

# **CHALLENGES IN SINO-WESTERN JOINT VENTURES**

AN APPROACH TO UNDERSTANDING AND DEALING  
WITH PROBLEMS

**Christopher Päßler**

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## **Abstract**

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Title of the work:

### **CHALLENGES IN SINO-WESTERN JOINT VENTURES**

- AN APPROACH TO UNDERSTANDING AND DEALING WITH PROBLEMS -

Despite high investments and low success rates for Joint Ventures of Western companies in China, there has been no systematic investigation into the problems which cause these alliances to not achieve their goals. For this reason, this work aims to provide academically researched insights while also addressing a business need.

The objective of this research was to develop a classification of Sino-Western JV problem attributes according to their similarities in a hierarchical cluster structure. The classification enabled the generation of a better understanding of typical problem areas based on problem attributes. Further analysis and interpretation of the identified problem areas and problem patterns allowed for the identification of resolution measures and the examination of their potential effectiveness.

This work classified a large number of multi-layered JV problems, varying widely in nature. For this purpose, problems derived from empirical case studies documented in the literature were arranged according to their subject-related similarities and a hierarchical structure consisting of problem attribute clusters was developed. The result is the establishment of a polythetic classification of approximately 700 Sino-Western Joint Venture problem attributes.

Through the process of problem statement selection, problem attribute extraction and their clustering, the attributes were grouped and condensed. This reduced the

initial complexity of the wide range of problems and enabled specific problem domains with related problem attribute clusters to be identified. The structuring of the problem elements showed how problem clusters are interrelated and helped to differentiate between complex and more easily resolved problems.

The overall classification of attributes illustrates the domains in which problems occur. Eight problem domains are revealed and refer to: differences in the Western and Chinese cultures, business practices, business operations, JV expectations, Chinese history, Chinese government involvement, disparities between Western expatriated managers and local Chinese managers, and opposing fundamental concepts. Further, communication and culture challenges were identified as recurring themes among the problem attribute clusters.

Based on an improved understanding of key problem areas, it is suggested to focus on strengthening communication capabilities and cultural awareness with the aim of increasing the success rate of Sino-Western Joint Ventures. It is recommended that Western companies concentrate on problem attribute clusters which are considered to be potentially solvable or reducible rather than those related to intrinsic differences in order to have the greatest effectiveness.

This work exemplifies the important role which classifications play in social sciences research and demonstrates the problem solving capability of classifications. Consequently, a classification approach which is suitable to make new kinds of investigations in social phenomena has been suggested. An improved understanding has been achieved which enabled these phenomena to be reviewed and addressed from new angles. Further, the work both confirmed existing research results related to Sino-Western JV problems and gathered new insights by analysing these problems in a consolidated, structured form through the development of a classification.

**Keywords:** Joint Venture, China, problems, classification, clustering, measures

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**Abbreviations**

FDI	Foreign Direct Investment
FTZ	Free Trade Zone
HQ	Headquarters
IDV	Individualism
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ISO	International Organization for Standardisation
IJV	International Joint Venture
JV	Joint Venture
LDC	Less Developed Country
LTO	Long-Term Orientation
MAS	Masculinity
M&A	Mergers and Acquisitions
MNC	Multinational Corporation
PDI	Power Distance Index
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
TCM	Traditional Chinese Medicine
UAI	Uncertainty Avoidance Index
WFOE	Wholly Foreign Owned Enterprise
WOS	Wholly Owned Subsidiary
WTO	World Trade Organisation

**CHAPTER I: Introduction**

*'If a problem cannot be solved, enlarge it.'*

Dwight D. Eisenhower

Increasing globalisation is a consequence of the need for many companies to expand internationally. Reasons for doing so may vary from entering developing markets, to attempting to lower production costs, or to serve global clients. In order to expand geographically, companies must make strategic decisions regarding the choice of entry mode. Pan and Tse (2000) stress the importance of differentiating between equity and non-equity entry modes. They point out that this distinction is necessary due to a much higher degree of risk, control, resource commitment and return for the entering company.

Pan and Tse (2000) stress the importance of differentiating between equity and non-equity entry modes. They point out that this distinction is necessary due to a much higher degree of risk, control, resource commitment and return for the entering company. In China, typical non-equity entry modes are export, licensing, alliances and contractual Joint Ventures, while equity entry modes are dominated by equity Joint Ventures (JV), Wholly Foreign-Owned Enterprises (WFOE) and to some extent Mergers and Acquisitions (M&A). This research addresses issues and problems related to the establishment and management of a new local company, namely a JV. In this work, the term "Joint Venture" refers to an equity JV. Kogut (1988, p. 320) highlights two distinctive characteristics of JVs: joint ownership and control as well as a mutual commitment of resources. Equity JVs are typically created through the pooling of assets from two or more established parties in order to form a new company. In comparison, in a WFOE, the market entrant alone establishes the entire company. This may require the establishment of a company's own production, marketing, sales and distribution.

A large extent of the Foreign Direct Investment (FDI) in China is in the form of equity JVs. However, numerous problems are encountered in the establishment and operation of a JV in China. The high dissolution rate, poor performance, high switching, agency, governance and opportunity costs of JVs in China show that more research in this area is necessary. Medium-sized companies in particular require third party resources for their entry into a foreign country, restricting their investment to JVs (Lu and Beamish, 2001).

This research focuses on the challenges, difficulties and problems Western companies are likely to encounter in developing countries in general and specifically when establishing and operating a JV in China. These alliances face a number of difficulties which often lead to problems which need to be resolved if the JV is to be successful, such as abuse of knowledge by Chinese JV partners (Kutschker, 1997). In dealing with these problems, measures are needed to resolve these difficulties without creating new problems.

One approach to resolving conflicts in JVs is through legalistic means. However, in China, business law, courts and jurisdiction are insufficient or inappropriate to deal with the many disputes which arise in JVs (Lin and Germain, 1998). As a result, these conflicts may be more effectively addressed with a problem-solving approach. Here a preventative approach may be favourable to address potential problems early and sufficiently in a heterogeneous construct such as a JV.

JV research predominantly concentrates on analysing particular aspects of isolated problems or particular areas. The reason for this could be that the vast number and different characteristics and perceptions of JV problems varies so much that they appear to not be easily analysed as a group. However, the consequence is that current research only provides limited insight for practitioners on general problem fields they and their companies will most likely encounter.

This work aims to contribute to bridge this gap by making a comprehensive analysis of Sino-Western JV problems. To achieve this, the general approach of this work will build predominantly on the key advantages of forming classifications in order to address the research objectives. Most of the theoretical fundament stems from social and comparative science, but some ideas and concepts are inspired by systems theory, computational science and institutional economics.

In order to improve the understanding of Sino-Western JVs, a thorough analysis of the nature and types of problems encountered must be developed. Since JV problems are numerous and complex, there is a strong need for a systematic classification of problems and their attributes in order to comprehensively analyse and understand key problems areas. The approach of this work will base on a collection of empirically derived Sino-Western JV problem attributes. For this purpose, JV case studies described in Blackman (2000) will serve as the primary source of problems. The case studies will have the function of interviews and the selected problems will build the data basis of the raw data.

A key advantage of producing classifications is to reduce the complexity of a large population of elements. In this work, this will be the wide range of a large number of multi-layered JV problems. In a broader sense, the classification of JV problem attributes shall make the original mass of ill-structured and complex JV problems well-structured and simpler. The intention is that the grouping and clustering of the problem attributes will allow the identification of possible relationships. The structuring principle will be a hierarchical ordering from general to increasingly specific problem attributes within each domain. The description of the cluster structure will serve as an explanation and elaboration of the classification to be developed.

Another advantage of classifications is that they build the foundation for further analysis and interpretation. The complexity reduction and hierarchical ordering allows for the identification of recurring themes and patterns of problem attributes.

In the case of this work, it will be tested whether the analysis and further interpretation of the developed classification allows the exploration and suggestion of effective resolution measures. Classifications can never be complete and consequently their value is to be measured by their adaptability and flexibility. Especially in the case of this work, the unpredictability of human interaction creates the need for an adaptable classification which is rather dynamic than static in nature. As a consequence, this work will apply a flexible clustering process in order to derive classes, which are also called problem attribute clusters in this work. The linkage of problem attributes will be carried out based on the overall greatest subject-related similarity among the elements. In applying this approach, similarities shall be identified among the JV problem attributes. Subsequently, the collection of problem attributes will be brought into a hierarchical cluster structure.

In essence, the approach of this work will consider, figuratively speaking, all JV problems as “a big problem” where its elements (the single problems) appear to be interwoven and complex. By breaking the big problem down into sub-problem classes, i.e. problem categories and classes of problem attributes, this shall enable that the big problem will become more structured and understandable. To that end, the classification approach will be similar to a general problem solving approach. A problem hierarchy with main and sub-problems (i.e. from an identified problem domain down to the isolated problem attribute clusters) will be created. In this way, the attributes will get condensed in order to reduce complexity by concentrating on specific problem attribute clusters. The result will be that the former undefined mass of selected JV problems (the “big problem”) will become more manageable as numerous elements will transform from being a formerly perceived difficult problem into a manageable task.

Through further analysis, the work will highlight and document potential key problem attribute domains that may enlighten Western companies to become aware of challenges they might encounter. The problems collected will concentrate predominantly on Western companies and the problems they will experience when



dealing with a Chinese business environment and its institutions. However, as the westerners are part of the socio-cultural business environment in China, addressing problems will also benefit the Chinese.

The problem attribute classification will set the basis for further exploration of how problem attribute clusters can potentially be resolved. It will test whether recommendations can be given in the form of proposed resolution measures. Various criteria will be suggested to ensure the suitability of these measures. Ideally, in implementing the measures, the management of Western companies could potentially avoid problems and master challenges they may encounter when investing in China. Western companies already operating in China may compare the key problem domains and suggested measures with their own situation in order to identify areas they may wish to address.

Ultimately, this research seeks to increase the likelihood of a JV's success. Through a comprehensive analysis, new insights might be gained which will help to find new solutions to typical problems. This work aims to improve the understanding of Sino-Western JV problem areas, to anticipate issues and to identify measures which shall address typical problem areas. Furthermore, this work will investigate the dynamic aspects of JVs which, according to Yan and Gray (1994, p. 1483), are underrepresented in the literature. Also, Parkhe (1993, p. 234) highlights that JV dynamics have received 'the least amount of systematic attention in the existing literature'. The knowledge contribution proposed by this work aims to be threefold: first, the formation and documentation of a classification of Sino-Western JV problem attributes; second, testing the classification results based on wider interpretation, the exploration of potential resolution measures; and third, the developed classification process itself to analyse JV problems.

## **Research Objective**

This work aims to improve the understanding of Sino-Western JV problems by establishing a classification of problem attributes. A comprehensive analysis shall help to understand problem areas facilitate the identification of measures in order to deal with these effectively.

JV problems can be found in various aspects of society, such as business, sociology, law and culture. As it is difficult to understand why Sino-Western JVs tend to be unsuccessful, the numerous and complex problems they encounter need to be systematically explored. In order to advance the understanding of these problems, this research aims to shed light on Sino-Western JV problem areas in which they commonly arise. For this exploration, a classification which enables a large number of problem attributes to be clustered is necessary. The problem attributes extracted from Sino-Western JV problem cases act as the basis for the research data. The original problems are collected from case studies described in Blackman (2000) serving the function of interviews. The classification approach enables the set of problem attributes to be structured and clustered so that key aspects may be identified, such as similarities and relationships among problem areas. In order to identify similarities among Sino-Western JV problem clusters, the process of classifying problem attributes is a core aspect of this work. Due to the rapidly evolving Chinese economy, the classification approach needs to be flexible in order to cater for potential future changes. The analysis of empirically identified problem cases and their respective problem attribute clusters will help to understand the relationship among problem attribute clusters with the aim of gaining new insights.

Based on further analysis and interpretation of the results, potential measures shall be suggested which help to resolve typical problem clusters and consequently help to improve the success of JVs. The resolution measures will be theoretically

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applied to the developed problem attribute clusters to test their effectiveness to understand where companies should focus their resources to resolve problems.

It is the objective of this research to develop an approach and actual classification to classify Sino-Western JV problem attributes by arranging them according to their similarities in a hierarchical cluster structure. In the further course of the work it shall be tested whether the envisioned improved understanding and wider interpretation of typical problem clusters and their attributes allows the suggestion of resolution measures and an estimation of their effectiveness.

The general intent of this work is to help the Western JV partner to better recognise and understand difficult situations as well as to anticipate issues in order to achieve its business objectives and increase the likelihood of the JV's success. Consequently, this work takes a pragmatic approach by adopting an advisory perspective. It identifies recurring problem patterns through the classification of similarities among Sino-Western JV problem attributes. Furthermore, the work explores whether the classification enables practical managerial solutions to be derived in order to address these problem patterns. The overall approach is less concerned with issues of knowledge relating to relevancy, ideology and the validity. The intent is to equip foreign companies with an idea of which problem areas can most effectively be addressed.

## Overview of the Research

In order to address the research objective, this work is comprised of the following chapters:

**Chapter II** provides a theoretical background of the research topic. First, the topic of the JV is introduced as a means to internationalise and as a type of foreign market entry mode. The importance of country-specific JV research with respect to China is presented, due to the numerous challenges Sino-Western alignments face. The chapter highlights that prevalent business research is not able to provide conclusive answers regarding how Western companies may best cope with the wide range of problems they expect to face in JVs in China.

**Chapter III** gives an overview of relevant literature. The chapter addresses what constitutes a problem and what constitutes a classification. Next, it explores how problems can be classified, how problems are interrelated and how they may be visualised and clustered. Then, the focus shifts to the topics of problem solving and solutions. Furthermore, the chapter draws upon different underlying concepts related to cultural differences, as these are an important source of misunderstandings which potentially lead to problems. Based on cultural differences, the chapter further outlines how problems can be perceived and solved in different ways. This highlights the importance of communication and cultural awareness, which will also play a significant role in the problem resolution approach of this work.

**Chapter IV** lays the theoretical framework of this work following the same structure of topics as the literature review. It explores different concepts, such as the classificatory approach and shows how they apply with respect to this work. The theoretical framework supports the overall conceptual understanding and helps to follow the approach of the methodology.

**Chapter V** deals with the research methodology. In this chapter the research design and research stages are explained, as well as criteria applied in order to categorise and cluster the data. A step-by-step overview of the process involved in developing a classification framework is given. After this, criteria for the development of potential resolution measures are formulated. It then outlines applied quality criteria in naturalistic inquiries for the overall research approach and outlines the role of the researcher and his involvement. The chapter concludes with a schematic illustration in the form of a workflow of the research stages of this work.

**Chapter VI** describes in detail the analysis process employed in this work to investigate JV problems Western companies face in China. In the first part of this chapter, a description of the cluster identification and the preliminary cluster results are given, followed by an explanation of how the clusters are structured. In the second part, a process description of splitting and merging the problem clusters through the identification and application of resolution measures is provided. This process is illustrated with the help of schematics.

**Chapter VII** serves as an explanation and elaboration of the classification table. It begins with an overview of the results of the clustering process and describes the problem attributes and the overall structure developed in the previous chapter. The domains and their associated clusters are presented as hierarchies to illustrate main problem areas as well as interrelations among the problem attributes. Each domain is documented through a general introduction and an explanation of the problem area, its clusters, sub-clusters and a preliminary summary of key challenges.

**Chapter VIII** compares problems from one of the eight domains identified with those identified through an interview with an independent expert. The identified problems are classified and brought into a problem attribute cluster structure, as has been done with the original problem set in Chapter VI. The structures developed based on the original problem set and the expert interview are compared and the similarities and differences are discussed. This comparison supports the validity of the categorisation approach employed in the research.

**Chapter IX** is based on the developed cluster structure and ventures into further analysis and interpretation of the results. It tests how the classified problem attributes can play a role in the identification of resolution measures and how one can estimate their potential effectiveness. The beginning of this chapter outlines the approach of the further analysis. This is followed by a suggestion of resolution measures based on identified common problem themes in line with the predefined resolution criteria. Thereafter, the effectiveness of the suggested resolution measures is evaluated.

**Chapter X** this Chapter starts with a discussion of the theoretical model and its results in the context of the reviewed literature. What follows is an examination into the limitations of the applied approach and the findings. Next, the applicability of the general research approach and the key findings of this work are reviewed. This section is concluded by a summary of the findings this work uncovered.

**Chapter XI** recapitulates the key features of the research approach and achievements of the work. Lastly, an outlook for future research is provided.

## **Scope and Limitations**

Potentially, Western companies may have to deal with numerous problems and challenges when establishing and operating a JV in China. The problems encountered are certain to depend on many factors, such as the industry sector, company size and company-specific aspects. A database of approximately 700 problem attributes stemming from empirical case studies in the literature provides the basis for the analysis in this work. As the total number of JV problems is unknown, the explanatory power of the problems used for the analysis is also uncertain.

The nature of JV problems in China is evolving over time - the problems of today may be different from the problems of the future. For example, in the 1980's the issue of the availability of foreign exchange was a central and frequently discussed topic (Mathu and Jai-Sheng, 1987), while issues related to Intellectual Property Rights (IPR), an important current issue addressed in this work, were not yet in focus (Luo, 2000). Therefore, the specific problems identified in the literature represent a certain period in time, however, the approach may be applied without limitation.

The problem attributes selected for this research represent a wide range of empirical Sino-Western JV problem cases in order to provide a comprehensive and realistic picture. It is not the intent of the work to differentiate problems according to their potential importance or on their quality. The original problems do differ in various aspects, which are not investigated, as this research focuses on the respective problem attributes. Consequently, the problems' original wider setting and circumstances described in the case studies are not investigated.

This work builds on case study reports from westerners and is thus written from a Western perspective and based on interpretations from a Western researcher. As a result, Western practitioners may relate to the problems more easily, while Chinese practitioners may not due to their different perspective. A different picture could emerge if problems from both the Western and Chinese perspectives were included in the study. Thus, the cultural aspect of the topic is an inherent limitation in the work.

In the context of this work, the term “culture” is applied rather broadly. It is implied that the Western and the Chinese cultures are assumed to be homogenous and collective. However, the Chinese culture is created through a series of ideologies (‘Weltanschauung’) and philosophies. Furthermore, in China alone there are 55 officially recognised minorities, all having their own norms and traditions.

In the course of the clustering process, the attributes of the original problems from case studies found in the literature are classified and structured into problem domains and hierarchies. These steps, as well as the generation of proposed measures to reduce or help resolve problems, indispensably involve the subjective judgement of the researcher. Further, the recommendations stem from an interpretation of how the consolidated problem data may be resolved.

In order to cluster the large number of problems, mind map software is used for administration and visualisation. The precondition for clustering (and using mind maps) is that relationships exist among the problem attributes in order to enable a classification. In the case of this research, subject-related similarities are believed to exist between the problem attributes which makes clustering possible.



**CHAPTER II: Joint Ventures and their Challenges**

*‘Nothing ventured, nothing gained. And venture belongs to the adventurous.’*

Navjot Singh Sidhu

This chapter lays the background for the research topic and reviews literature regarding JVs and particularly JVs in China. JVs represent many opportunities, but also present risks and problems. This chapter attempts to show how multi-faceted these problems may be. Advantages and disadvantages of JVs are introduced and their challenges and problems are particularly concentrated upon. The literature review highlights the need for more country specific JV research in general and regarding Chinese JVs in particular.

JVs are a complex construct which bring together a number of parties, either directly or indirectly involved. One section outlines the different views and objectives of these parties. To highlight the JV challenges in a more systematic way, institutional models are selected to illustrate the different dimensions and their associated JV problems. The application of Oliver Williamson’s models in this context clearly shows that Western companies encounter challenges and problems on every institutional level and in many forms.

**Internationalisation and Joint Ventures**

According to Bradley (1995), there are two major dimensions in a firm’s internationalisation process. First, the company has to select a market and second, it must choose a proper entry mode. The choice of a foreign market entry mode is a core component in the internationalisation process and one of the most critical strategic decisions (Wind and Perlmutter, 1977). Root (1987) defines the entry

mode as an institutional arrangement for organising and conducting international business transactions, such as contractual transfers, JVs or wholly owned operations.

JVs represent an investment form which facilitates alternative access to key resources, such as information and capital. Risks are shared among several partners, which decreases transaction costs and increases market power by complementing the strengths of two or more companies (Lu and Beamish, 2001; Gulati, Nohria and Zaheer, 2000; Kogut, 1988). Therefore, JVs play an important role in the internalisation strategy of companies entering foreign markets (Hennart, 1988, p. 361; Hennart, 1991, p. 485). Kogut (1988, p. 320) highlights two distinctive characteristics of JVs: joint ownership and control, as well as a mutual commitment of resources. Equity JVs are typically created through the pooling of assets from two or more established parties in order to form a new company.

