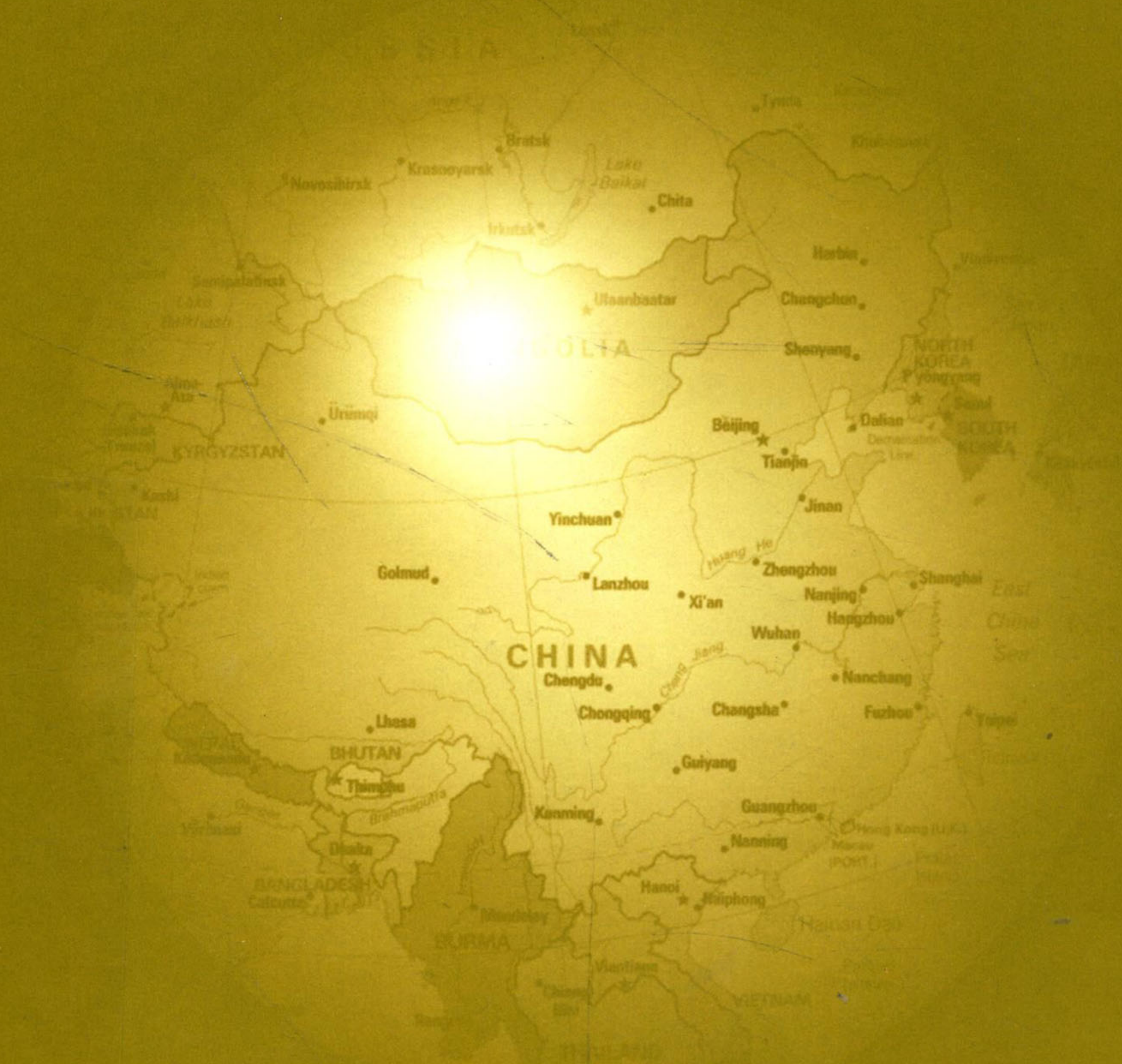Leo Douw and Chan Kwok-bun (Eds.)

