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CHAPTER 8

THE IMPACT OF CULTURAL DIFFERENCES ON INTERNATIONALISING TO CHINA

INTRODUCTION
Understanding culture is an important issue for Australian companies in China, because of the pervasive impact that it has on business operations and their success. Culture can be defined as, “the collective programming of the mind which distinguishes the members of one human group from another ...”. Culture, in this sense, includes values and “systems of values” are a core element of culture (Hofstede, 1984, p. 21). Furthermore, culture comprises values and attitudes, social structure, religion, language and communication (Fisher, Hughes, Griffin, & Pustay, 2006). The vast gap between Australian and Chinese culture makes a major impact on doing business with China.

THE STUDY
This chapter is based on data collected from 40 Australian organisations relating to their experiences of internationalising to China. Four of the chapters of this book are based on this data. The methodology used to collect this data is presented in Chapter 4.

CULTURE AS ONE OF THE MOST IMPORTANT ELEMENTS
Cultural differences are a major issue for Australian companies doing business in China and what is alarming is the lack of preparation by Australian companies when entering the Chinese market. "The issue takes everybody by surprise", one interviewee commented.

China is a complex market, much more so than the Australian market, due to its history, and the impacts of its political, legal and economic systems (Chung, 2008). Coming from an Australian business perspective, the cultural differences between the two countries are vast. The Chinese culture has been referred to as an 'alien culture' (Chung & Smith, 2007) by Australian expatriates. As indicated in the sections below, many of its fundamental structures are very different and without an understanding of these differences, companies are destined to “stumble in the dark” (an Australian company), not knowing how business should be conducted. The following service company stated how they see culture as the "core" of doing business in China, because culture impacts on all business elements and fundamentals:

"Controlling factors? Probably you'll laugh at me, but I actually think the cultural issues are the biggest controlling factors of all. The cultural understandings of the way to do business are actually the most dominant of all because they are inherent

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within any business relationship. All of the other things like legal or accounting and all that sort of stuff, they are just imposed, and they are part of a process you follow.”

A government-funded agent believes that Australian companies do not pay enough attention to the culture factor at all:

“When you are dealing with China, I don’t think there is as much attention placed on those things (cultural issues) as there should be. In an Australian business context, you will find a lot of Australian trading companies and others who might think they understand a bit of the language, but they don’t really go out of their way to understand some of the deeper issues. I think there is a lot more that needs to be done about that.” (the director of an Australian consultancy firm)

The result of not addressing the cultural issues means some companies fail badly and some find it hard to make inroads into the market place. For example, one company which opened a pizza shop in Shanghai failed because they did not understand the cultural preferences of Chinese consumers or their taste preferences. In addition, they had also chosen the wrong location for the food hall owing to a lack of appropriate preparation. They relied on their successful Melbourne experience and knowledge when making assessments and judgements. This particular culturally-related location issue is difficult for Australians to understand because, in Australia, it would have been the right choice. The company ended up losing approximately A$2 million from 14 private investors in Victoria. The ‘food hall’ concept in Melbourne is an enclosed area where a concentration of varieties of food is put together. Australian consumers prefer the opportunity to choose from a selection of cuisines as well as being able to enjoy their food away from traffic and other shoppers. In Shanghai, however, the Western food hall concept was too new and too foreign. Chinese consumers preferred the novelty of eating Western food, which is a relatively expensive experience, to be seen by as many passers-by as possible. Therefore, when they went to the trouble and expense of enjoying their new experience, they didn’t want to be in an enclosed area away from the large crowd.

In contrast, a manufacturing company decided to engage a cross-cultural consultant in order to avoid a similar fate. This decision ensured that they were able to continue their pursuit of the Chinese market. They recognised the fact that without the assistance from the consultant, they would not have been able to continue because the cross-cultural communication issue was far too great to be ignored. With the guidance from the consultant, they are now pursuing a WOFE (Wholly Owned Foreign Enterprise) in Shanghai.

