Chinese leadership styles were not appreciated. It can be concluded that a more democratic style of leadership was more acceptable to the local Chinese than an authoritarian style which does appear to be contradictory to the literature (Littrell 2002).

## **PSYCHOLOGICAL BARRIERS TO INTERNATIONAL ADJUSTMENT**

Adjusting to Chinese culture for expatriate managers is often a challenge as they have to deal with a very different way of life and perform in an unfamiliar work context once they are in China (Selmer 2000). The difficulty of overcoming this hurdle often causes the failure of an expatriate assignment. In this process of adjusting, psychological limitations in the ability or willingness to understand, accept, or adopt the norms of a foreign culture can be the major barrier for expatriate managers working and living in China (Selmer 2000). The cause of this psychological barrier sometimes may be dependant upon basic human needs.

Maslow's hierarchy of needs (Robbins et al. 2000) suggests that for all humans certain basic needs must be satisfied first. Although behaviour differs in different cultures, the requirement for food is one of the basic needs for both Australians and Chinese. In the early days of the JV in Shanghai, many notes were recorded by expatriate managers discussing the need for canteen improvements and improvements in the quality of the food<sup>6</sup> (MDT1903).

It appeared that food was not only important for the Chinese, it was equally important to the expatriates. Not being able to have familiar Western food over a long period drove people to desperation from time to time. "(Doumen) for the foreigners it was out in the middle of nowhere,

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<sup>6</sup> It is very common in Chinese organisations to have a subsidised canteen that provides food for all staff members. The quality of the food is an important motivator for staff.

there was absolutely nothing Western there at all. It was just a hard place to work, no TV, every weekend we used to go to Macau just to eat.”(MSR504).

In Shanghai, the lack of Western food and other familiar daily items also created difficulties for expatriates. “Just after I moved out into that house by myself right back in the early days I was going home one night in a taxi and I went past this place that sort of looked a bit like a Western supermarket and I thought wow. So I got home and I had taken my bicycle with me so I jumped on my bike and rode back and as it turned out it was quite a long way back to where this place was. I got there and it had the big light boards out the front and it sort of looked like a mini 7 Eleven. I walked in and it was just full of crap there was nothing in there that was interesting at all, so depressing.”(MSR504) The word “depressing” should send enough messages to the management of the condition these expatriates were living under.

What is often not understood in studies of expatriate postings is the degree of psychological problems caused by what appear to be relatively minor issues. Foster’s engaged a leading psychologist to monitor some of the expatriates’ behavioural changes or psychological difficulties. He was on a 24-hour on-call basis for a period of three years. The HR manager and the psychologist also made regular visits to China three times a year and to all three sites (NM305). This was quite an effort by Foster’s. On one of his regular visits to Shanghai, one of the expatriates joked “He is back to see if we have gone mad.” The psychologist replied “I know you are mad. I just want to see how mad you are.” (MDT3604)

It was accepted by most of the Foster’s expatriates that they were well looked after financially. They were well-paid and expatriate employment and living conditions, Western style apartments or hotel apartments, were good. Expatriates who lived in Shanghai were given accommodation that was specifically built for foreigners and they were entitled to R&R (rest and recreation) every six months; several of them talked about R&R being the only motivating factor which kept them sane.

During the research, repeated reference is made to “house visits”<sup>7</sup> throughout the notes and reports between 1993 and 1994, indicating the amount of time spent looking for suitable accommodation for expatriates. Green Valley, the first block of Western style apartments in Shanghai designed purely for the purpose of housing expatriates, was the final housing site settled upon for Foster’s’ expatriates in Shanghai. It was a long way out of town so required lengthy traveling times on a daily basis (MDT1903, MKJ1204, MSR504, MRG504). However, it was the only expatriate accommodation available at the time as expatriates with family members could not have lived in hotels which were closer but whose facilities were not suitable for family life with children (MNB1104). This meant that each working day was, on average, 12-14 hours long (including traveling time), which no doubt exhausted the expatriate managers physically.

Again, none of these issues would have occurred or would have needed to be dealt with when the managers were working in Australia. In Shanghai, James Bond, the first GM of SFBL, an Australian expatriate manager, had to locate houses, visit them, pay children’s school fees and cope with expatriates who were depressed for one reason or another. On occasions, he also had to deal with wives who were depressed and angry (MDT1993). Under such circumstances, the need for motivation was much greater than what was required in a non-expatriate environment. Meanwhile the managers themselves were also under extreme pressure. It made it increasingly difficult for the managers to perform their duties and function efficiently.