Conflict and Innovation: Joint Ventures in China

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Edited by

Leo Douw and Chan Kwok-bun

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Chapter 1

Introduction
Differences, Conflict and Innovations:
The Emergence of a Transnational
Management Culture in China

Chan Kwok-bun and Leo Douw

Business enterprises are somewhat marginal to the academic study of human society. Many of the social sciences take an interest in them, but rarely view them as sites in which the fullness of social life expresses itself. Mainstream economists consider enterprises as functional units that must be optimally equipped with technology, finances and information to survive and compete in the market. There is a fast growing body of histories of individual enterprises, but they are the preserve of specialist business historians and are marginal to the interests of mainstream historians. Similarly, some sociologists and anthropologists are engaging in the study of business firms, but most of them tend to leave the economy, let alone the business, to economists. The political scientists are focally interested in the state system, and usually take little interest in what happens at the micro-level, where companies are found.

It is a major challenge for academic research to study companies as part of society that are deeply rooted in it, interact with it and act as social laboratories. The study of companies and interactions between them may connect all of the social science disciplines, and, if pursued in a proper manner, enrich them. This is what began to happen during the 1990s, when concepts such as 'communication', 'identity' and 'culture' represented a new interest in human or social relations, and also encompassed the sites or spaces in society where significant work was being done: government ministries and departments, schools, social work units, banks, the army, and, of course, companies. Communication sciences and cultural studies thus began to flourish, having adopted business management as an important field of interest; the economic sciences also started to take enterprises more seriously as units in which the character of social relations plays its part in the achievement of the best results.

Economic relations are first and foremost social relations. This insight of economic sociology applies in particular to the management of transnational enterprises, in which alienation occurred when managers and entrepreneurs with different national backgrounds set out to collaborate with one another as the new era of globalization dawned in the 1990s. This book intends to follow that trend of collaboration between nations and cultures. It takes Sino-foreign joint ventures as a case, which should help us to understand transformations in an age of flexible production, post-Fordism and the network society. The main theme of this book pertains to the emergence of a transnational management culture in China, one of the most dynamic workshops in the world. Articulating the theme in this manner immediately questions its basic premise: is the emergence of an integrated, if not homogeneous or unified, transnational management culture possible, or even desirable? One could imagine that a transnational or cosmopolitan culture would result, which is predictable to a large extent, and provides an optimal environment for the conduct of business. However, as much as such an environment may seem plausible, one also wonders how to construct it: if managers from different cultures cooperate, whose norms, values, mentalities, sensitivities and thoughts should prevail? For instance, is it possible to impose the Shell corporate culture on its Chinese branches? Or is it preferable that a balanced but dynamic amalgamation of various cultures be created? To whom befalls the task to engineer such an amalgamation? Most poignantly, should we limit our investigations to 'cultures' alone, while trying to transform them or adapt them to local circumstances?

The Dynamics of Transnational Enterprises

In the search for answers to these questions, much of this book comments on two premises that prevail in the literature on the role of culture in transnational management. One premise is that business companies are atomized units, which can be studied in isolation from their social environment. This hails from neo-classical economic theory, which is embedded in the political ideology of neo-liberalism and takes the free market as its starting point. It postulates that enterprises should compete with one another as equal participants in the market, without forming cartels or monopolies, and also with

the least possible support of the state. This premise has been criticized from the angle of institutional economics as well as political economy, but those disciplines are mainly interested in how corporations are linked to the state, and tend to take them as more or less closed units, the social functioning of which is often taken for granted. This book argues that a more radical approach is long overdue: business enterprises are organizations composed of people who cooperate and compete with one another in ever shifting combinations, have conflict among themselves, are connected to the outside world in many ways, and group and regroup from time to time to form new companies. Hence, a full understanding of companies cannot do without insights from the social sciences, which are typically interested in the interactions between actors and cultures from parts of different social worlds. This argument of ours coincides with a new interest of a growing, though still marginal, gathering of economists who have begun to go beyond the mathematical and numerical tradition of their field by moving their research methods and bringing their imagination closer to the social sciences in an attempt to embed economics in the study of wider non-economic and socio-cultural factors. This new interest in 'contextualizing economics' can be partly explained by the increasing collaboration across the social sciences and the humanities. However, the main impetus comes from the business world itself. The merger mania of the late 1990s produced numerous multinational giants, many of which failed due to socio-cultural reasons. Many international joint ventures and multinational corporations have discovered that the cultural identities of their employees and many socio-political and cultural factors are crucial for corporate success or failure. As it happens, a host of so-called 'soft factors' have moved closer to the center of attention in international management circles.