JVs therefore allow a foreign establishment of subsidiaries despite a lack of resources including financing, management and information (Kirby and Kaiser 2005; Acs and Preston, 1997; Dunning, 1993). Killing (1983) groups the reasons why companies form a JV into three categories: legal and government requirements, skills of a partner being needed and the requirement of a partner's tangible or intangible assets. As such, JVs offer an interesting alternative to overcome investment risks (Lu and Beamish, 2001) as well as enhancing the likelihood of successful internationalisation (Zacharakis, 1997; Jarillo, 1989).

JVs offer advantages over a single market entry, but are also accompanied by specific problems (Hamel, 1991; Kogut, 1989) caused by the restricted flexibility and increased complexity due to the cooperation of at least two partners (Inkpen and Beamish, 1997). Complexity also arises through different cultural backgrounds, lack of trust, dispute over the distribution of control (Lu and Beamish, 2001).

Another obstacle is that, apart from the national culture, the company culture can differ strongly among JV partners, depending on the economic, social and political background of the companies. The result is that there is also a relationship between managerial behaviour and the country of origin of the managers (Dacin, Ventresca and Beal, 1999; Pan, 1996; Tallman and Shenkar, 1994; Parkhe, 1991; Kogut and Singh, 1988). In this context, Berrell, Wrathall and Wright (2001) point out that the Chinese approach to managerial work differs fundamentally with Western approaches. They argue that Chinese managers have unique communication styles, methods of conflict resolution and management practices. On account of these differences and complexities, it is not surprising that the life cycle of JVs is shorter due to higher dissolution rates (Hennart, Kim and Zeng, 1998, p. 382). Consequently, some international companies also try to convert their JVs into wholly owned subsidiaries (Puck, Holtbrügge and Mohr, 2009).

### **Joint Ventures in Developing Countries**

Harrigan (1988, p. 156) lists three main factors why JVs are becoming more attractive on a global scale: first, shorter product life cycles, second, realisation of cost advantages and third, increasing domestic and global competition.

However, due to a higher risk exposure and level of uncertainty, JVs are even more relevant and popular as a market entry form in less developed countries (Beamish and Banks, 1987, p. 1). In this respect Beamish (1985, pp. 13-19) highlights that particularly in less developed countries (LDCs), the majority of JVs are formed either to comply with government requirements, to circumvent non-tariff barriers or to actively gain advantage through government contacts or incentives. Furthermore, he points out that the stability of JVs in LDCs is lower than in developed countries.

Major differences in the JV characteristics between developed countries and LDCs are shown in the table below (Beamish, 1985, p. 17). The analysis highlights the involvement and role of government in LDCs, as government interaction in business affairs is much more common. Also, the share of ownership of multinational corporations (MNCs) is lower in LDCs and so is the satisfaction with the JV's performance.

<b>Summary of Differences in Joint Venture Characteristics</b>		
	<b>Developed country</b>	<b>Developing country</b>
Major incentive to Create venture	Skill required (64%)	Government persuasion (57%)
Instability rate	30%	45%
MNE managerial assessment of dissatisfaction with:		
- performance	61%	37%
- frequency of association with Government partners	Low	Moderate
Most common level of ownership for MNE	Equal	Minority
Ownership-control relationship	Direct dominant control with majority ownership. Shared control with equal ownership.	Difficult to discern because most MNEs have a minority ownership position.
Control-performance relationship in:		
- successful JVs	Dominant control	Shared control
- number of autonomously managed ventures	Small (16%)	Negligible (0%)

**Table 1 Differences in JV Characteristics**

Once a company has decided on a JV as its entry mode, the first and most crucial step is finding the right partner (Hitt *et al.*, 2000, p. 449; Hitt *et al.*, 1995, p. 14). One of the major hurdles in a JV is that the objectives in forming an alliance are different for each partner. Therefore, a number of researchers (Hitt *et al.*, 2000; Saxton, 1997; Lane and Beamish, 1990) point out that, in general, the mechanisms in developed countries cannot be applied to less developed countries.

There are numerous studies (De Castro and Uhlenbruck, 1997; Lecraw, 1984) which show that research needs to not only look into less developed countries as a homogenous group, but also to investigate specific industries and countries (Peng and Heath, 1996; Lee and Beamish, 1995; Kogut, 1988). Thus, there is a need for country specific research, such as China.

### **Joint Ventures in China**

With Deng Xiaoping's ascension to power in 1978 under the slogan 'Poverty is not Socialism' and the opening of China, reforms were put into place which allowed the creation of a type of market economy along with the establishment of capitalist-like enterprises. From then onwards, China became a world magnet for the influx of foreign direct investment (FDI). Over the past fifteen years, China has been very successful in attracting FDI. According to the World Bank, by 2003 China had already overtaken the United States as the top receiver of FDI. Out of a total of approximately US\$103 billion FDI in Asia, US\$57 billion were invested in China.

The International Monetary Fund (IMF) estimates that approximately 60% of the FDI inflow to China comes from other parts of Asia, such as Hong Kong, Japan, Korea, Taiwan and Singapore. The other 40% come mainly from the West, especially the U.S., followed by European nations. This shows the growing economic and political importance of China in its transformation from a developing country to a global leader.

During the 1980's, most industries could only enter China through JVs. At this time, foreign companies were only allowed to hold a minority share, while in the 1990's, various equity ratios were possible in most industry sectors. Today, the picture has changed and now foreign companies are also allowed to establish WFOEs as well as other legal forms of business. To further encourage Western companies to enter JVs in China with local companies, the government began to offer a number of

incentives. Shan and Hamilton (1991) confirm that such country-specific advantages motivate companies to enter cooperative relationships. In recent years, Chinese companies have also become heavily internationalised. According to Cui and Jiang (2009), China's primary objectives in internationalising are to facilitate cost advantage-based regional expansion and strengthen China's global competitiveness. The authors suggest that the entry mode preferred by the Chinese companies depends on various aspects (2009, p. 442):

Chinese firms are likely to choose the WOS<sup>1</sup> entry mode if they enter a competition intensive host industry, seek complementary assets overseas, and pursue a global strategic motivation in FDI. A joint venture entry mode is likely to be chosen when Chinese firms enter high growth foreign markets to establish first or early-mover advantages.

The development of JVs in China can be exemplified by the pharmaceutical industry. The first international JV to produce drugs in China was established in 1980. According to the People's Daily, between 1980 and 2000, a total of 1790 JVs with a total contractual foreign investment of more than US \$200 million had already been founded. Sino-foreign JVs and imported drugs contribute to approximately one third of the entire value of the Chinese pharmaceutical market. IMS Health estimated that as early as 2000, 40% of all Chinese pharmaceutical enterprises had already utilised overseas capital and of the top 25 pharmaceutical global players, 20 had established a presence in China. Furthermore, of the 50 most popular drug brands in China, 40 were produced by Sino-foreign JVs.

JVs in China, however, have a questionable track record with regard to their success and high investment risks. Beamish (1993, pp. 30-37) points out that in China only half of the publicly announced JVs have actually been put into place. He claims the reasons for this are the Chinese bureaucracy, the availability of foreign exchange, different people signing the agreement whilst others implement it

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<sup>1</sup>WOS = Wholly Owned Subsidiary.

and the small size of many JVs. Other problems stem from the fact that business law is almost non-existent in China, unlike Western business endeavours which are regulated by contracts and a benevolent court of law. As a consequence, the Western assumption is that the JV partners are bound to the terms stipulated in the contract (Laffont and Martimort, 2002, p. 30).

The Western partner usually contributes the capital and know-how, while the Chinese partner provides the workforce, land and buildings. In this respect, Blodgett (1991) highlights the relationship between expertise and asset contribution by the Western partner and the equity ratio of the JV. Once the contract is closed and capital, expertise and intellectual property are injected, the Western partner faces non-recoverable sunk costs (White and Liu, 2002, p. 14; Zhang and Rajagopalan, 2002, p. 472) and can enter into a hostage situation (Nooteboom, 2004, p. 118). Furubotn and Richter (2000, p. 486) refer to the term “hold-up risk” to describe the situation where one party is locked into a contractual relationship because of transaction-specific investments. Despite these risks faced by the Western partner, the JV is still a preferred form of doing business in today’s China.

In the recent past, most China specific studies were conducted in light of the country’s growing economic importance. This has resulted in a dramatic increase in the number of studies over the past 30 years. In 1996, Ying had already listed more than 40 research studies on JVs in China in her review and this trend continues up to this day (e.g. Selmer, 2005; Lieberthal and Lieberthal, 2003; Li, Lam and Qian; 2001; Clegg, Kamall and Leung, 1996).

To summarise, over the last decades the Sino-Western JV has shifted in most industries from an obligatory alliance to a generally voluntary investment form, representing approximately half of all newly established companies in China (Sun, 1999). Thus, the equity JV is an important market entry mode for companies to internationalise and enter China. However, it is hard to estimate the influence of

globalisation forces on this entry mode. Today, certain industries are forced to be present in all key global markets, of which China is one. Consequently, their suppliers are also forced to follow their global customers. Concurrently, Chinese companies are forced to venture outside of China if they wish to become a global player. As a result, globalisation is occurring in terms of market presence. It should be noted, however, that the relevance of globalisation forces depends on the type of business. For example, the electronics industry is more affected by globalisation than an industry in which local factors play a greater or equally important role, such as supply chain and distribution.

Globalisation also implies that cultural differences will diminish and business practices will become more homogenous. This may catalyse the internationalisation of business, although, as mentioned above, JVs are clearly an important entry mode for foreign markets. One may argue that increasing globalisation might make JVs a thing of the past. A harmonisation of cultures and business practices may enable more companies to successfully internationalise without the need for a local partner. This is an important aspect to address with respect to this work, as cultural differences represent a significant source of Sino-Western JV problems. If globalisation forces outweigh cultural differences and cause them to diminish, it is possible that JV problems will also subside. However, this is not in line with Trommsdorff and Kornadt (2007, p. XII), who argue that migration and globalisation processes occur very differently in different societies, depending on the characteristics of the respective cultures. The global village concept and how it relates to this work are discussed in greater detail in Chapter IV, Cultural Aspects.

The following section outlines different views and objectives of the JV parties which are influenced by their respective socio-economic environment. These different objectives are found to be a source of problems later on in the alliance.



### **Joint Venture Parties and their Objectives**

An international JV is formed through the engagement of at least two companies to establish a third company. Formally, the JV is a legally independent company with the aims of fulfilling the JV's scope and making a profit. While this process initially seems straightforward, it is highly complex as there are many parties involved before, during and after the JV establishment.

The Chinese JV partner is most often directly influenced and guided by its parent company, typically a State Owned Enterprise (SOE). Hence, the Chinese JV partner is directly or indirectly the Chinese government. However, this JV partner is not simply "the government", but is represented through a number of different parties such as various ministries (e.g. ministries representing the industries), the central government, the provincial government or the local government. These government bodies act according to a number of different objectives and directives. For example, the current five-year plan of the central government provides a framework highlighting which industries should be developed in which regions of China. In contrast, Free Trade Zones (FTZ) headed by government bodies receive their own sales directives in terms of industry sectors and business volumes they should attract.

The Western mother company is also represented by a number of direct or indirect parties involved in the JV forming process. Initially, the owners or company shareholders play a central role in the decision-making process. However, this party typically does not speak with a single voice, as there may be members in favour or against a foreign endeavour. Typically, a cross-functionally staffed working group is assigned to evaluate the options and to lead the negotiations. Also, the concerns of the stakeholders such as customers, employees, unions, government bodies, banks and suppliers need to be addressed.

Finally, there is the JV management. This is staffed by Chinese managers from either SOEs or private industry and expatriates of the Western company. These managers typically come from managing functions in their respective mother organisations. Following JV establishment, these managers are generally employed by the JV and no longer by their mother company. Due to this constellation, a number of different interests arise. For example, from a company standpoint, a JV is an important means with which to transfer knowledge to and from the overseas headquarters. The Chinese managers are likely to receive certain objectives from their parent organisations, such as learning Western management techniques and advanced technologies (Tsang, 2008). With respect to the Western counterpart, Tsang (2002, p. 847) points out that the overseeing effort required in controlling the JV as well as the management involvement of expatriates play major roles in the amount of knowledge that is absorbed by the mother company. He specifies that companies with prior experience in China mainly learn from overseeing operations, while companies newly entering China predominantly learn through management involvement. However, Western managers will be operationally focussed on other issues, such as technology transfer, profit making and learning about the Chinese business environment and markets. As expatriates are typically posted for a few years, they are joined by their spouses and families, who may also influence the decisions made by the expatriate managers.

In general, the main objectives in forming a JV for all parties concerned are to overcome limited resources, comply with legal requirements and to reduce the investment risk. However, as previously described, the Chinese and Western sides of a JV approach the partnership from very different perspectives. In fact, different objectives exist from the onset of the JV formation due to different motivations underlying its establishment. China has become a driver for many Western companies to internationalise further and to be present in a strategic developing market. The objectives for developed nations to enter China include: to acquire local skills and tactic knowledge, to lower production costs, to serve global clients

and to maximise the value of the firm. From the Chinese perspective, JVs are typically formed to gain access to intellectual assets, technology, capital and management skills from the West (Tsang, 2002, p. 837). Even the aspect of which market will be served may be unclear. For example, while the key objective for U.S. companies entering a JV is to serve the Chinese domestic market, their Chinese partner may be more interested in gaining better access to foreign markets. This shows that the objectives in establishing and operating a JV are very different for the two parties, which can often lead to problems.

Daniels, Krug and Nigh (1985, pp. 49-52) stress the different objectives of the JV partners as a source of problems later on. Lin and Germain (1998) investigated Sino-US JVs and recognised a positive correlation between increasing partner diversity and misunderstandings, leading to poor performance in international JVs. In this context, Pan (1997) highlights that JVs in China are exposed to high contextual and transactional risks.

Within the life cycle of a JV, the Chinese and Western parties should ideally learn how to deal with problems and acquire different resolution methods. In general, the aspect of learning through the new business partnership is a very important objective in forming a JV. Stables (2003) stresses the process of identity development through learning. Therefore, if companies learn through problem resolution, they will most likely also undergo a positive development in their own corporate identity.

However, the constellation of different objectives in the formation of a JV makes an incentive alignment between the different partners very difficult. As a consequence, Koot (1988) highlights the importance of the relationship between a proper partner selection and the success of the alliance. In line with these findings, Hitt *et al.* (2000) discuss characteristic problems in the selection of proper partners in emerging markets such as China. They argue that partner selection is difficult, as

companies from emerging economies are often characterised by poorly developed management capabilities and decision-making processes.

An additional consideration in the case of China is the fundamental difference in the decision-making process between China and the West. Ahmed and Li (1996, p. 280) describe the Western decision-making process as linear, where senior executives make an analysis and follow a clear line of argumentation to come to a decision. In contrast, the Chinese tend to follow a so-called spiral decision-making process. This process is more complex, time consuming and involves a number of different parties. Often professional negotiations in China will combine the interests of senior executives, government officials and other stakeholders. As preliminary results and statements need to be repeatedly taken into consideration by different parties, the decision-making process is repeated through numerous circles until the final decision is reached. However, due to increasing globalisation, it is expected that decision-making process may become slowly aligned between Chinese and the West.

From the beginning of the opening of China until today, JVs are one of the main investment instruments to enable foreign companies to enter this previously unchartered country. Yet, it is not easy to identify all players involved in a JV, nor their objectives, their motivations and reasons underlying their decisions. Different objectives and decision-making processes among the JV parties are a clear source of misunderstandings and problems. However, undergoing problem solving processes may also allow the JV organisation to mature and form its own identity.

However, different objectives of a JV are only one source of potential problems. In the following, institutional models are selected to systematically illustrate the different dimensions and their associated JV problems. In this case, a number of examples from the pharmaceutical industry are provided.

### **Institutional Challenges in Joint Ventures**

As indicated earlier, there are numerous studies on specific challenges in corporate alliances and in Sino-Western JVs in particular. As the challenges can be found in a diverse range of areas, such as business, sociology, law and culture, it is difficult to provide a comprehensive picture. Below the challenges are approached from an Institutional Economics perspective. Commons (1924), among others, brought economic thinking to the study of law. Later, Ronald Coase (1961) and others applied economic analysis to legal institutions. Donald Dworkin developed the concept of interpretivism, pointing out the importance of the interpretation of values and subsequently, the interpretation of law. This led to a discussion of the nature of law in the literature. Later, these concepts were further developed by Oliver Williamson (1985), a leading propagator of transaction cost economics.

Institutional levels and their interactions play an important role in an alliance. Douglas North (1990, p. 3) defines institutions as:

... the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic.

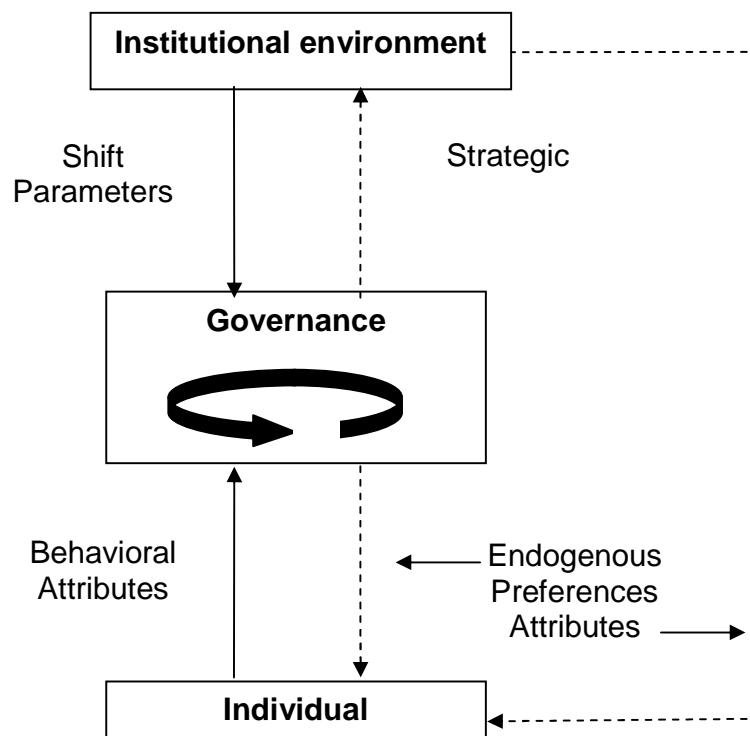
In other words, institutional constraints form human interactions by defining what individuals are allowed or prohibited to do. In this way, institutional constraints reduce uncertainty in a society by establishing a stable structure for human interaction. Organisations provide a structure for human interaction and group individuals according to their common purpose such as political bodies, economic bodies, social bodies and educational bodies (North, 1990, pp. 5-6). Institutions consist of formal rules, informal norms and the enforcement characteristics of both (North, 1995, p. 7). Distinctive characteristics of informal constraints are that they reduce the costs of human interaction as compared to a world with no institutions.

They arise in the context of exchange and they are not self-enforcing (loc. cit., 1990, pp. 40-41). Formal constraints may be divided into political and judicial rules, economic rules and contracts. Formal rules follow a hierarchy, from laws on a national level down to individual contracts, as well as from general rules to specific rules (loc. cit., p. 47).

In this regard Williamson (1991; 1993) developed a layer schema which attempts to classify institutions in a society. His abstract model is introduced below and in the case of China applied to exemplify some areas of conflict between Western and Chinese companies.

In the case of JVs, Williamson's Layer Schema is particularly applicable as it helps to describe the interactions of institutions, organisations and individuals. Particularly when evaluating the success of collaborations, it is crucial to understand the formal and informal constraints imposed by the institutional environment. As Williamson (1994, p. 171) points out: '...institutions are important, yet are persistently neglected in the planning process'.

As shown in the following figure, the model is split into three parts: the institutional environment, which refers to macro features; the governance level, which refers to transaction cost economics and the individual level, which refers to micro features. The institutional level defines the 'rules of the game' as regulations, norms and customs. The individual level is characterised in the form of behavioural attributes. As indicated by the solid arrows, both the institutional environment and the individual level have a direct impact on the governance level of companies. The impact results from both formal and informal constraints from these upper and lower levels.



**Figure 1 Williamson's Layer Schema**

The dashed lines symbolise feedback loops from the governance level back to the upper and lower levels. Therefore, the governance level also indirectly influences the upper and lower levels. The individual level is affected by both the institutional environment as well as the governance level through the influence of endogenous preferences. In other words, the institutional environment and governance level also affect the formation of preferences and norms in a society. This model was selected to compare the environments of China and the West and to exemplify some challenges which arise on different levels of society.

