Business Culture in China: Lessons Learned from a U.S. Based Non-Profit

Trent Wachner
Creighton University

Subject: International Business
Article Type: Viewpoint

Abstract
As a member of a U.S.-based non-profit organization, we have been providing services in China for several years. As with many Sino-American relationships, it has had its share of successes and challenges integrating its business culture. With a goal of increasing cross-cultural managerial effectiveness and competencies for the organization, this paper will explore organizational cultural frameworks to understand and predict behaviors. Finally, I will evaluate three cases from the organization that created misunderstandings and conflicts that in hindsight may be explained through a variety of cultural frameworks.

Introduction
A U.S.-based non-profit organization focusing on global leadership, has worked in China for more than five years. The organization started with a sole focus of faith-based leadership; however, it has since expanded into training and consulting for the areas of general leadership, business and ethics. The transition occurred when the Chinese participants realized the extensive business experience of the staff and volunteers from the U.S. Consequently, the training and development attracted many businesses outside the original scope of the organization.

One such example in China has been the creation and execution of a leadership development program. The course is taught by American business leaders who typically travel to China to teach one of four modules on leadership. Chinese students that attend all four modules receive a certificate from an American university.

The leadership program differs from the organization’s other Chinese programs in several ways:

- It is directed towards business people and not exclusively faith based.
- Attendees pay to attend the program.
- The goal of the program is financial sustainability.

This paper identifies several elements that are important for this particular endeavor. First, I explore the concept of cross-cultural interaction from the organizational perspective with a particular focus on identifying potential biases and outlining steps to remain objective in business interactions. Next, I explore five dimensions of organizational culture with specific scores comparing and contrasting American and
Chinese business views. Finally, three examples are discussed where these cultural dynamics were exposed while the organization was conducting business in China.

Cross-Cultural Interaction

We are all exposed to similar problems, but the way individuals approach these problems are many times unique to their own culture. One such reference calls this “different minds, but common problems” (Hofstede, Hofstede, & Minkov, 2010). Others point to different perspectives to the same problem as the key cause of the majority of international business complications (Lee, 1966). This problem might be exacerbated by the fact that business has often treated these differences in thinking as technical problems that can be “solved” through technical solutions. What is forgotten is the thinking and feelings of the actors involved. As managers and leaders, we must be able to understand and adjust rapidly to different environments, people and situations.

Many times our own biases, opinions and experiences guide us in making decisions, which works well in a domestic market that we know, but gets in the way of prudent decisions in foreign markets. While it is important to understand the frameworks and subtleties of other cultures (which I will explain later) it is equally important to understand how our biases may get in the way of making prudent decisions with respect to other cultures that may be perfectly acceptable in our own. To accomplish this, I will look at the concepts of ethnocentrism and self-reference criterion.

Ethnocentrism and the Self-Reference Criterion

Ethnocentrism was originally described as a general construct reflecting “the view of things in which one’s own group is the center of everything, and all others are scaled and rated with reference to it” (Sumner, 1906, p. 13). Ethnocentrism could also be described as the practice of judging other cultures by the standards of your own culture.

Similarly, the self-reference criterion (SRC) describes the unconscious reference to one’s own cultural values when communicating with people from other cultures (Lee, 1966). Ethnocentrism tends to be associated with intentional behaviors and a belief of moral superiority with contempt for outsiders, while SRC tends to be unintentional and unconscious behaviors. Both practices can be counterproductive to collaborative international relationships, leading to cultural myopia or shortsightedness.