Cultural issues are often overlooked because we all tend to look at the world from our own perspective. The following comment points out how this happens and that, in fact, cultural differences are being considered to be ‘misunderstandings’.

“The role that cultural differences play is huge. I think it’s a ‘misunderstanding issue’. One of the problems, and I always keep trying to highlight some of these things when
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"We have these presentations, but we tend to look at things from our eyes, the way we think and the way the business is done there, without putting ourselves on the other side. And it's difficult to do that because it's different cultures."

The problems occur when companies take an ethnocentric view of their operations in China, that is, they tend to look at the world from the perspective of their own culture, and without fully understanding the way business is conducted in China. Ethnocentricity may blur people's view about the ways in which other people act and behave. The lack of empathy is not easily overcome without a true knowledge of the other culture, in this case, the Chinese culture.

At times, some cultural differences may seem to be a minor issue but, without being addressed, their impact may be far greater than anticipated, as the following example illustrates:

"Obviously, the advent of emails have [sic] made things easier, but then there is a cultural difference. Particularly Chinese officials sometimes prefer to fax. Emails aren't responded to as immediately as they are here."

LANGUAGE AND COMMUNICATION ISSUES
It is increasingly important for companies to have their own Chinese language capability, or to use a translator. The following quotation indicates that the participants had predominantly dealt with foreigners, even in their Chinese operations but, increasingly, found themselves dealing directly with Chinese and needed a Chinese language capability.

"When I worked in our Shanghai branch, all of our customers were foreigners, as in non-Chinese. All of our business was in foreign currency, so the need for us as a business was for our staff to be able to speak English – not for me to speak Chinese, because none of our customers were Chinese. But today, at the same bank, same branch, there is a stronger need to speak the local language, because we are starting to deal with more Chinese customers." (an executive of a financial institution)

The participants noted that English language competency amongst their Chinese customers and partners was also an issue. Even the use of translation services could be problematic as the example below indicates:

"A lot of the people we deal with can speak English but it's not their first language and, therefore, some things get lost in translation. And then there are groups of people where they don't speak English but they're the senior people we have to interact with. So we have to have everything translated to even engage and have a conversation about some very simple things. And you can think you are actually on the same page and you're not."
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Past research and literature suggests that companies should not spare the costs of engaging their own interpreters for a very good reason (Chung, 2008). The best advice for organisations is to pay careful attention to language and communication. Neglecting it or relying on what's being provided by the Chinese side can prove to be a false economy.

Relationship Building and Related Cultural Issues in Doing Business with China

Relationship building is one of the critical elements when doing business with the Chinese (Chung, 2008). This research has re-confirmed that this is still very much the case. An engineering firm commented on the relationship building exercises they needed to go through to win business with Chinese buyers:

“It can affect the way you do business. Although you’re selling the same product in the same industry, you might have to... doing the business with these people which is contingent on firstly establishing a rapport/relationship with them. No one walks in and says this is my product and walks out with a purchase order. And the cultural differences that exist in various parts of China can impact on how you go about establishing those relationships or the sorts of things you would do to build relationships, some things will work better in other areas than others.”

Others suggested that the culture had impacted on the acceptance of their Western food product: “You have to understand that this product is not part of the traditional Chinese cuisine and is not in their dietary habits. So it’s building up the consumption in the past 10 years”.

In general, other participants talked about issues around corruption, the different cultural expectations in business dealings, different standards that Chinese businesses used which related to quality and safety which they believed were influenced by culture. Others commented on the knowledge shortage among Chinese workers, which meant that companies needed to go to great lengths to find skilled workers who had the knowledge levels required to perform their jobs. To assist with cultural issues, companies commented that they used local Chinese staff, often with Western working or education experience. One respondent commented on the understanding that Australian executives now have of the cultural environment:

“I think there has been a dramatic change. I think there was virtually no understanding in the mid-1980s of cultural factors, and there is still insensitivity to some extent. But there has been a big improvement by Australian business executives. I think they understand that patience is necessary, the relationship is important, although you’ve mentioned obviously, mistakes are made ... and also I think there has been some compromise on the other side that they don’t expect so strongly that everything will be perfect. I can’t think of any deals which have been lost because of Australian executives in the last 5 years misreading the whole situation.”
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**EXPERT ASSISTANCE IS ESSENTIAL**

Given all the previously identified cultural factors, the Chinese market is now recognised as one of the hardest in the world to penetrate successfully. Research shows Australian companies are not doing nearly enough homework on a strategic level in terms of entry into the Chinese market. Since culture is being recognised as a fundamental element and is considered the most difficult factor when doing business with China, and especially recognising the difficulty Westerners have in understanding Chinese culture, expert assistance is essential. Specifically, bi-cultural experts (Chung, 2008), those who have a good understanding and experience of both sides of the business cultures, can save companies’ resources and increase their success rate dramatically. Failing to do so, may see Australians put their business in jeopardy in China.

The cognitive process of understanding the cultural differences is not easy and is often neglected because matters are seen as minor. Nevertheless, they can be crucial. One service provider commented:

"I just think our understanding of some of these nitty gritty detail things is a risk for us, in terms of assuming we can put in a logistics model and then finding out later you can’t use the labour or you can’t do the work."

Some companies, however, do recognise the importance of culture and indeed have advised others to pay a great deal of attention to this issue.

"(Cultural factor) very, very important topic ... I would say to anyone who is intending on doing business in China, to go and study the culture – at least the fundamental culture – before you go and attempt to do anything. Akin to moving into any ethnic or religious groups and not understanding what their values and cultures are, you would bring yourself undone very, very quickly. Ignorance is no excuse. You’re expected to understand a fair part of their culture before you deal with them."

Why do so many Australian companies do little or no homework prior to entry and then seek no expert assistance? It may be cultural. Australians are migrants who are good at ‘making do’ to survive the environment. "I think that’s ... Australians in the majority; individual companies like to do it themselves. Hate paying consultants ..." While the ‘can do attitude’ may be seen as a positive element of the Australian culture, at times, especially when dealing with the Chinese market, it becomes a major impediment. The ‘Gung-Ho’ attitude may cause irreparable damage or loss of opportunities when dealing with Chinese organisations. The rapid speed of development in China means that Chinese companies will not wait for Australians to learn or to correct their mistakes. There is no time for trial and error.

A consulting organisation which specialises in assisting Australian companies in dealing with China reconfirms what others have recognised and stresses again that it is impossible for Australian companies to ignore the cultural issues. In fact, they recommend that a key person in every organisation should be put in charge of dealing
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with China in order to coordinate and bring the two cultures together. This has not been practised by many companies but is recommended to bring them together as the key to alleviating cross-cultural differences.

"You are dealing with China, so you must follow Chinese culture. Otherwise, there is no way into China. So a very important point you should have one company and one person to coordinate and merge those cultures (Chinese and Australian) together."

It is further stressed that companies that do not manage to reduce the gap between the two cultures will continue to suffer losses.

"So very important for some Australian consulting company to do such a job (reduce the difference). Then I think [sic] will be reduce Australian company complain, reduce Australian company lost money [sic]."

It is emphasised, that in dealing with the Chinese and with Chinese organisations, overcoming cultural differences is essential. It is also recommended that companies adopt a more cost-effective approach by engaging consultants with expertise in dealing with the Chinese. If organisations are to adopt this recommendation, the selection of key personnel is essential. Research shows the only possible success model is the engagement of a bi-cultural person (Chung, 2008).