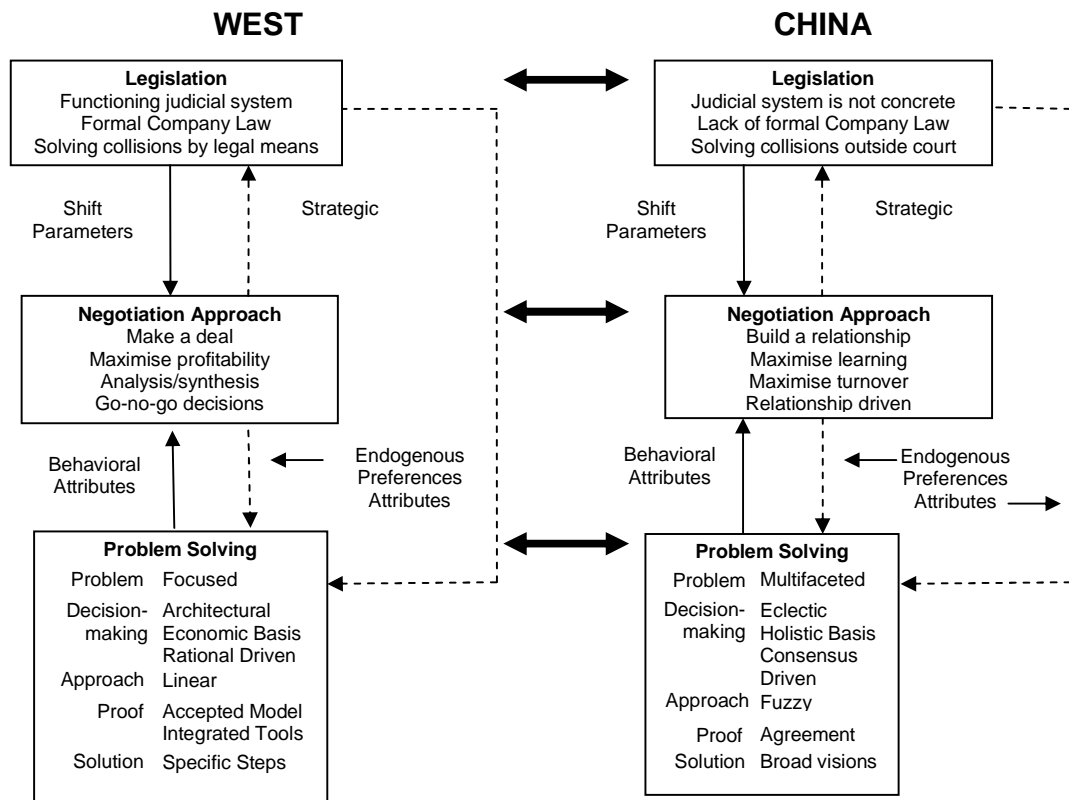
The following figure shows how Williamson's schema is applied in practice. A comparison is made between the Western and Chinese institutional environments. This demonstrates differences and potential areas of conflict when establishing or operating a JV in China. Legislation is compared at the institutional environment level, the negotiation approaches of Western and Chinese companies are

compared at the governance level and differences in typical problem-solving approaches are compared at the individual level.

The content of the three levels of the figures has been taken from Jagersma and van Gorp's (2003, pp. 31-33) article on doing business in China, although the content is somewhat stereotypical. For example, problem solving is a very complex process. Decisions are not only taken based on economic parameters and on a rational basis following a clear linear approach within Western organisations. Also, there are significant differences in the decision-making process among Western nations (Miller, Hickson, Wilson, 1996, pp. 57-59).

This simplified comparison however is deliberately chosen to highlight major differences between China and the West. The figure shows major differences on the three institutional environment levels for China and the West, represented by the double-headed arrows. A JV may be an interesting and a promising entry mode in China. However, when comparing the institutional environments, it is evident that challenges and problems are to be anticipated at each of these levels.





**Figure 2 Layer Schema Application**

It appears that China in particular has numerous informal and formal constraints. Reasons for this may be China's long history and traditional culture combined with its transition from a communist economy to a market-oriented economy, while led by a communist party. To provide some practical examples of the difficulties which arise through formal and informal constraints in China's institutional environment, a refined version of Oliver Williamson's institutional model<sup>1</sup> (1998a; 1998b, 2000), referred to as 'Economics of Institutions', is employed.

In the following, Williamson's model is applied, as an example, to the challenges Western pharmaceutical companies face when entering the Chinese environment. Päßler and Wolff (2005) provide a comprehensive review of these industry-specific

<sup>1</sup>There are also different ways to structure a country's institutional environment. For example, Brian Levy *et al.* (1993, pp. 215-266) categorise it into five areas: legislative and executive institutions, judicial institutions, administrative capabilities, custom and other informal but broadly accepted norms, and contending social interests within a society, including the role of ideology.

challenges. The model outlines the interaction between institutions and hierarchy according to four levels: social embeddedness, institutional, governance and resource allocation and employment. Each of these levels impose constraints on the level directly below it. Examples are given for each of the four institutional levels. As for the layer schema by Williamson (1991, 1993), every level in the example below gives indirect feedback and has a long-term impact on the higher level.

<b>Social Embeddedness Level</b>	
<b>Informal constraints</b>	<b>Examples Pharmaceutical Industry China</b>
Informal institutions	In daily Chinese business, the so-called “Guanxi”, a private network of contacts, catalyses business processes or helps to clarify difficult issues. Guanxi can also be helpful when dealing with the authorities, for example with the State Food Drug Administration and making informal enquiries.
Customs	The colour green symbolises death in China. Hence, a green tablet will most likely not be a success.
Traditions	Students honoured their teachers by reproducing their works in ancient China. Still today, the copying of intellectual property (e.g. counterfeiting a drug) is not necessarily perceived as an infringement.
Norms	In China it is common to take medication several times per day (4 to 8). Whereas in the Western world, medication is typically taken less frequently (1 to 3 times).
Religion	Many Chinese strongly believe in natural healing, which has its roots in Buddhism. Therefore, Traditional Chinese Medicine (TCM) is still very popular.

**Table 2 Layer Schema: Social Embeddedness Level**

<b>Institutional Environment: Constitutions and Laws</b>	
<b>Formal rules and constraints</b>	<b>Examples Pharmaceutical Industry China</b>
Property rights and Contract laws	Respecting intellectual property rights (IPR) is a central issue in the pharmaceutical industry. In the past, many pharmaceutical multinationals were reluctant to introduce their blockbuster drugs to China due to a lack of IPR enforcement.
International level	<p>On November 5, 1999, China signed the agreement to enter the World Trade Organization (WTO). The agreement contains the following regarding pharmaceutical industry changes for world market liberalisation:</p> <ul style="list-style-type: none"> <li>- Protection of IPR for drugs</li> <li>- Lowering of import tariffs for drugs from an average of 12% to 6%</li> <li>- Cancellation of government control over imported large-sized medical appliances beginning in 2001</li> <li>- Opening of the drug wholesale and retail market for foreign companies starting January 1, 2003</li> <li>- Liberalisation of the retail market starting December 11, 2004</li> <li>- Liberalisation and opening of the medical treatment service market</li> </ul>
National level/State level	In most Asian countries, local businesses are given preferential treatment. This is especially true for business with government bodies and is generally perceived as an acceptable way to protect the domestic economy (Lasserre and Schütte, 1999, p. 134). One example is the re-registration requirement for imported drugs.
Provincial level	Almost all provinces in China try to attract Western companies to their province by offering the companies preferential tax conditions. Foreign investors represent an essential income tax source and an opportunity to generate employment. Pharmaceutical companies are generally welcomed due to their high degree of technology and expertise.

Local level/Municipal level	In China, the municipal governmental level is not as powerful as the provincial or national levels. However, the local level is involved in a company's daily business. For example, a pharmaceutical company needs a local manufacturing licence to produce drugs.
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Table 3 Layer Schema: Institutional Environment

Institutions of Governance	
Transaction Cost Economics	Examples Pharmaceutical Industry China
Functioning legal system and Enforcement of contracts	A functioning legal system must be in place in order to enforce new legislation. IPR infringements must be sufficiently penalised so that they serve as a deterrent. Except for some prominent examples, the enforcement of IPR by the Chinese government has been weak until present.

Table 4 Layer Schema: Institutions of Governance

Resource Allocation and Employment	
	Examples Pharmaceutical Industry China
Neo-classical economics	One of the objectives of a pharmaceutical JV in China could be to lower its production costs. One possibility is employing cost-effective manual labour compared with automated systems, such as product packaging.
Agency theory	The principal, for example the German mother company, delegates authority to the JV to use its technology and expertise to produce advanced drugs in China. This delegation allows opportunism such that the other principal, the mother company of the Chinese side of the JV, could apply this expertise to one of its holding companies. A typical risk is that one of the Chinese daughter companies will produce a generic or slightly modified version of the drug produced by the JV. Therefore, the German principal will incur increased monitoring costs.

Table 5 Layer Schema: Resource Allocation and Employment

These examples for the pharmaceutical industry underline the important role played by institutions in a foreign environment such as China. Institutions impose formal and informal constraints on business activities of which the management must be aware. In conducting international business, the formal constraints are those which a company is first confronted with when entering a new country. Informal constraints generally come into play at a later stage. They can be found on numerous levels, are multi-faceted and are often not as obvious.

### **Concluding Remarks**

Today, China is a global player in the area of manufacturing and is important as a sales market due to its huge potential in developing domestic markets. These facts drive companies to further internationalise and establish a permanent presence in China. A part of China's FDI is in the form of JVs with Western companies. These investments may explain the upsurge in research and literature on JVs in China by academics from various areas since the 1980s.

Altogether it seems certain that JVs are a fragile construct with several potential advantages and opportunities, but also numerous challenges and high risks. An important insight in view of the existing literature is the ambiguity regarding the potential of JVs as an investment form in China. On one hand, researchers argue that JVs can decrease transaction costs and investment risks, while on the other hand, JVs are accompanied by a wide range of problems and challenges which increase the transaction costs and investment risk.

In order to better understand the setting in which such challenges and problems arise, this chapter presents how Williamson's Layer Schema may describe the interactions of institutions, organisations and individuals in China and the West. Understanding the formal and informal constraints imposed on different institutional levels is important to identify the different constraints which may provide sources of conflict. This is highlighted in the example of the pharmaceutical industry.

Academic literature provides wide-ranging potential explanations regarding the causes of problems in Sino-foreign JV relations as well as the cultural context of Chinese companies (Lin and Germain, 1998; Ahmed and Li, 1996; Newman, 1995; Swierczek, 1994). However, little is provided in terms of recommendations and possible solutions. The ambiguity of research results in the literature regarding JVs in LDC and the fact that JVs are still one of the major market entry forms in LDCs, particularly in China, illustrates the need for an alternative and investigative research approach.

This work aims to contribute to this need. Unlike the current JV literature, which tends to investigate specific problems, this research takes a holistic approach and analyses a large number and a wide spectrum of problems. This work provides a systematic exploration and analysis of a large number of diverse problems Western companies encounter in Sino-Western JVs and how these may be addressed.

## CHAPTER III: Literature Review

*‘A problem well stated is a problem half-solved.’*

Thomas Alva Edison

This work aims to improve the understanding of Sino-Western JV problems through the development of a classification of Sino-Western JV problem attributes. It intends to do this by arranging these attributes according to their similarities in a hierarchical cluster structure. It is also tested whether the classification enables effective resolution measures to be derived for typical problem areas. The topics introduced in this chapter provide the necessary theoretical background in order to achieve this. This chapter reviews various concepts related to the construct of problems. This includes their characterisation, classification and interrelation, as well as problem solving. As this research involves various considerations related to culture, a number of associated concepts are introduced.

### Problem Characterisation

As ‘different definitions produce different findings’ (de Vaus, 2004, p. 25), it is important to consider how “a problem” can be defined. Some theories regarding problems and problem solving are rather philosophical in their approach. Related concepts and philosophies of the occident have their origin in the ancient world especially in Greece in the fifth century BC. Philosophers such as Sokrates, Plato and Aristotle laid the foundations for ways of thought until modern times, including questions relating to the origin of things and the core reason (arché). Until today, the Western way of looking at problems is strongly influenced by the ancient Greeks. In science, problems are formulated as a question which forms the thesis while its opposite forms the antithesis.

There are a number of different definitions regarding what constitutes a problem. Yet, there also seems to be a common underlying theme in the definition of a problem: a gap between a desired and an existing condition. Further, the process involved in bridging this gap is regarded as problem solving. According to Funke (2007, p. 40), this process is also the main differentiator between a task and a problem. In general, a problem requires a creative process to be transformed from the initial unsatisfying situation to the satisfying end situation. A task is also challenge, but the method with which to shift from one situation to another is known. The difference between a problem and a task can also relate to the previous knowledge of the problem solver. Consequently, the difference is not related to the problem itself, but rather how the problem solver interprets the problem based on previous knowledge. As the available knowledge between people can vary significantly, their perception of what constitutes a problem and what might be regarded as a task, can also be very different.

According to Duncker (1935, 1974, p. 1), a problem arises when one has a goal, but does not know how to achieve it. Thinking begins whenever the original situation does not lead to the desired situation by carrying out understood operations. Lüer and Spada (1990, p. 256) consider a problem to occur when a subject has recognised one or several unsatisfactory gaps in its image. In order to study human problem solving behaviour, Duncker (1935, 1974) uses so-called 'think aloud' protocols. These document how humans approach and solve a problem. He uses these protocols to reconstruct the cognitive processes and underlying conflicts a human undergoes when attempting to solve problems.

There are different ways of characterising problems. One approach in investigating problems is to differentiate between problem types and then to categorise problems accordingly. In the following, five different typologies are briefly described.



In the field of psychology, a differentiation of problems into two groups emerged: simple problems and complex problems. Early research concentrated on the exploration of simple problems to draw conclusions and make generalisations regarding the underlying cognitive processes (Newell and Simon, 1972). Later, research shifted to investigating the characteristics and models of complex problem solving (Hussy, 1984; Sternberg and Frensch, 1991, pp. 61-84).

Funke (2007, p. 60, 61) defines complex problems as a system of different variables which exceeds the capacity of the problem solver. In order to reduce complexity, a need arises to reduce information. He defines four parameters which influence the degree of complexity. First, interconnectivity: which describes the degree to which variables interconnected. The consequence is that the problem solver needs to model and to structure the information. Second, the momentum: which in this case, develops without further involvement of the problem solver. Consequently, there is only limited time for reflection and to take decisions. Third, transparency: the degree to which information needed to solve the problem is available. Information may be limited and not comprehensive, in which case, the problem solver needs to search for additional information. Fourth, polytelie: not only one criterion to be optimized but rather several and contradicting criteria. The consequence is that the problem solver needs to create a differentiated target structure which includes rules and the necessity to assess the information in different dimensions.

Lüer and Spada (1990, pp. 189-280) differentiate problems using the criterion of knowledge available at the point in time when the problem arises. Therefore, they differentiate between knowledge poor problems (simple problems) and knowledge rich problems (complex problems). To solve simple problems, only limited knowledge is necessary, which is created during the solution development process. Whereas to solve complex problems, the solver needs to have broad, pre-existing knowledge.

Smith and Ragan (2005, p. 219) concentrate their research on learning behaviour according to different problem scenarios. They differentiate between well-defined (or well-structured) problems and ill-defined (or ill-structured) problems. Well-defined problems have a clear, well defined task and an explicit solution, whereas for ill-defined problems, the goal is largely unknown and the solution is highly dependent on the situation.

Perkins (1990, pp. 415-443) defines a set of criteria to identify problem categories. These are stability, transparency, simplicity, complexity and deliberation. Following this, he derives the following six problem types: performance problems, strategic problems, probabilistic problems, formal problems, routine problems and creative problems.

A process-oriented problem categorisation is suggested by Greeno and Simon (1988, pp. 589–639), who differentiate four main problem types. Firstly, transformation problems are characterised as a group of problems in which the solver seeks to develop a current situation into a new situation. Thus, a barrier needs to be overcome in order to reach this goal. Secondly, arrangement and design problems are problems in which the current and desired states are known, but the transforming operators are unknown and need to be identified. Thirdly, induced problems are problems in which some problem elements are given and the main task is to identify relationships and patterns, or a structure, among the elements. Finally, deduced problems are problems in which logical conclusions need to be drawn based on a specified set of parameters.

Although most of these characterisations seem straightforward, they have come under criticism. Funke (2003, pp. 14-15) highlights that the original state of a problem can often not be clearly described. As a consequence, it is even more unlikely that the desired state can be clearly defined. Lastly, the resources needed to overcome the problem cannot be properly allocated, as they depend on the desired state.

The consequence is that not all problems are solvable, which can have different reasons. For example, the perceived un-solvability of a problem is related to a lack of precision. The initial situation, obstacles and desired end situation are not sufficiently defined to develop or come to a solution. However, there are also clearly defined problems which are not entirely solvable. Trying to completely solve these kinds of problems may be considered as a waste of resources. Instead, a workaround might be reasonable which, for example, redefines the initial goal. Another reason for unsolvable problems may be that they have conflicting goals. The conflict of interest may only be resolvable through a compromise or optimisation rather than a resolution (Dörner, 1987; Polya 1995).

Having the notion of what constitutes a problem explored, the following section outlines some background of classification theory. This is necessary in order to come closer to the construct of building a classification of JV problem attributes.

### **Classifications**

The Latin word for “Science” is “*Scientia*”, which comes from the verb “*scire*”, meaning to comprehend. This Latin verb is derived from a Greek verb, which means to segment and to separate something in order to find the underlying cause. Following this logic, generating knowledge involves decomposing information. In essence, this describes the classification process underlying the segmenting and separating of information in a research domain in order to gain new knowledge. Consequently, classification attempts to identify frequently occurring types of data where the identified types are brought into a hierarchical relation to each other. Classification is not only a scientific method, but also of special significance with regard to the scientific approach (Rötzer, 2003, pp. 29-30). Furthermore, classification and classification systems are an important instrument of comparative social studies.

Szostak (2004, p. 75) states that ‘...the purpose of science is to understand causal links and thus each theory needs to carefully express which causal links it addresses...’. Therefore, the organisation of knowledge and the classification of elements in this statement play a crucial role. To be specific, what kind of knowledge is to be organised? Jones (1970, p. 89) points out that it is important to describe the purpose of classification:

...since there is generally no natural or best classification of a set of objects as such, the evaluation of alternative classifications requires either formal criteria of goodness of fit, or, if a classification is required for a purpose, a precise statement of that purpose.

In line with this statement, Hjørland and Pedersen (2005, p. 585) claim that:

...a classification is always required for a purpose, why a consideration of that purpose is the most important part of the methodology of information science (IS). Whether or not that purpose can be stated formally is quite another question.

Hjørland (2007) highlights that besides its philosophical origin, the word Ontology is widely used to express this kind of knowledge organisation system. In this context, Lombardi (2004) claims that a frequently used definition of Ontology is ‘the specification of one’s conceptualisation of a knowledge domain’. Similarly, Gruber (1993) defines Ontology as ‘...a specification of a representational vocabulary for a shared domain of discourse - definitions of classes, relations, functions, and other objects’. Thus, a classification system of knowledge domains is an important instrument to gain insights in science. Some researchers perceive the act of forming classifications in science as very essential. Richardson (1964, p. 49) goes to the extreme that he describes the ability to classify objects as a key differentiator between man and ape, stating that:

The very first act of man as distinguished from his act as ape (if he was one) was one of classification. This act of classification made the ape a man. Before it, he

was ape; after it, man. Human thought, as distinguished from animal thought, seems to lie in just this power of binding things together in a group according to their likeness and unlikeness and keeping clearly discriminated on these lines.

Dey (1993, p. 30) summarises the value of data classification as:

We break down data in order to classify it, and the concepts we create or employ in classifying the data, and the connections we make between these concepts, provide the basis of a fresh description.

Towards the end of the 19<sup>th</sup> century and into the first half of the 20<sup>th</sup> century, philosophers and scientists concentrated on the development of universal classification systems. However, a key challenge in developing such a universal systematic order of knowledge is the continuous progress and specialisation in the sciences. For example, biochemistry and medicinal informatics are relatively new sciences which did not exist until a few decades ago and would need to be included in a universal classification of science. Consequently, since the middle of the 20<sup>th</sup> century, more and more special classification systems have been published. For example, special classification systems have been developed to segment a certain area of expertise, such as the “London Classification of Business Studies”. The difficulty is that special classifications only serve a special purpose and do not include other subject areas.

A general difficulty of classification systems is given by Nohr (1996); he highlights that not all topics can be classified and elements may be classified in different ways. Consequently, there is no ideal classification. However, from Nohr’s (1996, pp. 36-46) point of view, these difficulties are not critical, as classifications serve predominantly as a means of communication. On a conceptual level, (Hjørland, 2003, p. 107) differentiates between “scientific” and “bibliographic” classifications, which he reflects upon different dimensions. The following table summarises this grouping of classification types.