The other premise is that cultural conflict is a major problem for the management of transnational enterprises. Hofstede (1980) is the most influential purveyor of this view. He combines the investigation of cultures *within* multinational corporations with the idea that cultures are 'mental programming' that determine the behavior of people in a decisive manner. Hofstede's method is attractive because it provides yardsticks with which to measure cultural differences: the so-called dimensions of culture, namely, power distance, individualism (versus collectivism), masculinity (versus femininity) and risk avoidance. Over the past two decades an academic industry has emerged

which has used questionnaires to conduct quantitative surveys based on Hofstede's dimensions, and it has charted cultural differences within corporations all over the world. In this manner, much has been learned about the functioning of transnational companies, but it will be argued in this book that the fixing of cultural characteristics on survey populations has its limits.

This book encourages the reader to radically position companies in the midst of society, and also look at transnational companies as sites in which different societies are represented and link up with one another in competition as well as in cooperation. This means that in a fully developed transnational business culture, both sides are aware of how the other side estimates the importance of any joint venture from the point of view of its own society. The chapters by Peverelli and Pereira, respectively, illustrate this most clearly. Peverelli uses the case study of a Sino-Dutch joint venture to illustrate the concept of 'configurations', defined as frequent interactions involving perceptions, ideas and worldviews amongst a number of actors who cooperate on a specific topic. He argues that Chinese managers usually take part in various hierarchies within the Chinese administrative and market structures, which are equally relevant to their job and career perspectives, but may have conflicting purposes. The continual shifting from one role to another that is performed effortlessly by the Chinese is often lost on the Dutch managers, which can result in many instances of conflict. Another, rather well known, example of how Chinese society can be dramatically misunderstood is the case of Suzhou Industrial Park in the mid-1990s. Pereira argues that the failure of this project must be partly attributed to the mistaken claims by the Chinese and the Singaporean governments that their shared Chinese identity would facilitate cooperation. The project was meant to transfer Singaporean management techniques to Chinese companies, but this was undermined by the municipal administrators, who had been left out of the project but took it over within a few years. Pereira stresses the importance of seriously considering local knowledge and local interests while international joint ventures are making adaptations to their contextual circumstances.

An important part of China's interest in foreign companies is its goal of economic development, hence the emphasis on the theme of unequal economic development between China and the Western world in our book. The role of compradors, or native business brokers, in Douw's chapter illustrates this theme. Foreign firms employed

compradors during the nineteenth and early twentieth centuries to help them in their dealings with the Chinese state and with their counterparts in the Chinese market. Nationalist and Marxist political elites in China identified compradors increasingly with foreign economic interests in China, which were commonly perceived as an impediment to China's own development. The slow development of China's economy compared to the economies in the West and Japan required a stronger state than had long existed to manage the transfer of modern technology, capital and knowledge. Even though the activities of the compradors had learning or modelling effects as far as the training of indigenous workers was concerned, these were insufficient for the goals as defined by the new elites, and, after 1949, many of the comprador functions were taken over by the Communist state to speed up the modernization process. This unequal development and its effects on how the participants in Sino-foreign business ventures perceive each other linger on until today, and is part of China's transnational business culture.

This theme of unequal development continues in several other chapters. Munder and Krieg report that German managers in Sino-German joint ventures attribute 'traditional' work values to their Chinese colleagues, whereas Chinese managers consider their German counterparts as 'modern': an element of learning is implied here in the sense that *both* groups feel that the Chinese should learn from the Germans to modernize their work habits. The background to these perceptions is complex, but it seems justifiable that mutually exclusive and widely diverging perceptions at least partly reflect unequal positions of members of the management staff, and should certainly not be taken to reflect existing work values, let alone work behaviour. The theme of learning is even more strongly present in Schaedler's chapter, in which she argues that Anglo-Saxon style human resource management is to be introduced into Chinese management practice so that Chinese firms can survive in the global market, especially since China entered the WTO. The findings of Munder and Krieg and of Schaedler are confirmed by Wang, Chan and Luk's analysis of the literature on conflict in Sino-American joint ventures: perceived cultural differences are often invoked as sources of conflict in joint ventures, though the exercise of power by foreign managers is clearly a source of tension in the human resource management hierarchy.