THE INFLUENCE OF POLITICAL FACTORS
The Chinese political structure is represented in all governmental levels and structures. Understanding of such fundamentals is essential to the first step of doing business in China. At the highest level, there is the State Council. Its role is to formulate central policies which are based on the Communist Party’s ideology and principles (State Council, 2006). The purpose of the State Council's policies is not to be descriptively detailed in regulating the next legislative level of government - which follows the following order: the provincial and the four municipal cities (Beijing, Shanghai, Guangzhou and Chongqing) governments, city, country and town/village government - it is to be directive in painting the big picture. At each level of government, policies and rules are set according to the circumstance and situation of each area under the general direction of the State Council (State Council, 2006). It is, therefore, always the policies of the local government that are the final operational rulings. This indeed means that the policies of different local governments may vary and, further, the local governments also have the autonomy to adjust the policies as necessary. This structure is difficult for Australian organisations to comprehend because of the fundamental difference between Australia’s structure and the Chinese structure.

Influence of Policies, Regulations, Assistance or Restrictions
Politics influence entry modes for any international business; for China, regulations and rules imposed by the Chinese Government have a stronger influence on the type of entry mode that a company might choose. The correlation between government regulations and policies and entry mode fluctuations influences the perceptions of political risks by
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organisations. The higher the perceived government influence on imposed regulations and rules, the higher the perceived political risks are. The higher the perceived risks, the more companies seek to reduce their resource commitments, and choose less risky entry modes. One particular aspect of Chinese political influence over business operations are the rapid changes in policies. Due to the fact, mentioned previously, that the central government policies are only guidelines rather than detailed regulations, the burden of setting detailed regulations and rules generally falls on the shoulders of local governments. Culturally, less precise rules and regulations are better tolerated by Chinese organisations and the Chinese (Chung, 2008). For Australian organisations, this environment is far more challenging. It also results in different regulations and rules between different local governments under the same general Act. These make it difficult for Australian organisations to comprehend the Chinese political environment, hence the perceived higher political risks. What Australian organisations need to know and understand is that the Communist Party-led Chinese government has been in power since 1949, over 60 years, and this political environment has not changed.

The study found that rules and regulations imposed by the Chinese Government do influence the choice of entry mode. For example:

“If not for all of the universities in China, and mainly because of all the regulatory restrictions, there is only so much that foreigners can do on their own. So in that regard, we are restricted to using representatives over there who have got licenses issued by the Chinese Government.”

It was perceived that political risk also influences entry modes. A university, which is under more government influence than some of the private sector organisations, stated:

“I suppose there is a lot of risk involved, particularly where you are so vulnerable to the decisions of the government”.

It was found that other dimensions of politics also had an impact on company operations. Companies commented on the transition and fluidity of the Chinese Government, which meant that they needed to constantly get up to date with changes, and be ready to respond to changes:

“The government in China, at the moment, is extremely fluid. Very fluid, because international pressure is demanding that they have a structure that can deal with foreign investment, and foreign demand.”

Similarly, a building and construction company stated that they wished they had had a greater understanding of the relationships that existed between politicians and cities in China before they went, so as “not to step on anyone's toes”, or cause problems because of a lack of understanding.
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CHINESE GOVERNMENT ASSISTANCE
Participants also talked about the assistance provided by the Chinese Government. One company suggested that the assistance of the Tianjin City Council made it easier for them to set up their venture. An agricultural association also commented on the assistance provided by the Chinese Government in assisting them with developing their market. It was considered important for the association to work with the Chinese Government in developing a market for their products by way of educational programs in schools, and other promotional programs:

"If they (Chinese) have a project, especially if it's in an area that needs developing, the local governments want to attract foreign businesses and things like that. You've got a good chance of getting good support from the government."

AUSTRALIAN GOVERNMENT ASSISTANCE
Assistance provided by the Australian Government was also seen as important. Participants commented on Austrade's (Australian government body) role in sending business their way, and having the Ambassador of the Australian Embassy to make introductions, which was perceived to be helpful by the organisations. One finance and insurance organisation commented on the City of Melbourne-Tianjin City relationship, and the fact that Melbourne's Mayor was Chinese which was helpful for them in identifying a partner, and assisted them with other issues relating to their business operation. On the other hand, a university talked about the confusing support that various Australian Government Departments provided to universities, and how they were confused about whom to go to when seeking marketing support in China.