	<b>Scientific Classification</b>	<b>Bibliographic Classification</b>
<b>Empiricism</b> (Observations and inductions)	Classification provided by statistical generalisations (e.g. factor analysis) based in “similarity”. Examples: Classifications of mental illness in psychiatry (DSMIV), kinds of intelligence in psychology based on statistical analysis of test scores.	Documents clustered based on some kind of similarity, e.g. common terms in traditional IR or bibliographical coupling. Examples: “Atlas of science” and visualisations (White & McCain, 1998). “Research Fronts” I SCI and algorithms for information retrieval.
<b>Rationalism</b> (Principles of pure reason, Deductions)	Classification based on logical, universal divisions. Examples: Frame based systems in Artificial Intelligence. Chomsky’s analysis of the deep structure in language.	Facet analysis built on logical divisions and “eternal and unchangeable categories”. Examples: Ranganathan, Bliss II & Langridge. Semantic networks. According to Miksa (1998) the DDC has increasingly used this approach.
<b>Historicism</b> (Study of context and development-Explicating pre-understanding)	Classification based on historical or evolutionary development. Examples: Biological taxonomies based on evolutionary theory. Classification of the sciences based on their history and organisational structures.	Systems based on the study of the development of knowledge and knowledge producing communities (the social division of (scientific) labour). Examples: Wallerstein (1996). The feature of the DDC that it distributes subjects by discipline.
<b>Pragmatism</b> (Analysis of goals, values and consequences in both subject and object)	Classifications based on specific values, policies and goals. Example: The feminist epistemology.	Systems based on “cultural warrant” or “critical classification”. Examples: The French encyclopaedists, the Marxists, Classifications serving feminist collections.

Table 6 Fundamental Methods of Classification

However, the term scientific classification is commonly used with respect to biological classifications. These classifications categorise systems of living things where species are grouped according to certain shared characteristics. Bibliographic classifications are also called library classification systems which comprise the coding, sorting and organisation of documents including a notation system.

Umlauf (2013) differentiates classification systems based on their relationships and hierarchical structure. Monohierarchical relations can display only single relationships while polyhierarchies can express multiple relationships. Consequently, when building polyhierarchical classifications one needs rules for naming the notations. On the one hand, polyhierarchical classifications are more flexible than monohierarchical classifications, while on the other hand, they are also more complex in their descriptions, instruction and application. However, the hierarchies of polyhierarchical classifications are weaker than monohierarchies. The extension of each superordinate class comprises exactly the sum of the extensions of the subclasses. For example,

Art

- of the 20th century
  - architecture,
  - drawing, graphic, collage,..
  - environment, installation
  - ...

An exemplified bibliographic monohierarchical classification of Umlauf (2013) is shown below. In this case, literary studies is the domain which is separated into the two areas of Theory and History. In a second step, History is separated into Languages/ Countries. The third step creates subordinate classes through a separation into categories. In this way, the class German Lyric of the Romantic is created on the lowest level.

Main Class	Subordinate classes			
1 <sup>st</sup> level	2 <sup>nd</sup> level	3 <sup>rd</sup> level	4 <sup>th</sup> level	5 <sup>th</sup> level
Literary Studies	Lit 1000 Theory	Lit 1100 Literature sociology		
		Lit 1300 Categories and forms	Lit1310 Epic	
			Lit 1330 Lyric	
			Lit 1350 Dramatic	
	Lit 5000 History	Lit 5600 English Literature		
	...	Lit 5700 German Literature	...	
			Lit 5750 Classic	
			Lit 5760 Romantic	...
				Lit 5763 German Lyric of the Romantic
				...
			Lit 5770 Literature Realism	
			...	
		...		

**Table 7 Example of a monohierarcial classification**

The following section reviews the characteristics of problems and the fundamental aspects of classification and discusses how the two topics interrelate. It shows how problems can be classified in research.

### Problem Classifications

In the following, three studies are described which aim to gain new insights in research through the analysis of problem classifications. Lau and Chan (2010) of The University of Hong Kong propose a framework with which to classify problems. They propose that a problem must be well defined as a prerequisite for its



classification. Therefore, the problem first needs to be clearly identified and then well formulated. The formulation of a problem is critical, as it can influence the method selected for solving the problem, and hence also the desired solution.

According to Lau and Chan, the problem definition leads to the classification of a problem. In order to do this, the problem is stated in the form of a question. Then, the question is grouped according to one of three classes: empirical, conceptual or evaluative. However, empirical questions cannot be answered via pure thinking and scientific study is needed. On the other hand, conceptual questions can be addressed through pure conceptual thinking and analysis, not requiring empirical observations or scientific study. Finally, evaluative questions deal with value judgments. They explicitly or implicitly entail intrinsic or instrumental values and norms. Other disciplines such as medical care also classify problems to support administrative work. For example, the "Problem Classification Scheme", also known as the "Omaha System", is used to support nurses in the process of registering a patient and judging need of care required. This "Problem Classification Scheme" consists of 4 domains and 42 integrated concepts and has been accredited by the American Nurses Association since 1992.

Cowan (1990, p. 366) points out that there are numerous proposed conceptual frameworks which aim to identify categories of organisational problems. For example, Maier and Hoffman (1964) propose to classify management problems by differentiating two elements to make the potential solution effective. Firstly, "quality" describes the way facts are utilised and evaluated and secondly, "acceptance" describes the way managers mobilise the support of the executors. Depending on the author and year, the number of problem classes varies. For example, Dearborn and Simon (1958) suggest three problem classes, while Walsh (1988) proposes five classes and Terpstra and Olson (1993) suggest ten. This shows that there is no common definition of problem classifications.

Often, the classification of problems is done under the assumption that business problems can conveniently be grouped according to the business functions of a company. In their study, Huang and Brown (1999) divide problems of small and medium sized enterprises (SME) according to five areas: human relations, accounting and finance, marketing, internal management and external management. Later in this work, the developed problem attribute classification will show that this approach is most likely not suitable to gain new insights into Sino-Western JV problems. However, the general idea to analyse and classify problems are consistent.

In the field of business administration, Terpstra and Olson (1993) attempt to systematically develop a comprehensive and exhaustive classification scheme for the types of problems encountered by emerging entrepreneurial firms. In their research, they investigate the relationship between the stages of firm development and the relative frequency of which various problem types occur. They stress that the development of a classification scheme for problem types encountered by organisations may provide a basis for linking problem types to problem-solving activities and ultimately evaluating organisational performance (Cowan, 1988).

With the help of questionnaires in open-ended response format, Terpstra and Olson (1993) investigated the problems of five hundred start-up companies. CEOs were asked to first highlight their most significant problem during their first year of operation (start-up stage) and then their most significant problem (growth stage) in the later years. The aim was to generate two classification schemes which allow problems occurring during different stages of a company's life-cycle to be compared. Altogether, six individuals (three faculty and three MBA students) classified the two unlabelled response types and sorted them into classes. The classification criteria employed were based on the similarity of the problem types and the degree of overlap among the individual classifications. To finalise the classification schemes, the two authors used their own judgment based on the distinctness and comprehensiveness of the replies. The validity of the classification

scheme was tested through two MBA students who arranged all of the responses according to the developed classification schemes and successfully arose at the same outcome.

As a result, they suggest nine problem classes in the start-up stage and ten during the later growth stage. These ten problem classes are as follows: obtaining external financing, internal financial management, sales/marketing, product development, production/operations management, organisation structure/design, general management, human resource management, economic environment and regulatory environment.

Another example of the classification of problems is given by the field of prototype engineering. Mahayuddin and Tjahjono's (2010) work collects a repository of typical problems and their characteristics in manufacturing systems in order to reduce the lead time of simulation studies. The development of models is a key element and involves the construction of simulation model templates. The repository of problems, based on an extensive literature review, is then applied to cladistics (primarily used in the field of evolutionary biology). This is done in order to classify the problems and analyse their origin. The grouping of problems occurs hierarchically in the form of a tree-like structure, which is displayed as a cladogram. The cladogram allows a prototype model to be built based on problem elements and can be extended and updated in order to cater for new problems identified.

In the field of software engineering, Keenan et al. (1999) classify interactive software usability problems collected from development projects in order to build a 'Usability Problem Taxonomy'. Although the analysis of usability problems is common in the feedback given to software developers, the analysis most often concentrates on specific problem characteristics which do not support a high-level analysis. Therefore, there is no overall framework to properly analyse larger scale problem sets so that they may be classified and compared. Consequently, Keenan et al. propose a framework to capture and classify the essence of individual

problems. The resulting problem clusters support the identification of global problems and problems sharing common characteristics.

In their approach, they classify four hundred problems according to their violated usability heuristics. However, the heuristic classification comes with four major difficulties and serves as a basic classification only. In the following, the problems of each heuristic category are re-examined based on their similarities. This enables the problems to be further grouped within each category as well as across categories. In total, seventy-four groupings emerged which were likewise examined for similarities and differences. In the end, twenty-one problem types are identified and divided into five clusters. In the study, seven participants with various backgrounds and experience classify the randomly chosen usability problems based on a protocol. In the end, the results of the six hypotheses are statistically and non-statistically evaluated. In general, the suggested taxonomy advances the understanding of large problem sets by showing trends and patterns. The taxonomy enables the classification of problems, shows improved problem identification and allows reporting and analysis, which is also important in properly prioritising the problems prior to correction.

The results of the research studies outlined above, show that the analysis and the classification of a large number of problems can help to improve existing research approaches or derive new solutions. Terpstra and Olson (1993, p. 18) highlight that the development of problem classes is also important, as they provide potential focus areas for future research:

...studying the relationship between certain problem types and problem formulation and subsequent information-processing activities. The initial classification framework may have implications for resolution methods, as it may influence the perceived problem solutions by directing and controlling attention and diagnostic activity (March & Simon, 1958; Volkema, 1986).

Furthermore, the review shows that the approach to analyse large problem sets may be applied in different fields of science. However, there appears to be no common method regarding the analysis and validation of problem classifications. To investigate further how one can classify problems, the next section explores if and how problems can relate to one another and how they may be interrelated in a causal way.

### **Problem Interrelations**

In explanatory research, a researcher must be careful in identifying causations. De Vaus (2004, pp. 2-5) stresses that there is often confusion between correlation and causation. Just because two events co-occur, one cannot automatically conclude that there is causation, as a chain of events may be coincidental. For the same reason, researchers may confuse causation and prediction, leading to false conclusions. The rationale is that only correlations can be observed, whereas causes must be inferred.

Causality describes a dependent relationship between two events. One event, which is called the cause, affects another event, which is called the effect. Cause and effect are typically triggered by events. When the events occur in a sequence, this creates a causal chain. When tracing back the causal chain, one can try to identify the main cause of the events and describe the original cause believed to have initiated the chain reaction. It is thought that by addressing the main cause, one can change the outcome of a whole chain of events and affect the future.

Root analysis concentrates on determining the root cause in a chain of cause and effect relationships. Through rectification of the root cause, it is believed that the related causal chain will not recur. Root analysis usually focuses on the identification of measures with which the negative effects of a causal chain may be prevented. It typically aims to avoid the recurrence of certain problems in the future

by analysing historic problems. This type of analysis is often applied in order to identify the cause of technical failures in the past. Thus, root analysis is a type of investigation form which focuses primarily on the past in an attempt to draw conclusions for the future.

De Vaus (2004, p. 5) highlights that the complexity of human social behaviour makes it impossible to make direct conclusions when analysing human interactions. One reason is that human behaviour is willed. However, as human behaviour is also constrained, it is only possible to make predictions regarding outcomes based on inference. When analysing human problems, one needs to consider that problems are embedded in human will, constraints and interaction. Therefore, the influence of these aspects needs to be understood in order to be able to analyse human problems.

According to Flood (2001, p. 133), research can be conducted in a systematic way and problems can be described employing formal rational analysis steps. This requires that the objective in solving the problem is definable. The following shows different methods of identifying interrelations among the problems, considered in more detail.

There are a number of different analysis methods and tools which fall under the category of problem analysis and solving methods. A commonality among these methods is their identification of relationships in a logical and, in general, visual manner. The aim of these methods is to determine the cause of a problem and to identify measures to avoid its future occurrence.

Also De Vaus (2004, pp. 36-40) emphasises that it is useful to visualise causal relationships. He stresses the importance of identifying how variables are interrelated. In order to do this, it is necessary to specify whether:

- relationships are causal or spurious
- causal relationships are direct or indirect
- intervening variables influence any direct or indirect relationships

For example, one analysis method is the Tree Diagram, in which potential causal factors are grouped into categories and visualised in a tree-like form. Applications of Tree Diagrams are as follows: cause and effect diagram, Ishikawa Fishbone Diagram, Management Oversight and Risk Tree Analysis. Other tools are Change, Barrier and Pareto Barrier Analysis. Interviewing and using Why-Why Charts are commonly employed investigation methods. Interviews are generally employed to investigate a certain event in a structured manner with the help of forms and questionnaires. The Why-Why Chart attempts to uncover the root cause by repeatedly asking "Why?" until no further information can be gained from the interviewee. The interviewees may be either the problem owners or experts. In the field of manufacturing, analysis methods typically focus on quality control. Here analysis is often carried out using Failure Modes, Effects Analysis or Fault Tree Analysis.

Mind maps represent one tool utilised in this work to cluster and sort problems. The map is always based around one main theme at the centre of the map from which primary ideas branch out. From the main branches, thematically related smaller branches stem out and from these further branches stem off. At the same time, it allows related topics to be grouped together. Often different colours and shapes are used to highlight the categories, differentiating branches and clusters. The separate clusters are linked through a hierarchical arrangement (Hugl, 1995).

### Clustering Technique

In exploratory research, data clustering<sup>1</sup> is a common technique to analyse data and is applied in many fields. This technique allows data elements to be classified according to different groups. Marshall and Rossman (2011, p. 215) describe the process of clustering as a device for analysis which is:

Creative work in which the researcher creates diagrams of relationships - outlines according to what is most overarching. He is doing conceptual or situational mapping, playing with construction of pictures of how the data fit together.

As an example, Gupta, Hanges and Dorfman (2002) cluster cultural values of societies and beliefs of 61 nations arriving at 10 cultural clusters<sup>2</sup>. The analysis of patterns gained through this process helps to draw conclusions on the similarity of data elements. Jain, Murty and Flynn (1999, p. 290) highlight that: 'As a task, clustering is subjective in nature. The same data set may need to be partitioned differently for different purposes'. In this respect, the available domain knowledge plays a crucial role in determining the clustering criteria. Therefore, subjectivity in combination with implicit or explicit domain knowledge are integral parts of the data clustering process. Regarding the usefulness of clustering Jain, Murty and Flynn (1999, p. 265) further point out that:

Clustering is useful in several exploratory pattern-analysis, grouping, decision-making, and machine-learning situations, including data mining, document retrieval, image segmentation, and pattern classification. However, in many such problems, there is little prior information (e.g. statistical models) available about the data, and the decision-maker must make as few assumptions about the data as possible. It is under these restrictions that clustering methodology is particularly appropriate for the exploration of interrelationships among the data points to make an assessment (perhaps preliminary) of their structure.

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<sup>1</sup>For clarification and differentiation: Cluster Analysis is a quantitative classification method which is not applied in this work.

<sup>2</sup>In their research, China belongs to the cluster named 'Confucian Asia'.



Having investigated various concepts related to the construct of problems, such as their characterisation, classification and interrelation the next section moves on elements entailing problem solving and solutions.

### **Problem Solving and Solutions**

As Ulrich (1983) highlights, problems need to be critically analysed and questioned before solutions can be found. It is this solution finding step which is next addressed. The conceptual background is provided in order to better understand the notion of “problems” and to provide a basis for one aspect of this research and to test whether a classification can support the development of effective resolution measures.

The research stream of cognitive psychology deals with problem solving thinking and the related processes humans undergo when perceiving, diagnosing and solving problems. In this field, psychologists conduct experiments to determine how people perform deductive reasoning and how they apply concepts and analogies. Funke (2003, p. 22) defines problem solving<sup>1</sup> thinking as human reactions to non-routine situations, when barriers block the way to the goal and goal directed actions are required.

The use of trial and error is a heuristic method for solving problems. Here a solution is sought by attempting different options until a satisfactory solution is found. The possibility of failure is part of this method and hence deliberately taken into account. Learning through insight relies on cognitive capabilities and the means to acquire and structure knowledge, where insight is gained through understanding (Funke, 1986).

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<sup>1</sup>There are a number of different methodologies to solve problems, which predominantly stem from universities or management consultancies. However, a review of these methodologies is not part of this research.

Mathiowetz (1987) outlines four cognitive tasks humans perform in order to solve a problem:

1. Understanding the question
2. Remembering the relevant information
3. Making judgements
4. Formulating and reporting the answer

Instead of concentrating on the cognitive problem solving tasks, Funke (2003, p. 21) addresses problem solving in the form of questioning. In his framework, one needs to answer a number of questions in order to be able to solve problems:

- What is the desired goal?
- What resources are available to achieve a certain goal?
- What are the constraints?
- What is the preferred sequence of operations?
- How is the problem represented?
- What is the most elegant method of achieving the desired solution?

Funke's questions play a role in the human problem-solving process. Depending on the problem type, some of the criteria are more relevant than others. Anderson (1982, p. 199) defines the act of problem solving more broadly: 'It seems that all cognitive activities are fundamentally problem-solving in nature'.

Apart from cognitive psychology, there are also other branches of science focusing on problem solving, such as neuroscience and psychoanalysis. In neuroscience, researchers use 'neural networks' (also called 'neural sets') to investigate human thought processes and intellectual problem-solving abilities. Related to this research stream, cognitive anthropology investigates human thinking and perceptions in different cultural settings<sup>1</sup>. Psychoanalysis regards problem solving as the process of making the unconscious conscious. Functionalism considers

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<sup>1</sup>More information available at Stanford University, <<http://plato.stanford.edu/entries/cognitive-science/>>, viewed 12 March 2009.

problem solving as a process with which to most efficiently bridge the current status with the desired status.

René Descartes' thoughts on solving problems and his methodological approach, shown below, have laid the foundation for modern natural sciences. As such, his research has become some of the most discussed and influential in science. In early modern times, with his work *Discours de la méthode*<sup>1</sup> (*Discourse on the Method*, 1637 II.7-10), Descartes proposed four basic rules with which to validate insights in philosophy and science:

1. The first was never to accept anything for true which I did not clearly know to be such; that is to say, carefully to avoid precipitancy and prejudice, and to comprise nothing more in my judgment than what was presented to my mind so clearly and distinctly as to exclude all ground of doubt.
2. The second, to divide each of the difficulties under examination into as many parts as possible, and as might be necessary for its adequate solution.
3. The third, to conduct my thoughts in such order that, by commencing with objects the simplest and easiest to know, I might ascend little by little, and, as it were, step by step, to the knowledge of the more complex; assigning in thought a certain order even to those objects which in their own nature do not stand in a relation of antecedence and sequence.
4. And the last, in every case to make enumerations so complete, and reviews so general that I might be assured that nothing was omitted.

Descartes' background as a mathematician certainly influenced the systematic approach underlying this method. In essence, the method suggests proving whether the fundament of the problem is correct by breaking down complex problems so that their separate elements may be clearly and distinctly recognised. Thus, the separate elements are problems in themselves. Solving these single problem elements can generate knowledge, which may be applied in the solution of other larger problems.

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<sup>1</sup>The full title of the work is 'Discours de la méthode pour bien conduire sa raison, et chercher la verité dans les sciences' - 'Discourse on the Method of Rightly Conducting the Reason, and Searching for Truth in the Sciences'.

Newell and Simon (1972) analysed human problems in order to simulate human cognition, such as deductive reasoning and the use of mental images. In their pioneering work, concepts gained through experiments with humans were extrapolated into the new field of computational modelling. Through their ground breaking research, they became the founding fathers of artificial intelligence (Thagard, 2007).

At first glance, the term “solution” suggests something absolute; it implies that a single solution is applied to a problem and resolves it. However, the term “solution” must be handled with care. In reality, problems and solutions are dynamic. Ackoff (1974, p. 31) states that ‘Problems and solutions are in a constant flux, hence problems do not stay solved. Solutions to problems become obsolete even if the problems to which they are addressed are not.’ Consequently, Ackoff (1981, p. 20) explains: ‘To resolve a problem is to select a course of action that yields an outcome that is good enough, that satisfices (satisfies and suffices).’

Funke (2009) defines different parameters which influence the degree of solvability of problems, as given below.

**Level of problem definition:** problems which appear to be very difficult to solve might not be well-defined. A well-defined problem consists of a comprehensible initial situation and a desired end situation which is measurable. The better a problem is described; the easier its resolution may be in case all information needed to solve the problem is available. However, the transfer from an ill-defined to a well-defined situation can be very difficult or even impossible.

**Factorability:** in case a problem can be decomposed into single aspects, the problem solver can reduce the initial problem and make it hierarchical. Sub-problems can usually be solved with less effort and resources. Sub-problems tend to be more compact and better defined. Consequently, the initial ill-structured and ill-defined complex problem gets broken down into well-structured and well-defined sub-problems which makes the initial complex problem better solvable or optimisable.

**Relatedness:** some problems are so closely related in their disposition that when solving one problem, the related problem gets solved at the same time. In this case, the initial and desired end situations are the same, even though they can be described differently. The reason is that one problem can be reduced by being related to another. This kind of relatedness is addressed by (computational) complexity theory. In this approach, problem classes can identify which problems are unsolved. However, one knows that the solution of a single problem can potentially solve a whole problem class. In case one problem cannot be related to a problem class, a new problem class gets created.