Case: Euro-Disney

A famous example of poor execution integrating cultures is the case of Euro-Disney. Disney is uniquely an American product and positioned as such in its worldwide amusement parks. Whether it is Tokyo, Hong Kong, Shanghai or Paris, customers expect an American-centric experience. Worldwide consumers embrace Disney’s leadership on family values, which is highlighted in its core principles of “Disney citizenship” such as “(to) champion the happiness and well-being of kids and families in our endeavors” and “inspire kids and families to make a lasting, positive change in the world.” Disney’s cultural myopia was showcased in its decision to prohibit alcohol in its Euro-Disney park. Following its principle of “family,” Disney correctly, by American cultural standards, defined alcohol consumption as inconsistent with a family atmosphere and therefore extended that policy to the new Euro-Disney.
However, Parisians were confused at first, then dismayed and even angry at Disney’s assumption that banning alcohol is consistent with family values. For the French, wine and alcohol are an integral part of family life and citizens felt insulted having an outsider tell them they were wrong. Luckily, Disney realized its decision was based on a SRC and changed its policy; possibly saving the park from failure.

In his *Harvard Business Review* article, James Lee (1966) creates an analytical approach to reducing the SRC influence. While the approach may seem simple and intuitive, the process is often overlooked by even the smartest businesses (see Disney example above). These four steps are designed to reduce any unintentional ethnocentrism that may be present.

1. Define the business problem in terms of the home country’s cultural traits (in my organization’s case, from an American perspective).
2. Next, define the business problem in terms of the host country’s cultural traits (in this case China), with no value judgments just observations.
3. Compare the two approaches to isolate the SRC influence.
4. Adapt a response without the SRC influence.

It is important to remember the very traits that make a leader successful in his or her home country (such as quickly sizing up a situation based on previous experience) may become a hindrance in foreign markets. Adaptation is the key.

Many international business travelers describe the ability to accept other cultures without violating their own values a pivotal moment in working overseas.

**Culture and Business Behavior**

Both anthropologist and sociologists have studied the concept of culture extensively. For this discussion, culture can be defined as a learned way of living in a society that is passed down from generations. The learning is acted out in social institutions including family, government, religion and educational systems. These institutions serve to reinforce cultural norms. Geert Hofstede, a practitioner and academic who has been instrumental in bridging societal and organizational cultures, uses a software analogy by describing culture as “mental programming of the mind” (Hofstede, 2001). He is suggesting that a person’s thinking, feeling and, many times, reactions to stimulus can be partially predicted by the programming of a particular culture.

**Organizational and National Culture**

Hofstede found a surprising parallel between an organization’s culture and the national culture. It turns out that problems faced in an organization are similar to problems faced in society. His research determined there were four general categories of societal anxiety, which include:

1. Social inequality, focused on relationships with authority
2. Individuals versus groups
3. Gender differences
4. Dealing with ambiguity and uncertainty
While these are similar problems facing organizations, the way these problems are handled in the organization are empirically related to the national culture. The organizational and national culture relationship has been studied extensively cumulating in the GLOBE project (Dorfman, Javidan, Hanges, Dastmalchian, & House, 2012; House, Hanges, Javidan, Dorfman, & Gupta, 2004). The GLOBE project is often considered the Manhattan Project of organizational culture due to its depth and extensiveness (170 researchers, 62 cultures, with data from 17,300 managers in 951 organizations). This and most other related research projects, however, trace their roots back to Hofstede’s original measures of cultural dimensions. While the GLOBE project added more precise and nuanced measures to Hofstede’s original work, his cultural dimensions are still considered the most parsimonious explanation of organizational culture. Therefore, the following section will refer to Hofstede’s cultural dimensions, outlining perspectives and scores comparing the U.S. to China.

**Power Distance**

Power distance describes how society handles inequities of power among its people. The Power Distance Score (PDI) is defined as “the extent to which the less powerful members of institutions and organizations within a country accept that power is distributed unequally” (p. 61). Societies with a high PDI accept a hierarchical structure where everyone has his or her place.