"There is great confusion between what AEI does, what IDP does, what Austrade does, and to some extent these State Government business offices. They are all out there doing their own thing. We have been talking about this for ages. And the Australian Government just can't get its act together on this. It just can't."

This suggests that the Australian Government needs to better manage how it will offer support and services to the university sector and perhaps other sectors, rather than duplicating the services they provide.

A manufacturer in Victoria viewed all government overseas offices as “public servants with cushy jobs". They had entered the Chinese market with the hope of receiving assistance from the Australian Government agencies. They made their first two trips to China with Government delegations and sought assistance from the State Government office in Shanghai. However, they felt no real assistance was ever provided by either department. The project came to a halt until they engaged a consultant. The former Austrade Chief, Ralph Evans, has dismissed the State-run overseas offices as "collectively, a substantial waste of money" (Lyons & Fraser, 2008).
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GOVERNMENT INTERVENTION IN BUSINESS
A major theme that ran throughout a majority of the interviews was the role of the Chinese Government in business and their intervention in the marketplace. For instance, a publishing company, who licensed a Chinese state-owned publisher to publish their books, noted how the content of their books had to be approved by the Ministry of Propaganda for Publishing. Where their views were contrary to the Chinese Government's, they needed to be adjusted to be brought in line with the Ministry's perspective of the issue. A mining firm mentioned the intervention of the Government in pricing and negotiation of resources, which sometimes caused them to receive a bad deal in negotiations. An automotive company, who supplies components to car companies in China, commented on the high level of control and involvement the Government has in organisations in China. This is due to the fact that a large number of companies in China are still State-owned, while in Australia and the West this is not the case. Australian organisations are not familiar with the stated-owned system nor do they know how to deal with enterprises of this type.

“So much of China’s infrastructure and industry is state owned ... so for us, ABC Automobile, our main customer, is state owned – mainly by the Province, but also by the local government, but ultimately they are answerable through to the State. And in the hierarchy, in the Western world, the guy who is the CEO of General Motors is king. But when you go to Wu Hu, the guy who is the CEO and chairman of ABC Automobile is actually the number 2 or 3 or 4 in the hierarchy. The local mayor is actually his boss. Then the local Communist Party Chairman is actually his boss ... and the role of government is far greater there than it is here – certainly in the areas where we’ve looked to invest.”

THE IMPACT OF THE LEGAL SYSTEM
A legal system is directly relevant to all the aspects of an organisation. It impacts on how property rights are enforced, how procedures are reviewed and decisions are made. The Economic Analytical Unit (2005) argues that China’s legal system has been reported to be “puzzling”, and that members of the Communist Party will interfere with court decisions. The Organisation for Economic Cooperation and Development (OECD) (2003) reports that for China to have a transparent legal system they need to have one that is stable, internally consistent and in an understandable form for foreign investors.

UNDERSTANDING THE CHINESE LEGAL SYSTEM
The Chinese legal system is unique, just like its cultural environment, and is known as a bureaucratic legal system. To the outsiders (Chung, 2008) such as Western executives, the system appears to be confusing. It is essential for Australian companies to understand that the Chinese legal system is a bi-product of its political system, and it is also a bi-product of its culture. To those executives who are familiar with a common law system, the Chinese law is foreign and exotic (Callick, 2009). The fact it appears to be not transparent to Australians and Westerners does not confuse the Chinese. Party policy is
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the soul of the law which makes it nearly impossible for Australian executives to comprehend. For example, an automotive supplier company stated:

“If you want to work with your Western lawyers in China, that doesn’t work. If you want to work with a Shanghai lawyer setting up a business in the provinces, that sort of works, but rules are different wherever you go. So you have to find the balance of understanding the local rules and regulations and building the right relationships with the people that control those, versus the Western rule of law that we’re used to.”

A transport and logistics organisation sees the Chinese legal system as incomplete because they are comparing it with the Australian system with which they are familiar:

“... and on how the system operates, how the government and regulatory system operates. But there isn’t this well-defined set of laws like we have in Australia, where you can look up to the last dot what you’re allowed to do and what you can’t do.”