**Resource investment:** Independent of their degree of difficulty, problems can be grouped in relation to the resource investment necessary to solve them. Resources comprise everything required to solve the problem, including intelligence, knowledge, tools, financial resources, etc. The resolution can be straightforward with little resources necessary or so complex that the resolution far outweighs the resource investment needed to resolve the problem. Consequently, some problems are theoretically solvable, however in practice they are defined as unsolvable.

**Subjectivity:** everyday problems, in particular, are subject to the subjectivity of the respective person. Different expectations of the desired end result lead to the fact that the perceived difficulty to solve a problem differs among people. Some problems might be unsolvable for the concerned person, while people not directly involved might be able to resolve them. Furthermore, emotions and empathy can play a crucial role in the ability or inability to solve a problem.

### **Effective Resolution Measures**

In attempting to resolve a problem, a decision is made with regard to the approach or selected course of action among potential solution options. In other words, the same problem may be resolved in different ways. Depending on which resolution option is selected, the outcome may be more or less satisfactory. Whether the resolution option is considered satisfactory or sufficient, however, is subjective.

In economics, the themes of effectiveness is usually considered as of “doing the right things”, while efficiency is regarded as “doing the things right”. Drucker (1967, p. 1) demands the following from effective executives:

... the executive is, first of all, expected to get the right things done. And this is simply saying that he is expected to be effective [...] For manual work, we need only efficiency; that is, the ability to do things right rather than the ability to get the right things done. The manual worker can always be judged in terms of the quantity and quality of a definable and discrete output, such as a pair of shoes.

Based on ISO<sup>1</sup> 9000:2005 No. 3.2.14, effectiveness describes the relation between the degree of the achieved objective compared with the defined objective. The key criterion is the degree with which the targeted effect is achieved. However, it does not define the effort needed to achieve the objective. This relation is defined by the term efficiency, which describes the effort needed to achieve a certain result (ISO 9000:2005 Nr. 3.2.15).

Applied to measures, an effective measure is considered to be targeted in its resolution of a problem. In other words, an effective resolution measure addresses the right problems, which are problems that can potentially be resolved. Consequently, effectiveness also addresses quality aspects of the achievement of the objectives.

With respect to resolutions, this quality aspect can also imply an elegant resolution which means that fewer side-effects are created compared with other solution options. Conversely, a less elegant solution may create unwanted side-effects. However, the quality of a solution is certainly influenced by the resources (such as costs, efforts, time) allotted or available in approaching a problem. Thus, a problem

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<sup>1</sup>ISO stands for ‘International Organization for Standardization’, more information to be found at [www.iso.org/](http://www.iso.org/).

may be solved in different ways, where elegant solutions are preferred which require minimal resources and do not create side-effects.

### **Circle of Influence**

In general, human issues and problems are interrelated, as the different views and actions of the concerned parties influence one another. On account of this linkage, humans are said to not face single problems, but rather clusters of interrelated problems, also referred to as “problematique”. Therefore, when seeking to reduce or solve human problems, one needs to address a whole problem network or problematique. Peccei (1977, p. 61) highlights that:

Within the problematique, it is difficult to pinpoint individual problems and propose individual solutions. Each problem is related to every other problem; each apparent solution to a problem may aggravate or interfere with others; and none of these problems or their combination can be tackled using linear or sequential methods of the past.

Consequently, individuals and organisations usually face a multitude of issues, challenges and problems at the same time while having limited resources. As an alternative to the scientific considerations of problems and their solutions, the practical concept of “the circle of influence” is introduced. This concept was published in the common literature by Covey in 1989 and is today a widely accepted and applied in coaching, change management and self-help literature (e.g. Schirmer, 2010; Amaeshi, Osuji and Nnodim, 2008). Even the concept is explained from an individual’s perspective. It can also be applied to groups, organisations and companies.

The principle idea is that people have a wide range of all kinds of concerns symbolised as circles. Covey differentiates between the smallest circle, the “circle of control” – things we are in control of as individuals, a bigger circle around the circle of control, the “circle of influence” – things that do concern us but are outside

of our direct control and can only be changed through influencing issues and a third large circle around the circle of influence, the “circle of concern” – symbolising everything that is outside the individual’s control and influence.

The principle is straightforward; individuals have only limited energy and resources. Consequently, people should focus their attention and their energy carefully and only on things they can control and situations they can influence. It is considered a waste of energy trying to influence occurrences which are out of the circle of influence. Furthermore, it is even dangerous to worry about or to try to change things which an individual cannot influence. The reason is that by doing so the individual consumes their limited energy and attention, therefore reducing its threshold on occurrences the individual actually can influence. On the other hand, it is believed that when properly focusing on issues an individual is in control of and that it can influence, the individual successively widens its circle of influence. By doing so the individual gets progressively more proactive and also becomes more successful. Lastly, it is believed that by widening the circle of influence, the individual automatically also widens its circle of concern.

So far, the review of the literature has covered the notion and possible perceptions of problems, problem solving approaches and ways of effectively resolving problems. However, all these constructs are predominantly reviewed from a Western analytical point of view. The following will show that differences in cultures also lead to differences in the introduced topics. Therefore, the consideration of cultural differences in regards to problems is considered as a crucial aspect of this work.



## **Cultural Aspects**

Without a doubt, the element of “culture” plays a crucial role in any alliance. Hence, cultural understanding and awareness are important in the success of a JV. This even applies in the case of JVs between companies stemming from the same nation, because different company cultures meet. In the case of Sino-Western JVs, differences in national culture exist in addition to these inter-company differences. Connerley and Pedersen (2005, p. xi) stress the importance of culture:

No matter how highly skilled, well trained, or intelligent you are, if you are making the wrong or culturally inappropriate assumptions, you will not be accurate in your assessment, meaningful in your understanding, or appropriate in your interactions...

One way to review cultural influence and differences is to employ the dimensions proposed by Geert H. Hofstede. His research focuses on the examination of differences between nations and particularly corporations. According to Donal Carbaugh (2007, p. 1), Hofstede’s work has become one of the most cited in the Social Sciences Citation Index. However, the results and the methodology of his research have been widely criticised over recent decades. A brief review of this critique is included at the end of this section.

Hofstede (1980) researched superior - subordinate relationships and how values in the workplace are influenced by culture. As a basis, he gathered and analysed files from over one hundred thousand individuals from seventy countries between 1967 and 1973 while working for IBM as a psychologist. China was not included in Hofstede’s study conducted in 1980, as IBM had no office in mainland China at the time.

Based on his research, Hofstede developed a model which identifies four primary dimensions to differentiate cultures. In the following, Hofstede’s cultural dimensions

are introduced to help compare eastern and Western cultures. These dimensions investigate only cultural aspects. Thereafter, some of the implications of these differences for international JVs will be discussed.

#### **Four Primary Dimensions**

Power Distance Index (PDI): this index evaluates to what extent less powerful members accept the standard of unequally distributed power. 'It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders<sup>1</sup>'.

Individualism (IDV): this indicates to what extent the individual regards himself as an independent individual rather than part of a group. Members of collectivistic societies are more willing to sacrifice their personal gain for the group. Generally, a low level of individualism generally corresponds with a high power distance index.

Masculinity (MAS): this compares feminine values with masculine values. Feminine values stand for quality of life and nurturing, while masculine values concentrate on elements such as power and assertiveness.

Uncertainty Avoidance Index (UAI): this shows to what extent members of a society are comfortable with uncertainty, ambiguity and unstructured situations. Cultures with a low UAI commonly try to minimise uncertainty in their society with strict laws and regulations. On a religious level they may teach their followers in absolute terms.

Hofstede later added a fifth dimension, Long-Term Orientation (LTO). This dimension was created after conducting his so-called Chinese Value Survey in 1991. The survey was designed together with Chinese experts with the aim of identifying the most important Chinese cultural values. The survey showed that most of the values identified are based on the teachings of Confucius. Additionally,

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<sup>1</sup>Viewed 18 October 2010, <[http://www.geert-hofstede.com/hofstede\\_china.shtml](http://www.geert-hofstede.com/hofstede_china.shtml)>.

many values were related to the Confucian understanding of time. Short-term values include respect for tradition, fulfilling social obligations and protecting one's "face", while long-term values include thrift and perseverance. The following popular Confucian proverb demonstrates long-term thinking.

If you go to the stream in the morning, you observe that a rock in the stream has the power to part the waters rushing over it. But if you return to the same stream in 100 years, you see that the water has washed away the rock<sup>1</sup>.

### **Hofstede's Dimensions with respect to China**

Countries with a predominantly Chinese ethnicity (including Singapore, Hong Kong, Taiwan) have been shown to have a rather high PDI. China's PDI of 80 is significantly higher than that of other Asian countries which average at 60, while the world average is fifty-five. This is indicative of a high degree of inequality of power and wealth among members of a society. Ethnic Chinese cultures have a strong hierarchy which can be found both in business and society. For example, in Chinese companies the leader may give orders without much explanation. At the same time, Western managers in China must expect that employees will not show a great deal of initiative or expect orders and precise instructions to be given.

As mentioned above, cultures with a high PDI will have a low IDV. This can also be found in the case of China. Chinese employees tend to consider themselves primarily as group members rather than individuals in the work setting. This dimension presents the largest difference between European and Asian countries.

China's MAS index was found to be neutral. This indicates that Chinese society is neither strongly masculine or feminine. In conducting business in China, this dimension may become relevant if the foreign company has a culture which is particularly strong in either way. However, studies from Hofstede (1985) and Shenkar and Zeira (1992) show that having partners from opposite backgrounds

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<sup>1</sup>Viewed 5 March 2009, <[http://www.exampleessays.com/essay\\_search/rushing\\_waters.html](http://www.exampleessays.com/essay_search/rushing_waters.html)>.

such as masculine and feminine cultures may actually benefit the JV rather than colliding. Larimo (2003, p. 296) states the following regarding the UAI:

In high uncertainty avoidance countries organizations tend to respond to uncertainty by building up a system of high formalization and hierarchy. In low uncertainty avoidance countries people are more attracted to flexible, ad hoc structures that leave more room for improvisation and negotiation.

With an index of 40, China is on the lower side of the uncertainty avoidance index. Chapel (1998, p. 177) highlights that the UAI has been conceived by Western minds and is not applicable in the discussion of Chinese values.

China scored highest of all the analysed countries in terms of LTO. In general, Asian cultures seem to have a higher LTO than Western cultures. However, Li (1998, p. 61) points out that in recent years the short-term view of aiming for immediate benefits seems to have overtaken the traditional long-term values in China<sup>1</sup>.

### **Hofstede's Dimensions in Alliance Research**

Hofstede's (1980) research has been applied by academics to assess cultural aspects in alliances. The three dimensions of individualism, masculinity and uncertainty avoidance in particular have been employed as indicators for many researchers. Based on the four cultural dimensions, Kogut and Singh (1988) developed an index to measure JV performance. This approach was later refined by Barkema and Vermeulen (1997) by taking all of the five cultural dimensions of Hofstede into account. The central theory is that cultural similarity decreases the potential for culture-related problems in JVs by facilitating a common understanding and trust among the partners. This is in line with Hofstede<sup>2</sup>, who

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<sup>1</sup>The graphical summary on China can be retrieved from Geert Hofstede's consulting webpage, viewed 12 February 2008, <[http://www.geert-hofstede.com/hofstede\\_china.shtml](http://www.geert-hofstede.com/hofstede_china.shtml)>.

<sup>2</sup>Viewed 12 February 2008, <<http://www.cyborlink.com/besite/hofstede.htm>>.

concludes that 'Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster'.

The results of Larimo's (2003) research indicate that individualism has a positive influence on JV performance, while masculinity and uncertainty avoidance have a negative influence. Furthermore, he points out that there have been mixed results from studies conducted over the years.

### **Critique of Hofstede's research**

There are also numerous critical commentaries on the findings of Hofstede. A reason for this may be that he claims to have successfully 'uncover[ed] the secrets of entire national cultures' (1980, p. 44). This demonstrates Hofstede's affirmation in his definition of national cultures and his claim to have found the truth of the drivers of national cultures. Further, Hofstede (1991, p. 1) describes culture as a 'collective programming of the mind' and that the individual plays a passive role in the development of culture.

Some of the critique and discourse on Hofstede's research is briefly summarised as follows. Firstly, Hofstede's model must be reviewed in light of more recent research on cultures. The process of globalisation within the last 30 years certainly affects almost every society. Hence, it is questionable if all of Hofstede's findings, regardless of whether or not correct at the time, are still relevant. Secondly, there are alternative models describing national cultures, such as that by Schwartz (1992). To provide a comprehensive picture of views on national cultures, these models need to be compared with Hofstede's. Thirdly, some scholars strongly criticise the methodological assumptions made by Hofstede. McSweeney (2002) criticises that important elements of Hofstede's analysis are based on an inconsistent use of key terms and causal assumptions. For example, he criticises the supposedly undifferentiated and generalised use of the terms nations, cultures and national cultures. He concludes (p. 27) that 'Hofstede's apparently sophisticated analysis of extensive data necessarily relies on a number of

profoundly flawed assumptions'. Also Williamson (2003) argues that other paradigms are needed to describe national culture and to understand social behaviour. Fourthly, some researchers criticise specific aspects of Hofstede's research. For example, Tony Fang (2003) doubts the relevance and meaningfulness of Hofstede's latest dimension, 'long-term orientation'. Finally, Hofstede's view on dividing cultures implies that one nation can be perceived as modern while the other is perceived as traditional or backward.

### **Western and Eastern Problem Solving Approaches**

Trommsdorff and Kornadt (2007, p. X) argue that all humans grow up interacting with their respective socio-cultural environment, which can vary greatly among cultures. As a consequence of the influence of each respective socio-cultural environment, the actions of humans in different cultures also differ. Therefore, Western and the Chinese cultures contrast from each other and subsequently so do their actions. This includes the different ways in which people of different cultures perceive and solve problems. Hutchins (1995, p. 354) states: 'Culture is an adaptive process that accumulates partial solutions to frequently encountered problems'. Consequently, culture serves as a source of partial solution approaches with which individuals belonging to that culture may deal with problems. Strohschneider (2007) has compiled a comprehensive review of work by various authors on different thinking patterns and problem solving approaches among cultures. The following highlights his review of differences relating to Western and eastern cultures.

According to Jones and Harris (1967), when westerners explain why a certain event has occurred, they tend to describe the actions of others based on their personality while their own actions are based on circumstances. Choi, Nisbett and Norenzayan (1999) found that this difference in perception does not exist in Asian cultures. Further, because of this difference, Norenzayan and Nisbett (2000) argue

that there are fundamental discrepancies between Western and eastern cultures relating to causality. They differentiate between analytical (referring to Western) and holistic (referring to eastern) causality. Analytical causality categorises objects according to their attributes and subsequently bases causality on attribute characteristics. In contrast, holistic causality reviews the object according to its relations and subsequently describes causality based on relations of the object to its environment.

Correspondingly, Richard Nisbett argues, that Western cultures think in simple categories, such as “animal”, “human” or a “thing”, while for Asians the relationship between objects is crucial. For example, in an experiment which shows a picture of a cow, a cockerel and a piece of lawn, westerners and Chinese are asked to single out the non-fitting element within the picture. The result is that most westerners single out, without hesitation, the piece of lawn as for them it does not belong to the group of animals. The Chinese, on the other hand, fiercely object to the separation of the lawn, because in their way of thinking the cow and the lawn form a unit, as cows need to eat grass but cockerel do not. Cognition researchers such as Michael Chee, Denise Park and Ellen Langer could also prove this result in different ways. For example, by analysing brain scans which highlight which parts of the brain gets activated when westerners and Chinese are interviewed about relationships. The researchers explain that the much stronger stimulation of the respective brain parts in Asians is in direct correlation with their stronger collectivistic perspective of life. Other research approaches affirm these results using alternative methods such as comparing westerners and Asians’ memory functions, brain constitutions, response times and the personal need to be “in control” of things. As in China the Western way of reasoning, critiquing and logic gain acceptance and importance in its education system. The question arises if both ways of thinking will remain or if the globalisation process will lead the two to mix (Gruber, 2012, p. 17).

For the immediate future, the conclusion can be drawn that Chinese and westerners have distinct thinking patterns with regard to their perception of relationships and interrelations. Consequently, their perception and view of problems and their approach to solving problems also differs. Zhang highlights that also the Chinese philosophy of Taoism plays a crucial role in the way the Chinese solve their problems (Hellriegel and Slocum, 2007, p. 23): 'It has led to the belief that a non-confrontational approach to resolving conflicts may be superior and the need to balance the "yin" and the "yang."' Consequently, Burke (2010, p. 173), proposes that:

Foreign Joint ventures must be sensitive to the differences between the Chinese and Western culture. What constitutes a problem or obstacle in an American business relationship may not constitute a problem or obstacle in a Chinese business relationship.

Peng and Nisbett (1999) researched how westerners and Chinese deal with contradicting information and incompatible decision alternatives. Their conclusion was that westerners are influenced by Aristotle's thinking, which aims to substantiate arguments with additional information until one alternative is true and the other is untrue. Whereas the Chinese way of thinking is described as dialectic, as it accepts contradictions and assumes that both positions carry a piece of the truth. They conclude that this difference decisively influences the argumentation style of the two cultures.

Choi, Nisbett and Smith (1997) show that eastern collectivistic cultures, when making decisions under uncertainty, weigh social information more highly than other information. This so called 'accessibility hypothesis' serves as one explanation for the different thinking patterns between eastern and Western cultures, the latter of which tends to predominantly retrieve knowledge information.



Yates and Lee (1996, 338-351) investigate the differences between the Chinese and Western problem solving styles. They call the Chinese style 'folk precedent matching', indicating that the Chinese tend to follow a role model. When confronted with new problems, westerners tend to follow an analytical problem solving approach, while the Chinese follow a rule based approach. This means that the Chinese tend to search for exemplary decisions which can be applied to the specific case. In this way, decisions can be fairly easily justified as long as the role models made successful decisions. Interestingly, the authors found that Asians tend to be overconfident in their decisions compared to westerners with respect to alternatives and likelihoods (Yates, Lee and Bush, 1997).

In his research review, Strohschneider (2007, pp. 40-44) highlights that there is little research which focuses specifically on the different problem solving approaches among cultures. However, he attempts to summarise four relevant influencing factors in the solving of problems among different cultures.

Firstly, knowledge and the ability to solve problems is characterised by three influencing factors over a person's lifetime. The initial factor is formal education, which is usually related to the socio-economic environment of a society. The second factor is the degree of specific problem solving tasks delegated to a person during their childhood and adolescence. The third factor is the variety and demand of problem solving activity during a person's lifetime.

Secondly, motivation and self-confidence in solving problems are influenced by a person's freedom of action. A greater freedom of action enables a person to define problems autonomously and to create and accomplish solutions. Contrarily, if a person has a small freedom of action, a low motivation to solve problems typically results.

Thirdly, values and conviction in a culture also influence the way problems are solved. For example, collectivistic cultures exhibit conjointness among individuals.

As a result, such cultures seek solutions which are less aggressive and more often long-term oriented. Also, if a society has a strict system of values and norms, the need for individual problem solving is reduced. A society's general conviction is suggested to play a role in problem solving, as this influences its attitude towards risks and whether a more optimistic or pessimistic view of the future is taken. Lastly, a dominating ideology may influence a society's educational philosophy, leading to the use of different didactical methods during upbringing.

Fourth, economic and ecologic environments are also believed to influence a person's problem solving approach. A stable and calculable environment positively influences the problem solving approach, as it becomes more reliable. Furthermore, the availability of resources plays a role in problem solving in terms of the willingness to take risks.

In the following, the importance of acquiring communication capabilities and cultural awareness in China is highlighted, as these play an important role in the further analysis and interpretation of the problem attribute patterns.

### **Communication Capabilities and Cultural Awareness**

Communication is in general a very important topic in any JV. The Negotiation Experts 2010 proclaim in their report *The Importance of Business Communications*<sup>1</sup>:

Many joint ventures have collapsed or gradually fell apart needlessly due to a lack of communications between the parties involved. International agreements are especially prone to dissolution when the partners fail to maintain a respectable level of contact.

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<sup>1</sup>Viewed 16 October 2010, <<http://www.negotiations.com/case/business-relationship/>>.

The notion of communication builds upon the aspect of culture. In the context of China, Lee (2006, pp. 19-21) highlights that there are distinct differences in the way westerners and the way Chinese communicate. A well-known example is that, in general, Chinese shy away from giving a straight “no” to foreigners in order to save face and preserve harmony. They prefer to give an insignificant reply in order to win time to sort out the further course of action. However, if they have a good personal relationship with their Western colleague, they will tend to give straight “yes” and “no” answers. Until this relationship is established, they remain at a cursory level when dealing with unpleasant questions. When concrete numbers are requested, they might bring up excuses for not having the figures prepared or even deliver fictitious numbers.