A low PDI suggests people strive for an equal distribution of power. A key concept is the justification of inequities, not the inequities themselves. A high PDI needs little justification - it is what it is; power is given and not challenged. A low PDI demands justification of the unequal distribution of power, but if it is earned it is accepted.
<table>
<thead>
<tr>
<th>Dimension</th>
<th>Defined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance (PDI)</td>
<td>This dimension measures the extent to which the less powerful members of institutions and organizations within a country accept that power is distributed unequally.</td>
</tr>
<tr>
<td>Individualism/Collectivism (IDV)</td>
<td>The high side of this dimension, called individualism, can be defined as a preference for a loosely knit societal framework in which individuals are expected to take care of themselves and their immediate families only. Its opposite, collectivism, represents a preference for a tightly knit societal framework in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty.</td>
</tr>
<tr>
<td>Masculinity versus Femininity (MAS)</td>
<td>The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented.</td>
</tr>
<tr>
<td>Uncertainty Avoidance (UAI)</td>
<td>The uncertainty avoidance dimension expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how a society deals with the fact that the future can never be known: should we try to control the future or just let it happen?</td>
</tr>
<tr>
<td>Long term Orientation (LTO)</td>
<td>The extent to which a society shows a pragmatic future-oriented perspective rather than a conventional historical short-term point of view. The fostering of virtues oriented towards future rewards- in particular perseverance and thrift.</td>
</tr>
</tbody>
</table>

TABLE 1- Hofstede’s Cultural Dimensions
Chart 1 – Power Distance

Chart 2 – Individualism

Chart 3 – Masculinity

Chart 4 – Uncertainty Avoidance

Chart 5 – Long Term Orientation
The PDI between the U.S. and China is substantial and this dimension weighs heavily in organizational decisions. The U.S. scores a 40, which is low, while China scores an 80, which is very high. Below are a few practical differences:

- **Skill versus Status**: Skills and ability are more important in the U.S., status or title within the organization is more important in China.

- **Importance of Hierarchy**: Hierarchies are less defined in the U.S. A superior-subordinate relationship is more consultative and the subordinate will be more likely to challenge his or her boss. In China, subordinates are less likely to challenge or even approach their boss, as will be shown later in this paper.

- **Formality of Communication**: In the U.S. communication is informal, direct and participative. China will more likely utilize formal communication that is less assertive and more accommodating.

**Individualism**

Individualism versus collectivism describes the extent to which society is integrated into groups. The Individualism Score (IND) refers to the “degree of interdependence a society maintains among its members.” Societies with a high IND describe an expectation of individuals to look after themselves and immediate families first. Societies with a low IND score would be considered collectivist. In collectivist societies, members are integrated into cohesive “in-groups.” Members of collectivist societies are expected to first look out for the greater good of their group, in exchange that others will do the same for them.

The United States represents a highly individualistic culture with a score of 91, compared to 20 for China, which represents a highly collectivist culture. Below are a few practical differences:

- **Hiring**: U.S. firms are more likely to hire and promote individuals based on merit, whereas Chinese employment decisions rely to a greater extent on family and social relationships.

- **Working with Strangers**: An American would be more likely to interact and do business with strangers, while the Chinese would be more likely to focus on people within their network (a formal term for this type of relationship is Guanxi. A business practice literally meaning “relationships”).

- **Loyalty**: The U.S. would place a higher commitment to organizational loyalty, whereas the Chinese would focus on personal relationships.

- **Mobility**: The U.S. has a higher degree of geographical mobility, which stems from the decreased emphasis on family ties. Alternatively, Chinese people are less mobile, and when mobile they may take their entire family with them.

**Masculinity / Femininity**

Masculinity versus femininity describes traditional gender roles and the extent it is acceptable to deviate from those roles. As you can imagine, the discussion of this topic (especially being titled “masculine”) is sensitive and has been discussed over the years with great care. In describing social differences, masculinity is referred to as competitive and achievement oriented, while femininity is the characteristic of being nurturing and caring for relationships. A high masculinity score (MAS score) refers to a society that is
competitive and results oriented. A low MAS score suggests a society places more emphasis on quality of life and less on achievement.

Both the U.S. and China score relatively high on the masculinity score (global scores range from Japan being a 95, to Sweden scoring a five). The implications:

- **Competitiveness**: Masculine traits such as assertiveness and competitiveness are of higher value to both societies.
- **Work/Life Balance**: Both societies place a higher emphasis on achievement and less emphasis on family.
- **Job Satisfaction**: Higher pay and promotion are more important than job satisfaction.
- **Gender Roles**: It is less acceptable for women to be competitive and conversely for men to be nurturing.