## **CULTURAL DIFFERENCES IN MANAGING CHINESE JVS**

It appears that cross-cultural management positions are vastly different from normal management positions. GMs in the case study were required to perform a general manager’s duties plus a large number of additional duties; some of these additional duties were specifically culture-related. In

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<sup>7</sup> An exercise to look for suitable housing for expatriate employees, in Shanghai it was mostly carried out by the GM.

other words, if these GMs were to be posted elsewhere, there would not be the same range of duties required to be performed or maybe a different set of duties might be required to be performed. For instance, in China, achieving blood donation quotas and ensuring birth control rates were kept within government regulations and policies was a responsibility of the GM.<sup>8</sup> Not only were these extra duties, but also GMs would not have understood why they were required to be performed as part of their jobs as Australian managers, as they had not been previously exposed to meeting such requirements as part of their general management duties.

In addition, expatriate managers were required to frequently appear in public for all types of PR purposes. This was often done in the context of sales and marketing activities, regardless of the actual role they held. "We just had to appear at all sales functions because we are the only foreigners." (MRG504) These activities once extended to the GM having to sing love songs in Chinese on a Shanghai radio station (MDT3604).

Another example of a GM's additional duties was having the condition of the staff canteen on the GM's top priority list. The JV was required to improve the canteen's interior as well as provide better quality food for staff.

The above are a few examples of culturally-related duties that would not be required if the expatriate managers were not in China. The single child policy requirement is unique to China; no other countries' governments impose such requirements on their citizens and organisations. The critical point of this issue was that unless the GMs were trained, i.e. were mainland Chinese expatriates who had previous experience of these types of issues; they were not prepared for them and were likely to suffer from culture shock. Furthermore, they would not have strategies to deal with such matters and could be further frustrated by having to perform such duties. This frustration would increasingly affect their performance and productivity.

Another key issue regarding cultural differences in managing Chinese JVs was the constant discussion and negotiation on matters related to the JV agreement. These would not normally be included in management functions. For instance, the 22 families<sup>9</sup> issue and the volume of documents written back and forth discussing this issue, the retraction from the original contract, the changing of contract conditions, the gradual introduction of information rather than presenting it upfront with all conditions and facts available, and the ability to see changes in the contract as part of a process rather than a retraction of conditions, are closely related to Chinese cultural characteristics.

Bond commented in one of his notes about this learning process. "Troy advises that the Shanghai Foreign Investment Commission has formally approved the JV. Now, I understand it requires the approval of a multitude of authorities." (MDT6793) In theory, indeed, it meant that if any link in the chain of government bodies did not approve of the agreement, the JV would not eventuate. Many of the communication notes in October 1993 discussed the timing and likelihood of obtaining a licence. At first the Australians thought it was just a matter of process and procedure. Only after five months of processing, did Mr Bond start to write: "I am still led to believe the licence should not be a problem." (MDT1993)<sup>10</sup>

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<sup>8</sup> To further explain the examples above, all Chinese organisations have a responsibility to ensure a blood donation quota was filled each year. These quotas are to be met on a voluntary basis in theory but in reality they are compulsory (DT1993). Also birth control quotas to be met by organisations were given by the relevant government body.

<sup>9</sup> There were 22 Chinese families who lived within the compound of Huaguang brewery. It was agreed in the negotiations that the JV would pay for the re-location of all 22 families. However the cost of this re-location was initially around 1.6 million RMB (about 267,000 AU\$ in today's terms) but later increased to 5.6 million RMB (930,000). It appeared that each time a figure was agreed upon, an additional factor would be brought up and additional costs were found to be necessary.

<sup>10</sup> On the morning of the 15th of November 1993, "Stewart Luk came into the office with his briefcase and solemnly said "James, Let's go." – I thought he meant negotiations had fallen through and we were leaving Shanghai. Then he said 'let's go and get a Business Licence!' Stewart has a great sense of theatre." (DT17793) November the 15th, 1993 marked the day of Foster's entry into China. This was an historical moment for Foster's with the negotiations finally completed after over two years; still, this was relatively quick in this context. It was significant for Foster's since

Another cultural difference with JVs related to financial management, an area considered very important by any organisation. However, the Shanghai JV started without the support of any working capital. It was rationalised that Guangming was a profitable operation prior to the formation of the JV; therefore, the operating capital should be supported by cash sales (MBL1104). However, this did not happen. For about 18 months (MMK1204), Shanghai struggled to the point where “the JV is now living out of the pockets of the six expatriates”. There were notes which mentioned moving into a new office, but there were “no funds to buy any filing cabinets, desk and etc (trying to chase up some furniture around the plant.)” On one occasion the GM and guests were served with some “tea”, but there were no tea leaves in the cups, just hot water, because there wasn’t enough money to buy any tea (MDT1993).