Communication is a key element in building long-term relationships. The concept of having a negotiation with a tangible, agreed upon output is a Western concept. From a Chinese perspective, a literal translation of the word “negotiation” does not exist. The Chinese equivalent is to go into further discussions and continue to build relationships. This shows that the Chinese language is sophisticated and it is difficult to translate content, especially in a word for word manner. Therefore, from a contextual point of view it is important to always share the intention of the communication (Sun, 2010, p. 138/139).

Communication between the partners of a JV plays a crucial role in order to establish a functioning and successful business relationship. Also Ying (1996, p. 80) highlights the importance of communication and mutual understanding in order for a Sino-Western JV to succeed:

The key to a JV's ultimate success is to find the right management approach which is based on good communication and mutual understanding and maintains a right balance between prescribed western management techniques and sensitivity to the Chinese culture.

The above illustrates the importance of communication in the interaction of cultures as a basis for a successful Sino-Western JV. Ying's suggestion above also includes the aspect of mutual understanding as key for a Sino-Western JV's success. Furthermore, 'sensitivity to the Chinese culture' is proposed. In this work, awareness through greater understanding and sensitivity with respect to awareness of the Chinese culture is considered to be, in addition to communication capabilities, instrumental for a JV's success.

Cultural awareness is regarded as a crucial capability of the Western alliance partner to successfully manage a JV. Connerley and Pedersen (2005, p. xi) point out that 'It is difficult to know the cultures of others until and unless you have an awareness of your own culturally learned assumptions as they control your life'. For this reason they stress the importance of cultural awareness, which they define as (p. 92) 'the ability to judge a cultural situation accurately from both one's own and the others' cultural viewpoint'.

This kind of awareness is important as it has an influence on the success of any international business relationship. Gupta, Hanges and Dorfman (2002) highlight in their study that transactions in countries with a similar culture have a higher likelihood of success while cross-border deals with an intercultural distance are likely to succeed.

Green (1998, p. 5-7) points out that in general, humans have a preference for cultural homogeneity, known as ethnocentrism. Cultural differences are said to consist of variations in terms of what people believe is worthwhile and what is not. Variations in this belief among cultures leads to differences in practices and preferences. Based on this, Green reasons that in a multiethnic society, different cultural backgrounds can be a source of conflict among its groups and individuals. In the case of Sino-Western JVs, not only can the different beliefs of Chinese and westerners potentially cause conflict, but also those related to the different company cultures.

Through values and beliefs, a culture strongly influences the business conduct in a country. This awareness can be crucial to ensure a successful JV. Sun (2010, p. 71) gives the following example: 'the belief in relationships will often supersede other gains like profits. This is of special interest working with Chinese, who define their individuality with relationships'. According to Keller and Kronstedt (2005), westerners who strive to achieve successful business in China should not only have a good cultural understanding of Chinese values and beliefs, but also a good understanding of the Chinese philosophy.

Missing cultural awareness in an alliance leads to frustrations and problems. Ahmed and Li (1996, p. 276) summarise as follows:

Despite their popularity, most foreign managers engaged in Sino-Western joint ventures experience frustration while doing business in China. One major reason for this stems from a lack of understanding and awareness of differences between the way that the Chinese and their Western counterparts conduct business.

From a company perspective, Ahmed and Li (1996, p. 281) point out that Western companies need to be aware that certain capabilities are required (such as reading between the lines) in order to be successful in China.

### **Concluding Remarks**

As the approach of this work draws from a number of qualitative concepts. The introduced concepts include the notion of problems, problem classification and analysis, the notion of solutions as well as classification theory. These concepts are introduced in this chapter to provide background for the research approach.

Cultural aspects are reviewed in this chapter, as they are a rich source of misunderstandings and potential problems in Sino-Western JVs. The review of

Hofstede's framework clearly shows differences between the Chinese and Western cultures to exist in all five dimensions. Possible explanations to support Hofstede's findings may be rooted in the Chinese belief in Confucianism, which may help to understand the wide gaps in individualism, long-term orientation and power distance between the two cultures. It is apparent that many differences between cultures exist, such as in traditions and educational systems. However, the challenge is to understand the consequences of these differences, for example, it is important to understand how these differences influence the thinking patterns as well as the actions of the respective culture. For example, Western companies must be aware of the collectivistic thinking pattern of Chinese employees. It may be that this difference could lead to difficulties in operating a Sino-European JV. There are also differences in the problem solving approaches of westerners and Chinese. Additionally, westerners and Chinese may perceive the same problem differently. In an extreme case, a particular situation in a JV may be perceived as a significant problem by a westerner while it is not perceived as a problem at all by his Chinese counterpart due to different values.

As highlighted in the limitations part of this research (refer to Chapter I, Introduction), this work concentrates on the Western perspective. More specifically, it concentrates on Sino-Western problems as westerners perceive them. Thus, problems encountered from the Chinese perspective are not investigated. Potentially, different problem solving approaches may exponentiate the number of problems, as opposing methods to revolving issues may lead to further problems. In the view of the researcher, this possibility deserves further research. Hypothetically, an alignment of different problem solving approaches of JV partners from different cultures may enable such problems to be avoided. Consequently, a fraction of the total number of JV problems could potentially be circumvented. In light of inconsistent results on the influence of Hofstede's dimensions on JV performance, Larimo (2003, p. 299) concludes that there is clearly a need for more detailed investigations and analysis.

## CHAPTER IV: Theoretical Framework

*'No problem can be solved from the same level of consciousness that created it.'*

Albert Einstein

Qualitative research focuses on the understanding of a research phenomenon and the consideration of all contextual realities. This principle also governs the classification approach of this work. Based on the literature review, this chapter highlights important aspects with respect to this work. The aspects establish the theoretical framework and underlying concepts that guide the research approach. The flow of this chapter follows the structure of the literature review, but concentrates on the discussion of the practical applications and implications in respect to the applied concepts in this work.

### Problem Characterisation

According to Funke (2003, pp. 18-19), problems arise as humans try to achieve goals. The more abstract and imprecise the goals are, the more one needs to speak of optimising situations rather than actual problem solving. This differentiation is important, as it highlights that there is not always the "ideal" of having a clear one-to-one relationship where one has a problem which then gets solved. Another aspect is whether a problem arises due to an unspecified and unrealistic goal or due to limited resources. When faced with numerous problems simultaneously, an optimisation of the situation may provide some form of preliminary solution initially. Therefore, in order to resolve a problem, a characterisation is necessary as it helps to define the objective and nature of the potential resolution measures.

The classificatory approach of this work is more concerned with the content and hence the subject-related similarity of the problem attributes, rather than the definition of the problem itself. Consequently, “a problem” is considered as an obstacle which impedes the success of a JV in China. “Success” is achieved when the objectives of the JV partners are met. Objectives may be short-term, such as amortisation of investment costs, medium term, such as sales and profitability, or long-term, such as gaining tactical knowledge. Therefore, the perception of a JV’s success may vary depending on its stage in the JV life cycle. Consequently, “a problem” is defined in this work to include various challenges and issues in the establishment and management of a JV.

According to the literature review, various problem categories have been proposed. Some of these are applicable to characterising the problems investigated in this work. However, the characterisation of problems in the context of a Sino-Western JV is difficult, as this group of problems is very diverse and involves many underlying aspects. Complex problems may first appear well-defined, simple and solvable with knowledge readily available. Issues may appear straightforward on the surface, yet are much more complicated in reality. The reason is that problems may initially appear to be simple, but may be linked to other problems. In other words, there may be a domino effect, in which some problems cause further problems or side-effects. Further, Sino-Western JV problems may be considered as ill-defined problems, as the goal may be unknown and the solution highly dependent on the situation.

In this investigation, problems are not simply characterised, but classified according to the similarity of their problem attributes. To that end, the identification of similarities among Sino-Western JV problem areas and the development of a classification system are core aspects of this investigation. However, according to Compte (1974, p. 109), the method of comparison is one of the most important scientific methods in social sciences. However, despite its high importance, Matthes (1992, p. 75) highlights that the methodological fundament of comparison



methods has hardly been researched. He states that a wide and intensive discourse of epistemological and methodological aspects is missing in social sciences. Nohlen (1994, p. 507) concludes that the logic of the comparative research is underdeveloped in relation to its generally accepted importance.

The chosen approach can be compared with the process oriented problem categorisation of Greeno and Simon (1988, pp. 589–639). In the categorisation and classification of problem attributes for this work, the problems may be considered as induced problems in which relationships or structures among their elements are identified. Later, the problems may be viewed as both transformation problems, in which a current situation is to be developed into a new situation as well as arrangement and design problems, in which the current and desired states are known. However, the transforming operators are unknown and need to be identified. The next section puts the establishment of elements of a classification in the context of this work.

## **Classifications**

As described in the Literature Review, classification theory can be found in all branches of science, such as social science, biology and mathematics (termed set theory). Consequently, the approach applied in this work can also be described in mathematical terms according to set theory. This helps to describe the processes of separation and merging in an abstract and condensed way. For details, refer to Appendix B: Research Approach according to Set Theory.

Classification may be carried out in different ways, employing various elements. There are also numerous definitions according to what a classification actually is, most of which share a common underlying concept. The following section introduces different classification definitions and how they relate to the research approach of this work.

Jones (1970) and Hjørland and Pedersen (2005) highlight the importance of describing the purpose of a classification and, to be specific, what kind of knowledge is being organised. Here, the organised knowledge is based on empirical Sino-Western JV problems gained from the literature. The purpose of the classification is one of the objectives of this research. It aims to develop a classification of Sino-Western JV problem attributes by arranging them according to their similarities in a hierarchical cluster structure. This may allow the generation of a better understanding of typical problem clusters and enables a further analysis to potentially identify effective resolution measures.

Richardson (1964, p. 1) states: 'Classification in its simplest statement is the putting together of like things, or more fully described, it is the arranging of things according to likeness and unlikeness'. Hjørland, (2008, p. 335) describes classification as '...the ordering of objects (or processes or ideas, whatsoever, including documents) into classes on the basis of some properties of those objects'. Consequently, problems can also be classified and their arrangement can be carried out according to likeness and unlikeness, expressed in the similarities of their properties.

The Encyclopaedia Britannica (2012) defines the term "classification theory" as follows:

...principles governing the organization of objects into groups according to their similarities and differences or their relation to a set of criteria. Classification theory has applications in all branches of knowledge, especially the biological and social sciences. Its application to mathematics is called set theory.

According to strict logic, organizing a domain of objects into classes must leave no two classes with any object in common; also, all of the classes together must contain all of the objects of the domain. This theory, however, disregards the frequency in practice of borderline cases; i.e., objects that can with equal correctness be accepted or rejected as members of two otherwise exclusive

classes. This is often seen in biology, where the theory of evolution implies that some animal populations will have characteristics of two distinct species. ...

Based on the introduced definition of the term “classification theory” above, this work takes a large population of Sino-Western JV problem cases and separates each into its individual problem attributes. A problem attribute characterises key elements included in the respective problem case. The problem attributes extracted from all Sino-Western JV problem cases act as the basis for the research data and subsequent clustering process. The attributes (objects) are sorted into clusters (groups) according to their similarities. Similarities among problem attributes are considered to be similar aspects among the problems. For example, a cluster (group) is formed for all problem attributes (objects) which relate to a certain area, for example ‘communication’.

Formally, individual JV problem attributes are organised into several domains. Thereafter, all attributes are further organised into multiple, related clusters of problem attributes. The total of all clusters contain all of the problems and their attributes. In cases where a problem attribute relates to more than one cluster, the cluster which has the greatest relevance for the problem in terms of the context of the case study is selected.

The Oxford English Dictionary (2010) defines the term “classification” as:

1. The result of classifying; a systematic distribution, allocation, or arrangement of things in a number of distinct classes, according to shared characteristics or perceived or deduced affinities. Also: a system or method for classifying.
2. The action of classifying or arranging in classes, according to shared characteristics or perceived affinities; assignment to an appropriate class or classes.
3. A category to which something is assigned; a class.

The approach of the research is also in line with the definition above. The classification of Sino-Western JV problems requires a systematic allocation of problem attributes into a number of distinct clusters according to shared characteristics. The action of arranging attributes into clusters is based on determining the shared problem characteristic in order to assign a problem to its appropriate cluster. This was conducted in a stepwise manner by proposing shared characteristics and forming increasingly more specific categories for the problem attributes and finally assigning these to clusters.

Focusing on social sciences research, Bailey (1994, p. 3-4) describes a classification as 'the general process of grouping entities by similarity.' Furthermore, classification can be unidimensional, based on one dimension (characteristic) or multidimensional, meaning it is based on more than one characteristic. The variables of the dimensions can be either ordinal or nominal. Bailey further points out that the generic classification process is exhaustive as well as mutually exclusive. According to Sokal and Sneath (1963, p. 3), a classification can be a process or an end result.

Following Bailey's (1994) specification criteria of classifications, this work classifies JV problem attributes in relation to their similarity in the form of clusters. The dimensions used are ordinal, as the clusters are linked from general to increasingly more specific. The applied classification can be regarded as exhaustive, as all of the originally identified JV problems and the attributes they consist of are classified in a mutually exclusive way. Each individual problem attribute is assigned to one specific cluster.

### **Class Establishment**

The principle of classification is based on allocation. Objects or knowledge about objects is allocated to different disjunct segments referred to as "classes". The classes have a hierarchical order of up-ordination or subordination. Characteristics of higher hierarchical levels are passed on to lower classes. Buchanan (1989)

defines an upper class to include another class, while a subclass is one included in the embracing or upper class.

This research follows Wittgenstein's philosophical concept of "family resemblance" (German: Familienähnlichkeit). JV problem attributes are thought to be connected through similarities, although, there is no common feature among all problem attributes of a certain cluster. Furthermore, problems are derived from empirical cases which can be ambiguous and diffuse.

The principal of family resemblance or family likeness (Familienähnlichkeit) was introduced by Ludwig Wittgenstein (1889-1951) in his work 'Philosophical Investigations' (German: Philosophische Untersuchungen) (1953, 1967). He introduces the concept of a resemblance of elements which are not specific enough to be gathered in a taxonomical classification. Using the example of family members, he highlights the resemblance of one family member to another where inherited attributes are similar, but not identical. Within the blood relationship, its members can have similar attributes even though there is no common attribute to all the members, while they still all belong to the same family.

By giving practical examples, Wittgenstein shows the limitations of using hierarchical systematics. He postulates that the use of an unspecific term (e.g. words such as "mankind") is adequate, even though there is no precise definition. Wittgenstein argues that the use of imprecise terms is sufficient, as from a practical point of view, people commonly understand what is meant when using these terms. Furthermore, he highlights that (Wittgenstein, 1969, p. 25):

We are unable clearly to circumscribe the concepts we use; not because we don't know their real definition, but because there is no real 'definition' to them.

Through his concept, Wittgenstein shows the limitations of the exactness ideal while giving an alternative to classical logic. In the later years, Wittgenstein's idea

of family resemblance and the use of fuzzy terminologies have had a strong impact on a number of disciplines, such as (analytical) philosophy, logic (esp. fuzzy logic) and cultural sciences (Goeres, 2014).

One can differentiate between monothetic classes, which contain cases that are identical on all variables and polythetic classes, which group cases based on their overall greatest similarity. One characteristic of a monothetic class is that its elements must be both necessary and sufficient. Consequently, a monothetic type exists when all members are identical for all characteristics. This may also be referred to as the Aristotelian definition of a class (Bailey, 1973).

As outlined above, the polythetic concept relates to Wittgenstein's philosophical family resemblance concept. The idea is that elements are thought to be connected by a series of overlapping similarities where no clear feature is common to all elements. As elements and cases can have ambiguous and diffuse classifications, Wittgenstein questions the general ideal of following all-embracing exactness. This requires definitions which are necessary and sufficient (Backer and Hacker, 1980). Following this definition, a polythetic type exists when members are similar, but not identical. Beckner (1959, p. 22) defines a polythetic class in terms of a set  $G$  of properties  $f_1, f_2, \dots, f_n$  such that:

1. Each one possesses a large (but unspecified) number of the properties in  $G$
2. Each  $f$  in  $G$  is possessed by large number of these individuals
3. No  $f$  in  $G$  is possessed by every individual in the aggregate

A class is considered to be *fully polythetic* when all three conditions are fulfilled and *polythetic* when the first two conditions are fulfilled.

As highlighted above, the principle of classification is based on allocation. In this study, the term "class" is used interchangeably with the term "cluster". The

approach is based on the formation of polythetic clusters, which group attributes according to their overall greatest similarity.

How Beckner's (1959) conditions apply is explained as follows: G represents a cluster of problem attributes where all attributes relate to a specific characteristic. For example, a specific cluster consists of attributes related to a certain subject. This cluster is found in one of the domains. The cluster has a large, but unspecified number of properties (or rather, problem attributes). The problem attributes of that cluster share a common subject-related characteristic and are thus, similar to each other. Based on the number and granularity of the problem attributes, the cluster might be broken down into further sub-clusters with more specific problem attributes.

### **Classification Process**

The process of classifying elements is a form of scientific abstraction in which one creates knowledge by abstracting from detailed to general information or vice versa. Thus, objects can be classified in two ways: either analytic or synthetic. The basis for an analytic classification is a number of more or less differentiated objects. The objects are not individual elements, but rather part of a totality. A synthetic classification recognises simple objects first, which are then grouped according to their similarities (Rötzer, 2003, pp. 31-37).

In general, classification should rely on a hierarchy as a structuring principle. According to Gödert (1987), hierarchy orients itself based on the characteristics of the objects. In case two objects have the same characteristics, but one of the objects has an additional characteristic, the latter object will be subordinated. De Muralto (1991, p. 352) defines hierarchy as a '...type of order based on relations of priority (anteriority) and posterity. A clarification of this definition requires a specification of the principle that constitutes order as such...'. Consequently, classification schemes are based on hierarchical relationships which are built on the properties of the respective elements which form the relationship. The

expression of relationships can be expressed in different ways, such as from more general to more specific. This process involves connecting and sorting main classes based on integrative levels (Gnoli, Bosch and Mazzocchi, 2007).

Henrich (1999, pp. 230, 231) and Umlauf (2013) differentiate between mono and polyhierarchical classifications. In monohierarchical classifications systems, each class is linked to only one clear class above it and each main class is separated in two or more subordinate classes. The subordinate classes are then further separated into more sub-subordinate classes and so on. With exception of the main class, the result is that each class has exactly one superordinate class. As one class is subordinated to another distinct class, monohierarchies are commonly illustrated using a tree-like structure

Often this explicit classification is not possible and one class can be subordinated to a number of different classes. This is then called a poly-hierarchy. Polyhierarchical classification systems allow one class to be allocated to a number of different classes. They consist of classification tables which have only a limited number of classes. Each class represents only simple notions. The to be classified data is arranged in a way that gives meaning to the notation, which enables the data of several applicable classes to be subordinated.

There are also pre-combined classifications which offer a complete system of classes. These systems are intended to comprise all relevant and possible topics. In a facet-classification, initially simple classes are built without pre-combinations. These are then arranged in categories or so called facets.

The developed classification of this work is structured as a monohierarchy in which one problem attribute has one clear link to the next more general problem attribute cluster within the same problem domain. As shown above, classifications usually rely on a hierarchy as a structuring principle. The applied hierarchy is in line with the definitions of De Muralt (1991) and Gödert (1987). Applied to the definition of Gnoli, Bosch and Mazzocchi (2007) the relationships of the problem attributes are



expressed from general to more specific. This involves connecting and sorting the attributes in clusters based on common subject levels. The clusters are used to segment the problem attributes in more and more specific aspects.

### **Classification Advantages and Challenges**

A key advantage of classifications is that they are powerful descriptive tools which allow researchers to explain an array of types (or taxa) based on defined criteria. They are very helpful in reducing the complexity of large populations and allowing researchers to identify similarities and differences among cases by grouping them together through analysis. To that end, classifications help to determine relationships. The concepts employed in classifying the data and the connections made between these concepts, provide the basis of a fresh description. Consequently, they build the foundation for further analysis and interpretation.

The aim of this work is to build a classification of JV problem attributes by identifying them from JV problem cases and clustering similarities related to these attributes in a systematic manner. As outlined in Chapter I, Introduction, the wide nature and different degree of detail found in JV problem cases from the literature make it particularly difficult to achieve a systematic overview of the underlying attributes.

However, classifications can never be complete and there is generally no natural or best classification of a set of elements. Classifications serve predominantly as a means of communication. Therefore, it is important to clearly describe their purpose and to estimate their value by their adaptability and their flexibility. A major general difficulty of classification systems is that not all topics can be classified and elements may be classified in different ways. The systematic of a classification is predefined and difficult to be changed. When establishing a new classificatory framework, Hjørland and Pedersen (2005, p. 592-593) highlight that subjective elements are embedded in the classification process:

Classification is the sorting of objects based on some criteria selected among the properties of the classified objects. The basic quality of a classification is the basis on which the criteria have been chosen, motivated, and substantiated. The way we conceptualise an object depends on our pre-understanding, of our social-cultural background, of our domain-specific knowledge, and of our theoretical outlook. People with different theoretical outlooks tend to describe and classify objects differently.