Intra-Enterprise Differences: Complexities and Challenges

One of the most often cited factors associated with conflict in joint ventures thus pertains to the many alleged or perceived cultural differences between Chinese and non-Chinese workers. As pointed out in Chapter 2 by Wang, Chan and Luk, much of the literature on conflict in joint ventures explains disputes in terms of differences in cultures, values or preferred ways of handling conflict. Such a culturalist explanation focuses on things that supposedly set the Chinese managers apart form the non-Chinese, which often take the form of sharp and unbridgeable dichotomies: for example, Chinese particularism versus Western universalism. We have been told in the literature that Chinese managers stress the maintenance of the collective, 'the group before the self', interpersonal harmony, conformity to the existing social structure and power hierarchy, face saving, reciprocity and *guanxi* (Kirbride, Tang and Westwood 1991). We have also been told that the Chinese prefer the indirect, informal, non-assertive, non-aggressive, accommodating, compromising way, and avoid the direct, formal, assertive, confrontational, aggressive and legalistic way. Questions arise about how much of these assertions is about real differences, and, more importantly, how much it is a consequence of social construction, a kind of self-fulfilling prophecy in the sense that one behaves to ensure what one has formerly predicted will indeed come true. Is it culture or is it an attribution to culture on the part of both sides, thus committing what social psychologists call attribution error? Is it culture or is it the politics of culture? Is culture merely a front, a political ploy, a smoke screen, a pretext? What is behind the closed doors of culture? What is it beyond culture, after culture?

While some cultural differences are real, others are perceived, constructed in the eyes of the beholder, imagined, created artificially and exaggerated—as a result of encounters between two groups, consequently magnifying and hardening whatever initial differences they might have. The social psychologists call these prejudices, stereotypes or pictures in the head, the analysis of which has a long history in psychology, sociology and social psychology. Frederick Barth (1969; 1995) was among the first sociologists to point out that migrant communities tend to articulate values that they share with members of their host society more explicitly than their fellow countrymen back home. These claims of a shared culture or identity serve as the basis

for the migrants' social organization and set them off against social groups in the host society. In this way, claims about culture gain added weight because of their social and political relevance. Similarly, in the 1980s and 1990s, claims of cultural affinity by politicians and businessmen in China, Taiwan, Hong Kong and Singapore served to bind business communities and the local officialdom together in their joint efforts to cooperate for mutual benefit (Douw 1999a; 1999b). Likewise in this book, we are interested to know what makes managers of different national backgrounds in Sino-foreign joint ventures claim that they either differ in culture from one another or share a culture—and how these claims work to affect the processes of cooperation and conflict.

Many of these differences are in fact structural: for example, the wage differential between foreigners and Chinese, which seems to be the single most serious source of conflict in joint ventures, or differences in staff appraisal and evaluation both in terms of expectations and procedure. But these structural differences are often disguised as cultural differences due to seemingly unalterable values or ethos. Structural differences often find themselves being talked out (thus forming a discourse) in cultural, sometimes even racial, ethnic or national terms— culture is thus being racialized, ethnicized, politicized, nationalized, thus giving rise to intense emotions. We suspect that this propensity to politicize (and racialize and nationalize) structure is a rather prominent discourse in the everyday life of employees of joint ventures. In such a discourse, many things are traceable to culture or personality, a kind of 'cultural or psychological reductionism' which well-trained sociologists have long learned to avoid.

A couple of interesting findings reported in the chapter by Wang, Chan and Luk have got us thinking out of the culture trap. First, Chinese and American managers have mutual stereotypical prejudices towards each other (Walsh, Wang and Xin 1999; in this book, see the chapter by Munder and Krieg). Second, Americans working in Sino-American joint ventures experience more hostility in conflict with other Americans than in conflict with Chinese counterparts (Doucet and Jehn 1997). There may well be other forces at work besides culture.