**Uncertainty Avoidance**

The dimension uncertainty avoidance (UAI) is related to the general anxiety a society feels in ambiguous and unstructured situations. Uncertainty avoidance begs the question - should we control the future just let it happen? Unstructured situations are novel and unknown. UAI is defined as the extent to which the members of a culture feel threatened by ambiguous or unknown situations (p. 191). Consequently, societies high in UAI create beliefs and institutions to avoid the discomfort created by these situations. These include strict laws and rules, adherence to time, and a focus on predictable risk in order to reduce uncertainty. Societies low in UAI plan less and are less likely to follow a strict set of rules. In a low UAI culture the interpretation of these rules will be more “flexible and open to interpretation.”

The U.S. (46) and China (30) both have relatively low UAI scores, meaning both societies are somewhat comfortable with ambiguous and unknown situations (Greece scores 112, while Singapore scores an eight). Both societies are more tolerant of outside views and opinions and are generally more reflective and philosophical. China is lower than the U.S. in the UAI score, and thus these characteristics will be magnified.

- **Business Approach**: Both societies are adaptable and entrepreneurial
- **Right or Wrong**: Rules and laws tend to be flexible and open to individual interpretation
- **Change of Scenery**: Individuals do not feel as tied to an organization for security and thus are more likely to change jobs.
- **Word for Word**: The U.S., with a relatively higher score, will be more likely to expect written and precise contracts outlining obligations of both parties. China, on the other hand, will rely more on personal relationships and the intent of the agreement over the actual language. An example of this will be shown later in the paper.

**Long-Term Orientation**

Long-term orientation (LTO) was not part of Hofstede’s original societal dimensions. LTO was added because the earlier dimensions did not adequately capture some of the
subtleties of Asian culture and takes into account eastern culture, specifically Confucian values. LTO is philosophical by nature and refers to, the extent to which a society shows a pragmatic future-oriented perspective rather than a conventional historical short-term point of view. High LTO shows a future-oriented perspective, while low LTO shows a short-term point of view. Philosophically, high LTO ascribes to a search for virtue, while low LTO places emphasis on the search for truth.

The United States scores 29 in this dimension and is a short-term oriented culture. Consequently, American businesses create an emphasis on short-term financial results. The American society also strives for an “absolute truth” to matters. Ethically, this could mean there is only a right and a wrong; no grey area. Individuals also strive for quick results in the workplace, which are easily labeled as successful or unsuccessful. Circumstances or context are generally not considered in a low LTO society, just the outcome and whether it was a success or failure. An example of this quick-results expectation by an American will be discussed later.

China is the highest ranked country on LTO, which is not surprising given they were Confucius’ home country. China places a strong emphasis on persistence and perseverance. Relationships are ordered by status and the order is observed. People are expected to be thrifty conscious and not show conspicuous consumption. Chinese culture recognizes the government as run by the people, where the U.S., being low LTO, recognizes an external influence of the government based on God or the law. Additionally:

- **Focus**: China focuses on the future, while the U.S. focuses on the past
- **Putting Others First**: In China the family is the prototype of all relationships. Overcoming individualism and doing what is best for the family (or collective) is most important.
- **Valued Traits**: Moderation, losing one’s temper and conspicuous consumption are very important traits in China.

**Lessons Learned in China**

In the course of developing the leadership program there was extensive interaction between the China staff, the U.S.-based trainers and managers, and the Chinese students. Next are three examples of interactions that could be described as ethnocentric, since each side assumed its way was right, and are consequently explained through one or more of the five cultural dimensions.