This is in line with Rötzer (2003, p. 41), who states that also the classifications of the sciences are influenced by their socio-cultural environment. Their development reflects certain patterns which are derived from scientific cultural consensus and the prevailing scientific paradigms. Further, the method underlying how sciences are classified also influences the way in which they are recognised and executed. Also Rötzer highlights that classifications are influenced by their socio-cultural environment. These aspects also apply to this work. As stated in Chapter I, Scope and Limitations, the aspect of culture is an inherent limitation in this work, as the Sino-Western JV problems are provided by westerners and analysed by a westerner within the prevailing scientific paradigms. Consequently, the analysis steps applied are influenced by cultural aspects and the domain-specific knowledge of the researcher.

Bailey presents a comprehensive list of advantages and disadvantages of classifications (1994, p. 11-16). In the following, only advantages and challenges relevant to this work are introduced. Some researchers view classifications as purely descriptive and “pre-theoretical”. Through the use of unspecific types, reification may occur, meaning that confusion arises as to whether a type is a construct or an empirical entity. Another criticism is that classifications are rather static as opposed to dynamic and thus tend to cater to conceptual typologies more than empirical taxonomies. A further problem lies in the difficulty in finding cases and selecting dimensions. Lastly, Lang (1980, p. 5) highlights that conventional classification systems mature quickly and need to be constantly modified according

to new developments. Consequently, he concludes that a classification can never be complete and that its value is measured based on its adaptability and flexibility.

Bailey's (1994) argument that classifications are merely descriptive is not considered as relevant for this work, as this classification aims to build a foundation for further analysis and interpretation. Also, the second concern presented by Bailey, that a typology is at risk of reification, is not valid here due to the empirical nature of the identified problems. The criticism of the static nature of conceptual typologies is a valid argument, particularly as this work builds on empirical cases. However, this is why a clustering method has been selected which provides flexibility to further build upon the established cluster structure as needed. Furthermore, other numerical, quantitative methods, such as regression analysis, can also be considered as quite static. The difficulties of case identification and dimension selection are also valid, but are not specific to classification, as they are common challenges in social research.

Consequently, this work aims to build on the key strengths of defining a classification. The aim is to reduce the complexity of the large population of JV problems by condensing the problems into their attributes in order to identify similarities and differences among them. The result is a reduced complexity of the original empirically identified problem cases which can set the basis for further analysis. In essence, the complexity reduction simplifies the data. In this respect, King, Keohane and Verba (1994, p. 42) highlight that: 'Simplification has been an integral part of every known scholarly work'.

Eventually, the analysis enables the identification of relationships between problem attribute clusters. The overall idea is to gain new insights which will help to improve the success of Sino-Western JVs. However, it is inevitable that with a reduction of complexity comes a loss of detail of the original data. Tanner (2008, pp. 402-404) points out that:

Thus there is the problem that social science has to accept that human behavior is rarely similar enough to be grouped with any realistic hope of overall accuracy, it is almost invariably presented in categories as if they were similar, unless of course it is presented in qualitative terms in which numbers are not used as perceived illustrations of realities.

This work achieves a complexity reduction on the one hand, while trying to limit the loss of detail on the other hand. As highlighted by Tanner above, it is particularly difficult to group the elements of human behaviour. Consequently, this work suggests a linking of the isolated problem attributes according to their subject-related similarities. However, this comes with the price that the wider setting of the problem case is no longer reflected.

### **Typologies**

Based on Lauth (2009, pp. 154-170), a typology is a classification of at least two attributes which share at least one or more characteristics. The typology reflects a specific combination of the respective attributes. An attribute and its characteristic can be either directly observed or needs further analysis with the help of comparing indicators. The main benefit of building typologies is that they provide the ordering and structuring of elements. An ideal type represents the attempt to group complex reality into a certain term which bundles a number of attributes. This term is described as an ordering type. A typology can be the basis for the creation of a new hypothesis. The use of typologies allows the classification of a large number of a large variety into a few categories. The result is a major reduction of complexity, which can be a great benefit.

Consequently, Lauth and Winkler (2009, p. 42-43) conclude that comparisons contribute to theory building, hypothesis building and the development of causal links. According to them, a classification is an ordering of objects in classes according to one ordering/ comparing criteria. The more concrete a typology is, the more information it contains. The higher the abstraction level, the more cases can be assigned, but the lower its information content.

Thommen and Wübbenhorst (2012) define a typology as a means which helps to arrange and make real appearances manageable by expressing them as essential considered elements. The single type (typus) represents a number of appearances which carry a single, or a number of common attributes. Consequently, a typology may be defined as a classification of elements with certain characteristics and consisting of a set of types (De Vaus, 2004, pp. 225-226). Typologies can be built and applied in many ways. For example, Buccini and Padovani (2007) build a typology by identifying different categories of consumer emotions created through product design. Doty and Glick (1994, p. 244) describe the greatest advantage of typologies 'that they allow us to move beyond traditional linear or interaction (i.e., contingency) theories. Traditional theories are limited because they specify a consistent relationship between independent and dependent variables.'

However, Marshall and Rossman (2011, p. 215) caution that: 'analyst-constructed typologies are grounded in the data but not necessarily used explicitly by participants... this process entails uncovering patterns themes, and categories..'. When creating typologies Patton (2002, p. 459 ) and Marshall and Rossman (2011, p. 215) highlight the risk that a meaning is imposed on the data which rather reflects the researchers world than the world of the participants. As the data gets classified logically in matrices, it should help to sensitise the data but not guide the explorations. Consequently, Patton (2002, pp. 469-470) warns that:

It is easy for a matrix to begin to manipulate the data as the analyst is tempted to force the data into categories created by the cross-classification to fill out the matrix and make it work.

Sartori (1970) describes other key challenges of typologies: they allow different levels of abstraction and can consist of one central or include several characteristics. The higher the abstraction level, the more attributes can be grouped, which Sartori calls (1970, pp. 1040-1043) the 'ladder of abstraction'.

Within the ordering, the respective sub-types represent all the elements of the related superior type. However, this advantage comes with two problems which are called 'conceptual travelling' and 'conceptual stretching'. Conceptual travelling describes the problem of to what extent the applied terminology can be applied to new attributes. The problem of conceptual stretching deals with the challenge of to what extent new empirical attributes can be classified in the existing typology when they do not properly fit into the categories. The consequence is that the respective type becomes less precise. Sartori recommends to increase the abstraction level of the types in this case. However, this is accompanied by the disadvantage that the accurateness of the applied typological terms is reduced.

As outlined above, a typology is a type of classification in which two attributes share at least one or more characteristics. In the case of this work, two problem attributes share at least one characteristic which is considered to have the greatest subject-related similarity among the group of elements. As such, this work generally refers the more general term classification.

### **Deductive and Inductive Typologies**

In social research, typology construction can be achieved via three basic levels according to Bailey's "Three-Level Model" (Bailey, 1984; 1986). One level is called the conceptual level, which has a theoretical significance but no empirical counterpart and is generally deductively established. The other extreme is the pure empirical level, which is a pure empirical taxonomy but has no theoretical counterpart. The third level is a combination of the conceptual and the empirical levels and is referred to as the operational or indicator level. This level can be formed in two ways, either deductively or inductively. Deductive formation involves a concept specification and subsequently identifying empirical cases, which Bailey (1973) refers to as the "classical strategy". Alternatively, the indicator level may be formed inductively through first forming empirical clusters and subsequently formulating conceptual labels, which Glaser and Strauss (1967) refer to as the "grounded theory". With respect to either inductively or deductively developed typologies, De Vaus (2004, pp. 226) states:

An inductively derived typology is one in which we start with a question and then examine cases in the light of the question. A comparison of cases can then highlight clusters of similar cases.

A deductive approach to establish a typology is based on so-called "deductive reasoning"<sup>1</sup>. This logic follows a top-down approach in which one or several general statements are known to be true, which implies that also their subsequently derived conclusion is believed to be true. This is considered to be a deductively valid argument. This work entails inductive and deductive elements. However, as the approach is predominantly concept driven where the relevant empirical cases are identified, the resulting classification is considered to be a deductive classification.

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<sup>1</sup>More information about inductive and deductive argumentation to be found at the Internet Encyclopedia of Philosophy, <<http://www.iep.utm.edu/ded-ind/>>, last reviewed 11<sup>th</sup> May 2013.

**Monothetic and Polythetic Typologies**

Bailey (1994) differentiates between monothetic and polythetic typologies. Monothetic typologies have the characteristic that they are identical on all variables. Its elements must be both necessary and sufficient, and are therefore rather homogenous compared with polythetic typologies. Bailey (1973) points out that when a typology is constructed through analysis of empirical data, it is considered to be polythetic and rather ambiguous. However, also empirical typologies are constructed as homogenous as possible, 'but complete homogeneity is rare for typologies with many variables' (Bailey, 1973, p. 23). Consequently, monothetic typologies are often artificial (as they are usually theoretically constructed), homogenous and heuristic. According to Bailey (1994), the main advantages of conceptual typologies are similar to those of classifications. Ideally, they help to analyse the effects of interactions and to 'transform the complexity of apparently eclectic congeries of diverse cases into well-ordered sets of a few rather homogenous types...' (Bailey 1994, p. 33).

As classification is a rather universal and generic term, Sokol and Sneath (1963, p. 58) and Bailey (1973, p. 19) differentiate between the processes of classification and identification (also called "assignment") of typologies. In their view, classification entails conceptualisation without measurement, while identification entails the assignment of empirical elements to cells of an established classification. Bailey (1973, p. 27) combines the concepts of identification and classification and the mutually exclusive concepts of monothetic and polythetic in the table below. From a practical point of view he considers a polythetic-heuristic and monothetic-empirical typology as not realistic which are consequently marked as 'Null'.



	<b>Monothetic</b>	<b>Polythetic</b>
<b>Classification only</b>	Heuristic	Null
<b>Identification then Classification</b>	Null	Empirical
<b>Classification then Identification</b>	Classical	Reduced Classical

Table 8 Extended Typology of Bailey

### Further Possibilities to Differentiate Classifications

**Analytical and Synthetical Classifications:** analytical classifications order elements from general to increasingly specific. Synthetical classifications order the elements from specific to increasingly general and are also called facet classifications.

**Universal and Special Classifications:** universal classification systems aim to develop a universal systematic order of knowledge. One of the main challenges is that continuous progress and specialisation in sciences make a universal order difficult. Special classifications only serve a specific purpose and tend to be more precise. However, the disadvantage is that they do not include other subject areas.

**Scientific and Bibliographic Classifications:** scientific classifications are usually biological classifications with which living things are categorised. Bibliographic classifications are also called library classification systems which consist of the coding, sorting and organisation of documents.

**Typologies and Taxonomies:** classifications allow a study of relationships by combining the construction of typologies and identification of empirical cases. A typology is a form of classification which is generally multidimensional and

conceptual (Bailey 1994, p. 17-34). The typology is usually conceptual, as it builds on a qualitative classification which generalises the data and hence needs interpretation. This comes with the risk that a meaning is imposed on the data which tends to reflect the researchers world than the world of the participants. This distinguishes it from a taxonomy, which is usually an empirical and quantitative classification and often includes principles, procedures and rules (Bailey 1994, p. 17-34). Both have in common that they are classification schemes used to structure large amounts of data based on common characteristics.

Theoretical and Empirical Typologies: De Vaus (2004) differentiates between theoretically and empirically derived typologies. The former represents an ideal to describe a typology and which is usually not found in reality.

Based on the outlined options to differentiate classifications as described above, this work is can be regarded as an analytical classification. This is evident in the established cluster hierarchy, which proceeds from general to more specific problem attributes. The classification developed is a special and dynamic one, as JV problems in China are continuously developing (refer to Chapter I, Scope and Limitations). A bibliographic classification is developed as problem attributes are organised and not living things. This classification is further considered to be a typology, as elements are classified qualitatively and the results need further interpretation. Lastly, the typology developed is empirical as it is based on case studies.

### **Problem Classifications**

The literature review has introduced different research projects (refer to Chapter III) based on the classification of problems as a general approach to gather new insights. Furthermore, the review shows that the approach to analyse large problem sets may be applied in different fields of science. In general, prior work is in line with the approach of this work. It aims to structure and cluster JV problem attributes in a way which enables a better understanding of typical problem clusters and their attributes. However, the review has also shown that there does not appear to be no common method regarding the analysis and classification of problems.

Another difference between the introduced research projects and this research is that all of the studies identified deal with a narrower, more defined group of relatively specific problems related to a certain field of study, e.g. Keenan et al. (1999). However, this work includes, for example, not only operational, but also socio-cultural problems. Due to the wide range of problems, no existing specific framework can be applied. Hence, this research approach proposes a novel classification of Sino-Western JV problem attributes by arranging them according to their similarities in a hierarchical cluster structure.

### **Problem Interrelations**

A major disadvantage in the investigation of root cause analysis in the relationships among human problems is that they are not absolute and static and most likely will not reoccur in exactly the same way. The classical determination of causality and causal chains of past problems suggests that root causes can be clearly identified. Further, this suggests that through the identification and rectification of root causes, future problems may be avoided, implying that problems are solvable.

However, as highlighted by De Vaus (2004, p. 5), the complexity of human social behaviour makes it impossible to make direct conclusions when analysing human interactions, as one needs to consider that problems are embedded in human will, constraints and interaction. In the case of JV problems, root causes and causal chains are difficult to identify, as too many variables and dependencies exist such as:

- Human interaction, interference and constraints
- Differences between the cultures making retrospective analysis and predictions even more difficult
- The specific construct of two or more companies forming a joint entity with potentially different objectives

This type of analysis may be more suitable for technical problems. Therefore, applying root analysis in the context of this research is of limited value.

Therefore, this research approach differs from commonly used attempts to identify causal relationships for analysing problems. The applied approach will show that in analysing problems through the classification of problem attributes and the establishment of problem attribute clusters and hierarchies, problem interrelations become more transparent. Consequently, in order to generate a better understanding of typical problem areas, this work does not reflect on single, isolated problems. In fact, problem areas are seen as part of an interdependent construct of issues. This is in line with Ackoff (1981), who understands interrelated problems as a system of problems and problem solutions which depend on interactions.

The following section describes why it is not simply possible to classify JV problems in respect to their causality. Thereupon different elements are reviewed in context of this work related to classification and clustering of problems and the notion of problem solving.

## Clustering Technique

Miles and Huberman (1994, p. 249) point out the usefulness of the clustering technique in qualitative research, were in all instances of data clustering, they highlight that: ‘we’re trying to understand a phenomenon better by *grouping* and then *conceptualizing* objects that have similar patterns or characteristics.’ Consequently, data clustering is a process of moving to higher levels of abstraction. A challenge is that there are often many attributes which may be relevant to the clustering task (Miles and Huberman, 1994, p. 250).

Jain, Murty and Flynn (1999, p. 265) also highlight that clustering is a useful method with which to conduct grouping and pattern classification. Furthermore, clustering is especially useful, as it enables JV problems to be investigated in a holistic way, which is not documented in the literature. It helps to shed light on relationships among problem attributes and helps to limit assumptions. By clustering comprehensive information, problem attributes can be visually structured in cluster hierarchies and associations among the clusters. Consequently, the selection of a clustering approach is considered as a suitable method.

However, attention must be drawn to Jain, Murty and Flynn (1999, p. 290), who remark: ‘clustering is subjective in nature’. This means that the same data pool of problem attributes may be partitioned differently for different purposes. In this respect, the available domain knowledge of the researcher plays a crucial role in determining the clustering criteria. Thus, subjectivity in combination with implicit or explicit domain knowledge are integral parts of the data clustering process. Consequently, it is important to document the background and intent of the researcher (refer to Chapter V, Methodology).

### **Problem Solving and Solutions**

In this work, the notion of solving problems is understood as an idealistic concept. Single JV solutions are not expected to be effective and JV problems are best approached with a collection of different solution options. Solution options are expected to differ in their approach, such as their required resources, quality and effectiveness. In addition, it is difficult to predict the outcome of a particular solution due to unknowns, such as interdependencies and the creation of side-effects through the application of the solution.

As described earlier, JV problems are expected to be in constant flux due to the dynamic interaction of the players. Consequently, in order to test whether a classification can help to identify potential resolution measures, their requirements must be specified. Ideally, potential measures are adaptable to changing problems and circumstances. Accordingly, potential measures should fulfil certain properties, to ensure that are applicable to this changing set of problems (refer to Chapter V, Methodology).

There are many aspects influencing potential resolution measures. Various unpredictable side-effects may accompany problems or arise through attempts at solving problems. In other word actions taken in attempting to solve one problem may not only remedy the problem or prevent a subsequent problem, but may also lead to other phenomena. Therefore, these side-effects which could arise through the problem solving process may in fact be other problems. These unknown side-effects may become known by putting a proposed solution into practice and observing the outcome. However, these side-effects might depend very much on the particular problem scenario and be very difficult to infer. Causal relationships based on past events may not hold true for the future as there are numerous influences from primary and secondary events.

On account of the interrelation of JV problems and the fact that managers of JVs usually face a multitude of issues while having limited resources to solve problems, they should be aware of the effectiveness and efficiency of resolution measures. This work evaluates whether resolution measures can be derived from the resulting classification and also explores their effectiveness when applied to identified problem areas. In this respect, Covey's (1989) circle of influence is a helpful principle when applied to JV problems. The efficiency of resolution measures is not considered in this work as this aspect would entail a review of potential resolution measures, particularly regarding the quality of the implementation.

As the perception of what constitutes a problem and for this reason how a potential and effective solution could look like, the next section applies aspects related to culture in the context of this work.

### **Cultural Aspects**

The topic of cultural aspects, including a discussion of cultural dimensions, is addressed in the literature review. The review shows that the term "culture" and how it is understood, is still, and most likely will always be, in discussion. Researchers such as Gergen (1985) highlight theories such as the 'social constructionist movement', in which the development of culture predominantly takes place via social interchange and where language plays a crucial role. As highlighted in Chapter I, Scope and Limitations, this work regards the term culture rather broadly. In order to be able to compare different attitudes and beliefs and to highlight different fields of likely problems between westerners and Chinese, the comprehension of the cultural opposites is generalised.

Clearly, cultural differences among nations and alliance partners are likely to lead to difficulties such as misunderstandings (Connerley and Pedersen, 2005).

Differences in culture may lead to problems, but understanding them may also allow for insights into how to bridge cultural differences in a construct such as a Sino-Western JV.

It seems to be evident that cultural differences play a crucial role in the relationships between Chinese and Western alliance partners and can be a rich source for misunderstandings and problems (e.g. Burke, 2010; Trommsdorff and Kornadt, 2007). Additionally, this review shows that there are a number of factors which influence the problem solving approaches of cultures, societies and individuals, respectively. These range from dealing with uncertainty and risks, dealing with alternative options and the affinity to avoid conflicts (e.g. Hutchins, 1995; Strohschneider, 2007).

An assumption of this study is that distinct cultural differences between the Chinese and the westerners will remain in decades to come. However, propagators of the global village<sup>1</sup> concept may argue that cultural differences will diminish and fade away over the coming years. Central to this belief is that modern media, especially the internet, offer simultaneous information worldwide. Through electronic media, a physical distance no longer separates different people and cultures, fostering a rapid and boundary less interaction and exchange of information. The global village concept presumes that this process will lead to a kind of uniformity among cultures.

As cultures become more aligned, it may be addressed whether objectives, for example in a JV, will also become more aligned. From the author's point of view and experience, a certain harmonisation between China and the West has begun with respect to how business is administered. This is catalysed by Chinese being educated in a Western way and then returning to China. Furthermore, some aspects of social life appear to have become more uniform via the spread of food

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<sup>1</sup>The term was strongly coined by *Marshall McLuhan* and his 2 key books: *The Gutenberg Galaxy: the making of typographic man* (1962) and *Understanding Media* (1964).



and beverage chains, entertainment and fashion. However, this perceived harmonisation may remain on a superficial level. While China's entry into the WTO has required the Chinese to start to adhere to basic international business rules, their business and social mechanisms have remained largely untouched. Similarly, one could argue that just because the U.S. and France are long-time members of the WTO does not mean that their cultures do not influence their business conduct. Taking this argument one step further, simply because increasingly more westerners can use chop sticks and increasingly more Chinese drink coffee does not make each more Chinese or Western.

Even if the global village concept holds true and a harmonisation process of societies and cultures exists, it is too slow to be relevant to this research. China, with its deeply rooted ancient culture, has proven to be only moderately influenced by the West. In addition, China's modernisation over the last few decades has predominantly concentrated around The Greater Pearl River Delta, with the greater mass of the country is still largely unaffected.