Sharp dichotomies of cultural differences are often artefacts of the human mind, self-feeding and self-fulfilling when two groups or two persons insist they are different by manufacturing or imagining differences, thus making the two groups seem more different than

they otherwise would be. Internal cohesiveness and solidarity of the groups emerges as a result of inter-group contact. Cultural encounters may thus produce, harden and ossify differences. But the contrary is also possible: A and B encounter each other, and A changes in the direction of B, and B changes in the direction of A, sort of A and B altering each other, thus becoming more like each other than before. Coming out of such a process of cultural encounter, both A and B have been transformed, changed, hybridised (Chan 2003; 2005a; 2005b; 2005c; in this book, see Chapter 10 by Chan and Luk, and Chapter 11 by Chan, Luk and Wang). But such a kind of encounter, a very special kind indeed, presupposes a commitment: to first an appreciation of differences, but neither trying to eradicate them by insisting on assimilation, that is, making you to become like me, nor thinking that differences cannot be reduced at all; second, engagement in conflict, not fearing, not avoiding it, knowing that something good may come of it because conflict is a precondition of change, creativity, and innovation; and third, not allowing conflict to degenerate into a downward spiral of animosity and aggression, a lose-lose situation. All of these require a radical mental shift from a commonsensical fear of conflict, of conflict to be avoided and suppressed at all costs.

Conflict and its Functions in Enterprise Management

When it comes to conflict, we, laymen and specialists alike, have our blind spots. As a word, and as an aspect of social reality, conflict carries negative connotations. When it happens in relationships between people, or between organizations as in joint ventures, it is something to be anticipated and thus prevented, avoided, handled and managed, or even eliminated altogether. Again, the literature review by Wang, Chan and Luk has revealed a few rather interesting research findings that call this conventional wisdom into question, which perhaps might put us onto new paths of thinking about conflict and its management in joint ventures. First, a moderate (but not high, not low) level of (substantive) conflict is most positively associated with international joint venture performance (Hambrick et al. 2001). Second, conflict in joint ventures intent on developing new product processes has simultaneous positive and negative effects on performance (Xie, Song and Stringfellow 1998). Conflict is not to be

avoided because it could contribute to the venture's success, particularly while searching for creative, innovative products or new ways of doing things. Conflict itself is not the problem; rather, it is how it is looked upon, approached, and handled—the stress should be on adaptation and improvisation. Third, the role conflict and role ambiguity of CEOs increases satisfaction with performance in joint ventures (Gong et al. 2001). Fourth, when conflict resolution processes are properly managed, international joint ventures are often energized! The satisfactory resolution of conflict indeed has positive emotional consequences; it puts new energy into the system, possibly elevating the system to a higher order of well-being. The use of constructive conflict resolution techniques is positively associated with more successful partnership (Mohr and Spekman 1994). All of these findings noted in the literature review are rather counter-intuitive, if not paradoxical, which may bring us all the way to the sociological classics, especially Simmel's (1995) *Conflict and the Web of Group-Affiliations* and Coser's (1956) *The Functions of Social Conflict*. Indeed, one of the objectives of our book is to argue that conflict in joint ventures cannot be explained by cultural analysis alone: we must take account of power struggles and the construction of alliances across otherwise shifting cultural borders. Also, the linkages between joint ventures and the larger society and its politics must be studied to comprehend the inner workings of these business enterprises.

The chapter by Wang, Chan and Luk reports that Chinese managers not only can use the 'traditional Chinese way of handling conflict', but they can also learn and apply the Western way. Chinese values do not necessarily impede 'cooperative conflict'. Chinese managers are open to cooperative conflict, are interested in knowing about it, participate in it, use it and appreciate it. Sharp cultural dichotomies are mental, not empirical. They should be considered in relation to more widely ramified social contradictions, which change over time. There are structural contradictions between entrepreneurs and workers, officials and non-officials, and representatives of different age groups.

We suspect that the Westerners are eager to implement in China the corporate culture of their parent companies in terms of liberalism, procedural transparency, encouraging self-motivation and commitment to the company rather than the self, emphasis on creativity, role flexibility and interchangeability, problem solving, continuous self-development, meritocracy, anti-discrimination, and so on. Yet