The lack of liquidity of the operation took up much of the GM and DGM’s time, as well as increasing their levels of frustration dramatically. There is no question that the situation affected productivity in general.

“Unforeseen matters” - an appropriate term - was another cultural barrier for the expatriate GMs. Matters that were seen by the Chinese as normal but were “unforeseen” by the Australians would be a good description of these issues. Staff salary structures and canteen issues were foreign to expatriate managers. The former is a very good example of how socio-cultural differences infiltrated into organizational systems. The base salary was less than AU\$50 per month, however, additional items, which included heating expenses in winter, “hygiene fees” to compensate for poor bathing facilities and over twenty other items, added up to just a little below \$250 per month per person (MDT3604). This salary structure was very different from the structure that Australians were accustomed to, so the ability to understand and orchestrate such salary packages for Chinese employees was indeed a challenge.

## **FUTURE RESEARCH**

In this paper, it is argued that a case study is the most suitable method in cross-cultural management studies specifically for China. This is due to the complexity of the JV operations. The need for cross-cultural management research in China is urgent since the number of approved foreign invested companies have reached 465,277 by the end of 2003 (Ministry of Commerce PRC 2004). Other research methods should also be explored in order to allow research from different angles.

In conclusion, this paper provided the opportunities for senior management in head office to see the view of local Chinese staff in a JV situation. Cross-cultural management and suitability of expatriate managers’ cultural adjustment were discussed in the context of organisation success. This will allow strategies that are suitable for the culture, the environment and the people where they work and live. The implementation of such strategies will see more success in the near future.

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Bond’s first attempt took place in the late 1980s Byrnes, M. (1988). Bond negotiates on China brewery. Financial Review.

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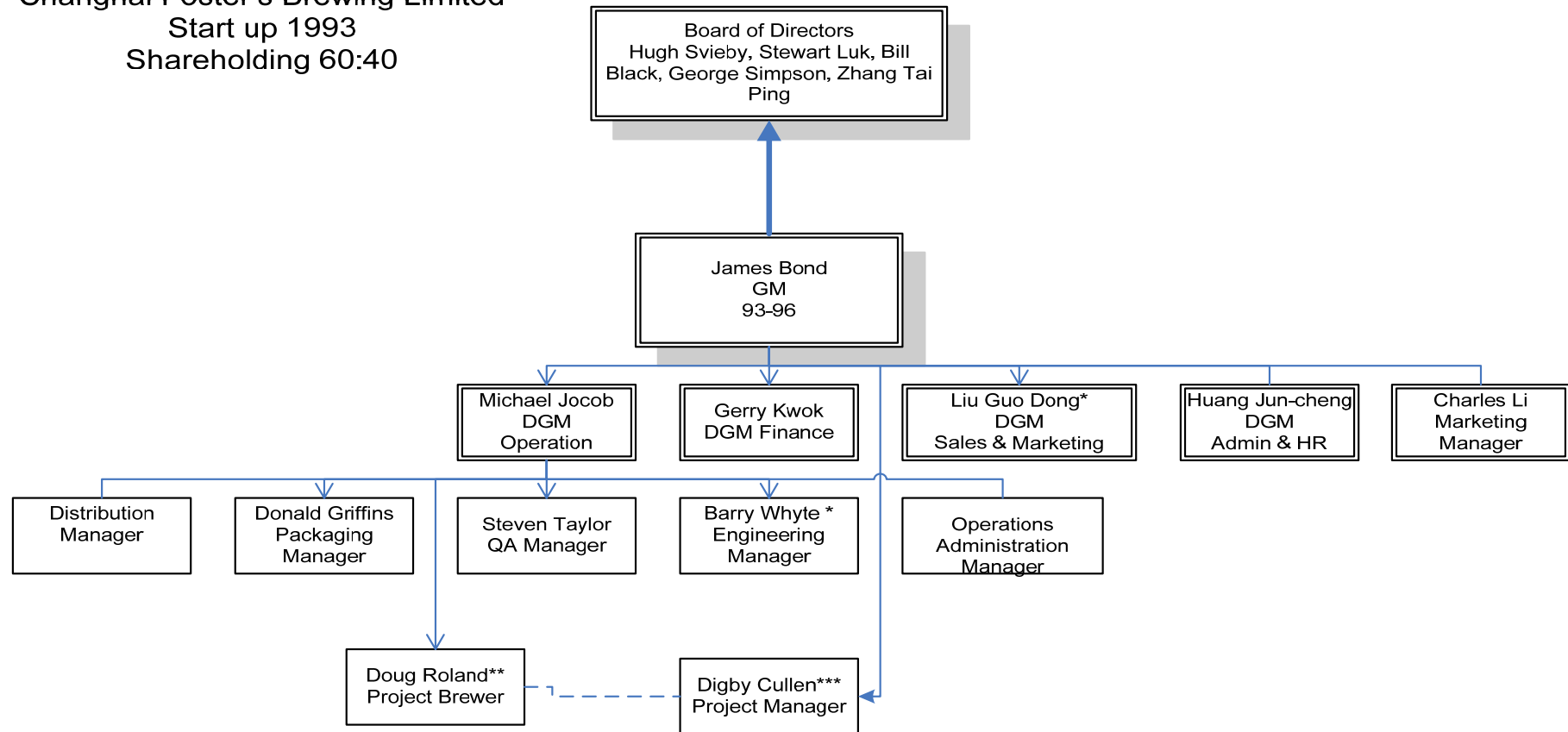
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Shanghai Foster's Brewing Limited  
 Start up 1993  
 Shareholding 60:40