**Situation No. 1 - Power Distance**

**Context**: The CEO of the U.S.-based non-profit was in China with members of the firm’s Chinese and U.S. employees to meet with government officials. As the group approached the meeting room the CEO reached for the door and held it for his subordinates. One of the Chinese employees stopped him and subtly told him to enter the room first. “I’m not honoring you in front of others if I enter the room before you,” she whispered to him. The CEO was practicing a consultative, egalitarian and collaborative style of leadership with his employees. However, the Chinese officials would see him as a weak leader by letting others go through the door ahead of him.

Cultural Dimension: Power Distance
**Recommendation:** The CEO should always enter the room with his employees following after him. Further, the CEO should be in command of the decisions himself and only consult with his subordinates privately. An ideal boss in China is a well-meaning autocrat and one that is seen as a benevolent decision maker. In the U.S., an ideal boss would be seen as a resourceful democrat that relies on the support of his staff.

**Situation No. 2 - Uncertainty Avoidance**

**Context:** The firm was in the process of applying for a WFOE (Wholly Foreign-Owned Enterprise), which is a form of business organization for foreign firms in China. In the U.S. this might be comparable to a limited-liability corporation. The CEO and his staff, as well as their lawyers, were trying to clarify several points of information and looking for specific answers. Responses to questions by the firm such as, “can we do this or not?” were met with increasingly vague responses by the Chinese party. After several ambiguous phrases, frustration began to escalate. Finally, a neutral party that was originally from the U.S. but had worked in China for more than 20 years, made the following statement to the non-profit: “In China, behaviors fall under three categories: legal, illegal and not legal.” In other words, there is a significant grey area of Chinese law that is not codified and open to some interpretation.

**Cultural Dimension: Uncertainty Avoidance**

**Recommendation:** It’s important to realize that in China there is a greater tolerance for structural and procedural ambiguity in both business and the legal system. In the U.S. codified contracts and explicated specifications are expected, while in China people rely more heavily on personal relationships.

**Situation No. 3- Long Term Orientation**

**Context:** A senior government official, we’ll call Dr. X, invited the CEO of the U.S. firm to Beijing for a seven-day trip with the intention of introducing him to other influential Chinese people that could help with the firm’s mission. The CEO had the expectation that in order to begin a relationship all that was needed was an introduction, or as he saw it, an endorsement from Dr. X. After meeting with several prominent people over the course of five days, the CEO was preparing to return home since he believed his objectives for the trip had been completed. Dr. X informed him, however, that they were leaving for Shanghai the next day. When the CEO questioned the reasoning behind the unplanned extension of his visit, Dr. X replied that they had not yet finished making relationships. “There are five birds you need in the cage and right now we only have three. We must go after the other two.”

**Cultural Dimension: Long-Term Orientation**

**Recommendation:** Someone doing business in China quickly realizes that when it comes to relationships time stands still. Developing relationships is not something that can simply be “checked off” by completing a task or obtaining an introduction. Relationships need to be nurtured and fostered for long-term success. To some extent it’s about proving yourself to your Chinese counterpart and showing them you have the patience to do business in their culture.
Implications

There are countless articles, books and websites dedicated to teaching proper business etiquette in any given culture. However, it can be nearly impossible to plan for every conceivable situation. Instead, by understanding the culture of a society we can better predict behaviors. When we predict behaviors we can do what businesses are designed to do: manage.

Further, prediction can be inversely correlated with risk. Businesses do not like risk. Risk is caused by uncertainty. Increased business risk or uncertainty increase the rate of returns required for a corporate investment. In other words, higher risk must be offset by a higher potential reward (Miller, 1992). Another type of risk, political risk, refers to the stability of a sovereign government and, specifically, whether the government will expectantly change the rules of the game under which business operates (Busse & Hefeker, 2007). It is said for political risk that it is not so much whether a business likes or dislikes the rules, but whether the business can count on these rules to be consistently enforced. Thus a predictable set of less than desirable rules are better than an unpredictable set of desired rules. The same can be said for organizational culture. The goal of predicting individual behavior based on the situation and corresponding national culture effectively reduces the risk of a firm doing business abroad. That is the reason why understanding organizational culture and having the ability to predict behaviors is so important.

References