A finance and insurance company commented on the transitional nature of the Chinese legal system, where the rules are constantly changing, and also the lack of legal structures in place for western financial services, such as mortgages, personal/home mortgages to occur. The organisation also suggested that because there was a lack of a robust legal system that is similar to what is in Australia, it meant that their decision-making was limited. In terms of obtaining legal advice, a manufacturer suggested that it was good to have a bi-cultural Chinese lawyer who can explain the problem. He mentioned:

“The Chinese legal system is completely different to ours. They don’t run a common law system. If you’re a lawyer I guess you could spend a lot of time coming to terms with what it all means but I’m not ... I don’t have the time or the information to start burrowing into the Chinese legal system. What you really need is the same as it is here, you need to have a good lawyer that you can utilize but you’ve got to be able to have someone who can speak in his language and explain the problem, explain what you want to get out of it, and how you want to get out of it.”

A university commented that they thought the legal system in China was ambiguous, and believed that it was created like that to confuse foreign investors. They suggested that each law was open to interpretation, and any person could interpret it as they wanted, suggesting inequity and ambiguity in the system. They also suggested that they would not want to end up in a court of law, because they did not trust the outcomes that would come out of a court, and hence preferred to sort out their issues based on relationships. This simply reinforces our previous discussion about the system and how everything works. Most importantly, the Chinese who play important roles in the system, do not find it to be confusing. Therefore, for Australian companies to be successful in China, formulating strategies which will work within the system is essential and this may only be achieved with the assistance of bi-cultural personnel.
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An interesting point was made by a member of a legal company, who said that the regulations in China meant that they could never be seen as a Chinese law firm, that is, they are a foreign law firm, and are restricted on what they do. The rules meant that the company cannot sign off on Chinese law, and is not allowed to employ Chinese lawyers. This was seen as an impediment to their business, however, they could still provide advice. Whether this particular regulation will change in the future is hard to tell. They believe that if a Free Trade Agreement (FTA) between Australia and China is signed, a change to these rules will form part of it. However, under the current environment, the negotiation of an FTA is not progressing rapidly. According to the General Agreement on Trade in Services (GATS), the "national treatment" principle suggests that foreign service providers should be treated the same as domestic service providers (World Trade Organization, 2008). Since China is a member of the WTO, and a signatory to GATS, reforms in service sectors are subject to gradual changes. To date, China has been progressing according to the agreed pace. It should be noted that the respondent of the law firm thought that despite the FTA being in the 10th round of negotiations, he believed it would never get created or passed. This view may indeed have some grounds as the FTA has now progressed to the 12th round with very little hope of achieving any significant final arrangements to the satisfaction of the Australian organisations.

A representative from a finance and insurance organisation commented on how the law in China regulated how much ownership their organisation was allowed to have, namely 20%, hence impacting on their entry mode. Others suggested that the legal system in China was "a minefield", and "full of red tape and bureaucracy".

Unenforceability of Contracts and Distrust in Use of the Legal System

The Economic Analytical Unit (EAU) (2005) suggests that companies doing business in China who prefer not to use the court system use the arbitration system instead. Owing to a lack of understanding of the Chinese legal system, the IT firm quoted below has put off pursuing any type of legal issue through the court system:

"The laws in China are written very different to here ... The real difference is that any decision of any court, within any jurisdiction in China can be reinterpreted by the executive, the top standing committee, the very top level of the Communist Party. A court in Guangdong or somewhere can make a decision and then it can just be overturned by Beijing."