## Appendix 1



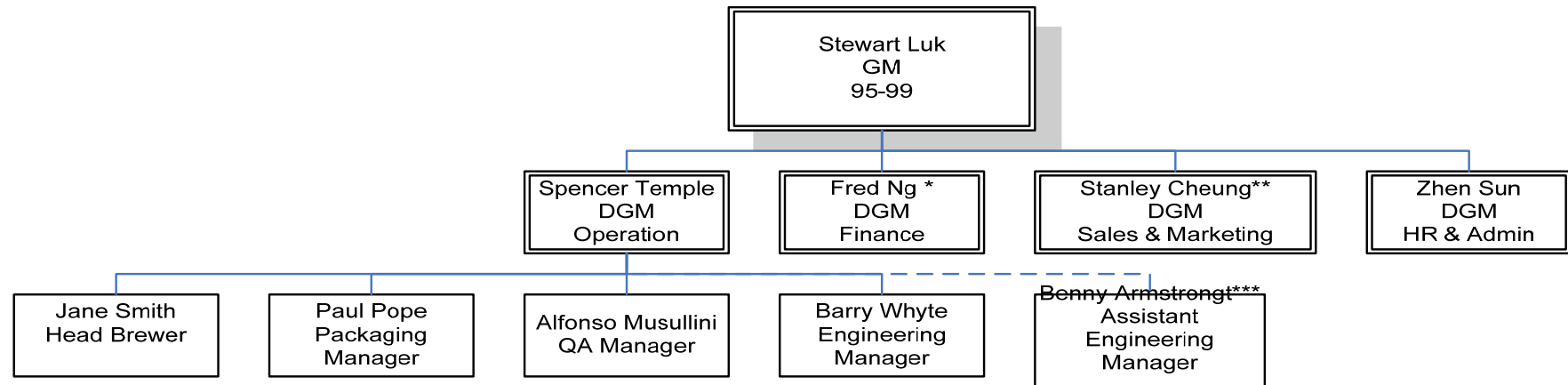
\*Barry Whyte was re-located to Foster's Tianjin in 1995.

\*\*The position was created in 1995 when the expansion project began.

\*\*\*Cullen worked on the project between 1995-1996

## Appendix 2

### Tianjin Foster's Brewing Limited



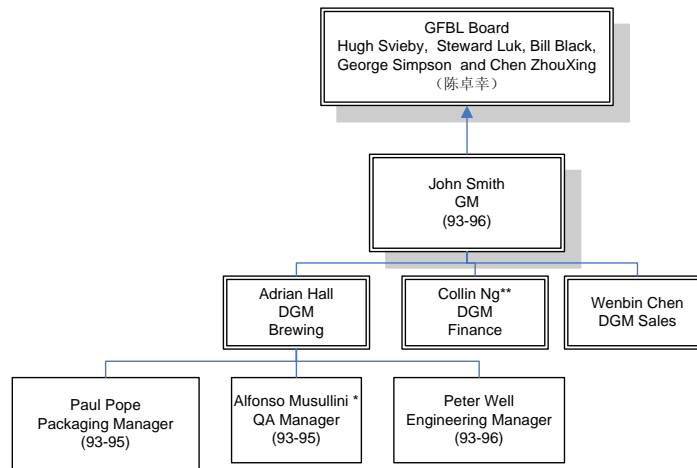
\*Hong Kong Chinese with language ability

\*\*Taiwan Chinese, educated in the US, was moved to GFBL in 96.

\*\*\*Only joint in 1996

## Appendix 3

Guangdong Foster's Brewing Limited  
Start up 93  
60:40 Joint Venture



\*re-located to Tianjin Foster's Brewing in 1995

\*\*Overseas Chinese, recruited in Hong Kong

\*\*\*Local Chinese, acquired the position through Chinese partners' arrangements