An exporter mentioned similar comments:

"That makes sense but the point is in China it's unenforceable, so you're wasting your time. At the end of the day if the relationship goes wrong, I question whether a legal document prepared by a Collins Street lawyer in Chinese, is going to rectify the problem. So it is not better to, shall we say, back-off the legal side and prepare a gentleman's response."
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On the other hand, a manufacturer of automotive components recounted a positive story about the Chinese legal system:

"But in saying that, you hear good news too. You hear the system now is catching up. A citizen now does have a say. Smaller companies do have a say. The government is definitely clamping down on corrupt businesses, and companies now have had their businesses shut down, and in some cases repossessed by the Government. I think they're making a genuine attempt to do that. But again, you hear stories the other way. But, generally speaking, I think they are trying to clean it up. But it is very, politically on a broad scale, I think they're making good progress."

PREFERENCE FOR RELIANCE ON RELATIONSHIPS, NOT CONTRACTS

As stated previously, relationships are one of the most important elements in doing business with China. A manufacturer said that they tried not to rely too much on written contracts, because of the inability to pursue legal matters through the court or arbitration system, but relied more on the relationships that underpinned those contracts. A business consultancy company also reflected on non-payment for services, and believed that if someone did not pay them for their work, they would not trust the legal system to pursue their case. So, to cover themselves, they ensured that the client paid half the fee up-front, which covered their costs, just in case the client didn’t pay in full.

A manufacturer suggested that for relatively minor things, such as purchase orders, they would use well-connected local lawyers to sort matters out, whereas for standard processes, where the company wanted to be consistent, they would use representatives of their Australian legal team in Shanghai to do the work. This often meant that legal processes needed to be understood, and then translated into Mandarin. The company stated that for merger and acquisition processes they would use their Australian legal team.

Another manufacturer stated that it was very difficult to do due diligence in China, because:

"(i) financial information is not available; (ii) if it is, it’s all in Chinese and probably in line with different laws that you are not familiar with; (iii) things change so quickly, whatever financial data you’re looking at is quite considerably out of date; and (iv) you can try and protect yourselves as much as possible by writing up lots and lots of detailed contracts, but ultimately you’ve got to have a relationship."

A company in the manufacturing/retail trade area commented on how they preferred not to use legal contracts with suppliers, but used an order-based system, and had supplier partnerships where relationships were developed, as they believed that using contracts would "scare the living daylights" out of their suppliers.
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USE OF THE LOCAL LEGAL SERVICE

China's legal system is very different from Australia's, therefore, the question is, "What system can Australian firms rely on?" The arbitration court used for Foreign-Chinese arbitration is called the China International Economic Trade Corporation (CIETC). CIETC is playing an increasingly important role in business disputes in China. Organisations are advised to look at possible legal representations first which raises the question of whether Chinese or Western lawyers are to be used.

A business consulting company suggested that it was important to have a local law firm in China to represent their interests, as they believed them to have a better knowledge of Chinese law than foreign companies did. A company in the transport and logistics area also commented on the need to use local lawyers, and how they had to find a local legal representative in the city they were locating in, to assist them with the due process of their joint venture set up, and for operational reasons. They also suggested that it was better to use a local lawyer, because they perceived that neither their Australian lawyers in Australia nor in China, could give them proper advice on legal matters in China.

Therefore, it is important to have legal representatives in China who know the local Chinese law, and will act in your company's interests. Also, given the findings of this study, we recommend that Australian companies place more trust in the Chinese legal system, and also use the arbitration courts to pursue cases, rather than dismissing the Chinese legal system altogether.
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This book presents the findings of three projects investigating the experiences of Australian companies operating in China. The findings are based on information collected from companies in the manufacturing industry and a range of other industries. The dimensions of international business in China addressed in this book include supply chain behaviours in China, skill issues and the main barriers to success in establishing Chinese operations. Over the course of eight chapters the book examines the supply, cultural, human resource, political and financial issues that relate to these dimensions of international business. This book also presents many recommendations and conclusions of interest to researchers and managers alike. A number of important themes emerge as the reader progresses through the chapters, such as the importance of accessing appropriate skills for successful Chinese/Western business operations. Successful internationalisation to China requires the company to possess both cultural and internationalisation skills and to deal with the limited availability of applied management and technology skills in China.

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