### **Western and Eastern Problem Solving Approaches**

Without doubt, the socio-cultural environment (Norenzayan and Nisbett, 2000; Trommsdorff and Kornadt, 2007) strongly influences Chinese in their values and beliefs. This environment also shapes their understanding of what a problem is, how it is perceived importance and how to approach it (Strohschneider, 2007; Yates and Lee, 1996). Furthermore, the philosophical concepts of Confucianism and Taoism play a crucial role in the way Chinese resolve their conflicts (Hellriegel and Slocum, 2007). These facts have two major implications in regards to this research.

Firstly, in respect to the research approach of this work, it is better to concentrate on the analysis of solely Western problems. The classification builds on problem

attributes, meaning that the wider setting of the problem and its history are not considered. If the research includes problems of the Chinese, the risk is that problem attribute clusters are too diluted. Since Chinese perceive problems differently, a whole new range of problem attributes would most likely be added in the classification. As mentioned earlier, the definition of what is considered as a problem is already broadly defined. If Chinese problem attributes are added, the results and interpretation of this classification might not allow proper conclusions. However, a comparison of a separate collection and analysis of Chinese JV problems with Western problems might be an interesting and insightful investigation. Apart from the perception of what constitutes a problem, the review further shows that Chinese also seek different resolution methods compared with westerners. Possibly identified resolution measures may not be acceptable or applicable from the Chinese perspective.

Secondly, it is obvious that JVs between Chinese and westerners are a rich source of misunderstandings, challenges and problems. It is evident that Western managers working in China must be trained and have sufficient cultural sensitivity and on awareness of this different way of thinking. Furthermore, continuous and open communication between the JV partners seems to be an important means to defuse potential build ups of problems which will arise due to the different socio-cultural backgrounds. Consequently, the importance of the development of cultural awareness and communication capabilities must be stressed.

## CHAPTER V: Methodology

*'All progress is precarious, and the solution of one problem brings us face to face with another problem.'*

Martin Luther King, Jr.

This chapter concentrates on the motivation of the qualitative empirical approach, research design, as well as the most relevant aspects of a conceptual classification in order to meet the objective of this study. First, the overall approach in building a classification of JV problem attributes, which are identified through the extraction of empirical case studies, is presented. Then, an outline and description of the research stages for the respective chapters of this work are provided. This is followed by a description of the data selection, collection, categorisation and clustering processes in order to develop the classification of the problem attributes. Based on the developed classification, the next section introduces criteria for the further course of the analysis testing whether resolution measures can be identified and a potential process with which to evaluate their effectiveness. This is followed by a summary of the debate regarding the establishment of criteria to judge the quality of naturalistic studies. Thereafter, the qualitative vocabulary applied in this study is introduced. Subsequently, a description of the role and experiences of the researcher, which play a crucial role in the problem attribute classification process, is given. The last section summarises the complete workflow of the research.

### Research Design

Arminio and Hultgren (2002) recommend that the research process should include six elements which are embedded throughout the study: Foundation (epistemology and theory), approach (methodology), data collection (method), voice representation (multicultural subject consideration), meaning making (interpretation

and presentation) and implications (recommendations). The table below summarises these research phases in relation to the chapters of this work.

Phases	Background & orientation	Research methodology	Cluster results & explanation	Validation & interpretation	Recommendations & Conclusions
Chapter No & name	I Introduction	IV Theoretical Framework	VI Data Examination	VIII Cluster Structure Comparison	X Discussion and Findings
	II JVs and their Challenges	V Methodology	VII Cluster Structure Description	IX Cluster Structure Resolution	XI Conclusions
	III Literature Review				

**Table 9 Overview of Research Phases and Chapters**

Starting in the 1970's, JVs in China have become a common market entry form, while their problems continue to exist (Shan and Hamilton, 1991). Research addresses the topic of JVs in many ways, for example in the context of emerging markets, but also specifically in the context of China (refer to Chapter II, Joint Ventures and their Challenges). However, the fact that the problems continue to exist may mean that the causal relationships and the source of the problems have not yet been identified<sup>1</sup>.

This research proposes an approach to build on the value of documented problems in order to gain new insights (Terpstra and Olson, 1993). The aim is to build a classification of problem attributes to better understand links and relationships (Szostak, 2004). Even though there are different frameworks with which one could classify problems (e.g. Cowan 1990; Lau and Chan, 2010), these are not found to

<sup>1</sup> This challenge will be exemplified in the next chapter when the applicability of root cause analysis with respect to JV problems is introduced.

be suitable to address the objective of this research due to insufficient flexibility (refer to Chapter III, Literature Review).

As an alternative, building an empirical and conceptual classification is considered as an appropriate means in order to develop a better understanding of typical JV problem clusters and their attributes. Typology is a type of classification form and consequently comes with the same key advantages. However, the researcher prefers the term “classification” rather than “typology” to describe the research approach. Classification is the more general term and helps to avoid potential misunderstanding, as there are many definitions and sometimes different interpretations of the term typology. Furthermore, the classification approach applied in this work assigns elements based on flexible clustering and not based on a fixed terminology which groups elements with respect to defined types. The naming of problem attributes is based on the original description of the extracted problem statements. Consequently, not the type of problems and their characteristics are classified, but rather the content of the problem attributes in form of their subject-related similarities.

This work perceives the ill-defined group of JV problems as one big problem consisting of a wide range of heterogeneous subproblems, which range from simple to complex. The methodological approach builds on the key advantages of forming classifications: the reduction of complexity of a large population of elements, the determination of relationships among problem elements, the establishment of a hierarchy as a structuring principle, and the development of a foundation for further investigation and interpretation. However, there is generally no natural or best classification of a set of objects and classifications are never complete. A major difficulty with classification systems is that not all topics can be classified and that elements may be classified in different ways. In general, the systematic approach of a classification is predefined and is difficult to modify once applied. Consequently, one measurement of a classification’s value is its

adaptability and flexibility. As classifications serve predominantly as a means of communication, their purpose must be clearly described.

As highlighted, this work builds on the key strengths of classification systems to reduce the complexity of a large population of JV problems. The aim is to break down the initial ill-structured and ill-defined complex group of JV problems into well-structured and well-defined sub-problems, which enables the initial complex problem to be more easily solved or optimised. To achieve this, the former problem statements are broken down into single elements and the problem attributes are extracted. The result is that the developed classification/ cluster structure is 'stable' and able to be analysed as a whole while incorporating all of the original difficult to define problem statements.

In general, a problem arises when an objective, or desired end result, is not met (Duncker, 1935, 1974, p. 1). As highlighted in the previous Chapter, Theoretical Framework, "a problem" shall be considered as any obstacle or challenge which impedes the success of a JV in China. "Success" is achieved when the objectives of the JV partners are met. Consequently, this work defines the term problem broadly, as any task or matter of dispute which comes with difficulties. Obstacles have to be overcome in order to move from an unsatisfactorily initial situation to a satisfactorily (desired) end situation.

The notion of a problem depends very much on the perception of the problem solver and the availability of his resources. The perceived degree of difficulty depends on its solvability, the extent to which the problem can be defined, the degree to which the problem can be decomposed into single aspects, the connectedness between single problems, the resources needed to solve the problem and the subjectivity of the problem solver.

As outlined in the previous two chapters, problems can be characterised in different ways. Ideally, single problems can be grouped into problem classes. As

classes share similar characteristics, the same or similar resolution method might be applicable to resolve them. The common characteristic of all problems is their difficulty. However, the notion of “a problem” can vary from appearing to be trivial (considered more as a task), easy to solve (in which a solution pattern is known and easy to implement), or complex, and extending up to unsolvable (Funke, 2006, 2009). Consequently, using difficulty as the common characteristic is not precise and of little help when attempting to group problems. This underlines the importance for this work which identifies classifiable problem characteristics.

Based on the results of Chapter IV, Theoretical framework, the envisioned classification has the following attributes: it is a special analytical classification system which is polythetic and monohierarchical, with an deductive end result.

As the classification developed in this work is constructed through data analysis based on empirically derived data elements, it is considered to be polythetic. In the light of Bailey’s (1994) differentiation of monothetic and polythetic classes, the produced clusters are polythetic, as the characteristics of the problem attributes are similar and not identical. Furthermore, elements are grouped based on their overall greatest similarity and are connected by a series of overlapping similarities. Consequently, in this work polythetic problem attribute clusters are developed. This is also in line with Norman *et al.* (1998, p. 142), who states that the development of polythetic clusters is typical when large sample sizes and multiple dimensions are involved, such as is the case in this work.

The single type (typus) represents a number of appearances which carry a single or a number of common attributes. With respect to this work, each cluster represents a number of appearances carrying a number of common problem attributes. To achieve this, this research classifies JV problem attributes in a qualitative, conceptual way based on a newly developed classification. Therefore, the approach is based on the development of a conceptual classification based on JV problem attributes derived from empirically identified problem cases.

Applied to Bailey's categorisation of typologies (Bailey, 1973, p. 19), this work follows a process of identifying problem attributes among empirical problem case studies and, as a second step, classifying these clusters. Based on Bailey's Three-Level Model (Bailey, 1984; 1986), the result of this investigation may be referred to as a deductively derived operational or indicator typology. The elements are not complete and the labelling (producing meaning) is hypothetical and thus deductive. The developed classification of JV problem attributes forms a kind of hypothesis. In this respect, this work may be considered as hypo-deductive, as the hypothesis (classification) is not tested based on existing theories. Testing is carried out from a practitioner's point of view through the identification of potential resolution measures and also through the review by experts. Consequently, this work is concept and predicative driven, which results in a deductive classification. However, within the process of generating the classification, there are also inductive elements, since the conceptual labeling has been done in the course of the classification. This is because, as a first step, empirical clusters of JV problems and their underlying attributes are formed, followed by the establishment of conceptual labels for the attribute clusters.

In general, when grouping aspects related to human behavior, a lack of accuracy must be taken into account. As this work seeks to identify and better understand human problem patterns, the chosen approach is considered to be acceptable in terms of the resulting inevitable inaccuracy.

Due to the rapidly evolving Chinese economy, the classification approach must be flexible in order to adapt to potential future changes. Moreover, human problems are dynamic, which makes a classification difficult. As classes are usually pre-defined, this approach develops clusters of problem attributes which can be added and adapted in case needed. Clustering is carried out on the basis of the relatedness of the problem attributes, also called "family resemblance". In line with Norman *et al.* (1998), the clustering procedure used in this work assigns problem attributes based on their similarities. The attributes are then combined based on



common characteristics. Through this, the original number of approximately 700 Sino-Western Joint Venture problem attributes is reduced. Domains, main and sub-clusters are analysed based on similar problem attribute patterns at a single point in time. As the analysis is exploratory and descriptive, the results cannot be tested in terms of statistical significance.

The research approach employed in this work begins with an assessment of which kinds of problems Western companies encounter when investing in China. The reason is that each problem is real, with its own history. Such anecdotal problems can provide a very accurate picture of what is going on in the alliance (Volkema, 1986). In preparing the data for this investigation, the question arises whether all the detailed information provided in the source is required. This research concentrates only on the isolated individual problems and their respective attributes in order to be able to classify them. Consequently, it does not consider the wider original setting documented in each case. Therefore, factors such as company size and ratio of equity ownership are purposely not taken into consideration.

At first glance, it appears that single JV problems are unrelated. However, upon closer examination of a series of problem attributes, it becomes clear that problems are often quite similar. Problems may share common underlying circumstances that cause their development. Problems may arise due to aspects which are internal to the JV, such as differences in the objectives and expectations among JV partners or aspects which are external to the JV, such as constraining circumstances. Furthermore, complexity in the investigation of JV problems arises, as for example each company has different business objectives and related sub-objectives, each accompanied by a different set of problems. Rather than exploring the different business objectives underlying the problems, this research approach focuses on the Sino-Western JV problems themselves.

The question arises “how can one analyse these underlying circumstances which seem to cause these typical problems?”. In order to be able to systematically investigate similarities the research develops a classification of Sino-Western JV problem attributes by arranging problem attributes in clusters. In order to do so, problem preparation and specification are necessary to develop clusters and bring them into a structure. Thus, individual problems are split into their single attributes and investigated on a higher, more aggregated level. The developed approach enables a large number of actual JV problems to be analysed at on meta level. The concepts employed in the development of this approach, such as clustering are not new. However, their application in the context of JV problem attributes may be considered as unique. If needed, the problem attributes can be traced back to their original source as they are all referenced within the data collection and data analysis process (refer to Appendix F, where the problem categorisation worksheets are documented). Thus, if required, the original wider objective and associated information can be retrieved.

Additionally, the quality of the problems investigated in this work also needs to be considered. As the problems differ in various aspects, so does their quality. All problem attributes identified from the empirical case studies from the literature are included in the data analysis, although the quality of each problem is not considered. Possible recommendations for resolution measures stem from an interpretation of how the consolidated problem data may be resolved. Thus, the recommendations and their quality are also related to the quality of the problems.

This work aims to contribute to a better understanding of Sino-Western JV problems. In order to achieve this, problem attributes are classified based on their shared common characteristics. The developed classification serves as a basis for further analysis and interpretation of potential problem patterns among the problem attribute clusters. Ideally, this exploration allows the formulation of possible resolution measures which can potentially address a wide range of dedicated problem classes.

## **Research Stages**

The research approach is segmented in five research stages which are briefly introduced below. After this, each stage will be discussed in detail.

### **Stage 1: Selection and Collection** (documented in Chapter VI)

In the first stage of this research, a comprehensive body of literature focussing on Sino-Western JVs was selected. The literature contained interviews and cases which describe various problems encountered. These problems were documented as a source of data for this work (refer to Appendix D: References of all Collected Problems and Appendix E: Original List of Collected Problems). To ensure that the interviews from the literature reflect the 'true nature' and the best possible 'real life' problems encountered in Sino-Western JVs, the findings from the literature were compared with JV problems gathered via personal interviews conducted by the researcher.

For this purpose, four interviews were conducted in the year 2006 with Western Managing Directors of Sino-Western JVs. The interviews took place either in person or via telephone. Two interview partners were selected via personal contacts of the researcher: one referral through the expatriate community of Beijing and one through a recommendation by the Foreign Chamber of Commerce of Shanghai. Due to the sensitivity of the topics and in order to gain the most authentic recollections of the challenges and problems the Managing Directors are facing, the interview partners were guaranteed confidentiality. All interviews centered around the question of which problems the respective Managing Director were facing. Consequently, the interviews were conducted as open interviews, not following a questionnaire or semi-structured approach. The main aim of the exercise were to collect the nature and bandwidth of their problems in the same manner as the way in which problems were collected in the literature sources. Later on, the interview results were compared with those collected from the literature.

The result of the comparison was that the problems are similar and that the researcher could rely on the problems gathered from the literature as a reliable data source. The advantage of using only problems from the literature is that the data does not need to be kept confidential. This provides a higher degree of transparency given the interpretative approach of the problem categorisation and clustering conducted by the researcher (refer to Stage 2).

Upon evaluation of the reviewed literature sources (refer to Appendix D and E), it was decided to concentrate solely on problems gathered from case studies found in Blackman (2000). It was found that the book *China Business: The rules of the game* by Blackman (2000), with its documentation of case studies, covers the main aspects of all problem fields encountered in the other literature sources investigated. Some of the other literature provides more specific information related to certain problem fields, but no new problem fields could be identified. Compared with other literature reviewed, Blackman's work provides the greatest range of "real life" problems Western managers encounter in Chinese JVs. The case studies provided by Blackman are considered to be the most suitable source of data for this work based on several aspects. They demonstrate the complexity of JVs and doing business in China and provide sufficient detail in order to understand the problem setting and circumstances.

In addition to providing a comprehensive collection of JV problems encountered from the perspective of Western executives, Blackman's research is highly regarded by other scholars and received excellent book reviews. The quality of Blackman's work and applied rigor are given through both her background as a negotiation expert in China since 1967 as well as her fluency in Mandarin and ability to understand the Chinese business and cultural context. She draws on intensive case studies and her clear cultural understanding to reveal the tactics, conscious and unconscious, used by the Chinese, to explain why those tactics are used, and to suggest how Westerners might respond to them. Blackman's research documents the realities of doing business in China by providing real problem

cases, which enables the researcher to propose practical strategies to turn obstacles into advantages and identify the key elements of doing business effectively in China.

The case studies are based on interviews with Western expatriates in various industries in China. A number of different people contributed to this compilation of case studies, such as Carolyn Blackman, Director of Asian Studies with the support of Xiaoli Jiang, School of Behavioural & Social Sciences & Humanities, both from the University of Ballarat, Australia. The case studies stem from actual experiences by Western expatriates and describe difficulties experienced while working in China. The names and companies of the case study partners are not disclosed in order to maintain confidentiality. Further, Trade Commissions in Beijing and Shanghai and institutions such as the ECA Asia Pacific in Melbourne and the Australia China Business Council were interviewed who assisted in establishing business contacts for the project within China. Lastly, a number of consultants, mediators and trainers operating in China shared their experiences.

Each chapter of Blackman's work deals with a different aspect of collaborating with the Chinese in China. Real life problems are illustrated through case studies written from the individual perspective of the Western manager. Each chapter has an introduction and commentary to provide the reader with background information on the topic and the case studies. In her introduction, Blackman states (2000, p. xvii) her intent to 'pass on information on valuable lessons learned by previous expatriates'. She does this by highlighting different Sino-Western JV aspects, providing information on the Chinese setting and background while also outlining strategies on how to deal with various issues. Her book concludes with a summary of key aspects, such as the danger of applying Western assumptions to the Chinese business environment.

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In summary, Blackman's book provides a comprehensive body of real case studies including quotes and problem descriptions related to Sino-Western JV establishment and operations. As a result, Blackman's case studies and explanations provide a database from which approximately 700 individual problems have been identified for the purpose of analysis in this work.

However, as stated in Chapter I, Limitations, the nature of JV problems in China is evolving over time. This research acknowledges that the publication of case studies by Blackman dates from the year 2000. However, even if some variation exists among problems today identified in the past, an important contribution of this research is to identify the mechanisms and underlying themes of Sino-Western JV problems in general and to generate an improved understanding of these constructs. Most of the mechanisms and themes underlying the problems are believed to be equally valid in the near future, as they are inherent to the Western and Chinese cultures and their values.

**Stage 2: Categorisation and Clustering** (documented in Chapter VI)

The second stage consists of problem categorisation and problem clustering. In general, categorisation is the attempt to cluster all elements which have the same or similar attributes. In analysing the problem dataset, similarities are identified among the problem attributes in order to group them according to clusters. Similarities among problem attributes are considered to be similar aspects related to problems between Chinese and westerners. In cases where a problem attribute relates to more than one cluster, the cluster which has the greatest relevance for the problem in terms of the context of the case study is selected. Consequently, this form of research depends on the interpretation, involved in analysing the problems and in developing resolution measures. Banathy and Jenlink (2004, p. 45) point out that interpretation is necessary when working with human problems, as these are unavoidably linked to subjectivity. They conclude that 'our main tool in working with human systems is subjectivity'. Naturally, this research involves also interpretation and subjectivity. To ensure transparency, all identified literature problems are captured in a database (refer to Appendix F: Problem Categorisation Worksheets) recording the core statement of the problem.

In the case of this work, the interpretive process may be compared with the process of open coding (refer to section Quality in Naturalistic Inquiries further in this chapter). In order to break through and interpret new phenomena (in the case of this work typical Sino-Western JV problem areas) which are reflected in the data, the data needs be categorised. The categorisation process entails a broad structuring of the wide range of problems and challenges identified. This is carried out by analysing the problem statements and by separating them into their single individual attributes. This separation is necessary in order to be able to clearly assign a problem attribute to a specific group.

In order to group the problem attributes, various broader categories are defined. The action of arranging problem attributes into clusters is based on determining the shared problem attribute characteristic in order to determine problem attribute

categories. This interim step is helpful to handle the large dataset and to split it into problem attribute categories. To enable a more detailed grouping, two grouping levels are created in the database to differentiate between the main problem category and the second related category (refer to Appendix F: Problem Categorisation Worksheets). To ensure consistency and accuracy of the data, a number of rules are defined regarding the categorisation of the problems.

Following this, the attributes are finally assigned to their appropriate cluster based on their similarities. Likewise a stepwise manner is employed by identifying shared characteristics of problem attributes, assigning them to broad categories and refining into increasingly more specific categories.

The principle of classification is based on the allocation of pre-categorised problem attributes into clusters. The clusters have a hierarchical order of upwards or subordination (Gnoli, Bosch and Mazzocchi, 2007). Characteristics of higher hierarchical levels are passed on to lower classes. Cluster characteristics of higher hierarchical levels are contained in the lower classes. This hierarchy ascends from general problem attribute clusters to increasingly specific clusters containing more specific problem attributes. By bringing the data into this form, key problem areas as well as interrelations among the problem attributes are identified.

Practically, the clustering process is supported by a mind map software, enabling the large number of problem attributes to be administered. Upon completing the clustering process of the problem attributes, a number of domains emerge, each containing a multitude of clusters and sub-clusters. The figure below summarises the process from literature selection until clustering of problem attributes.



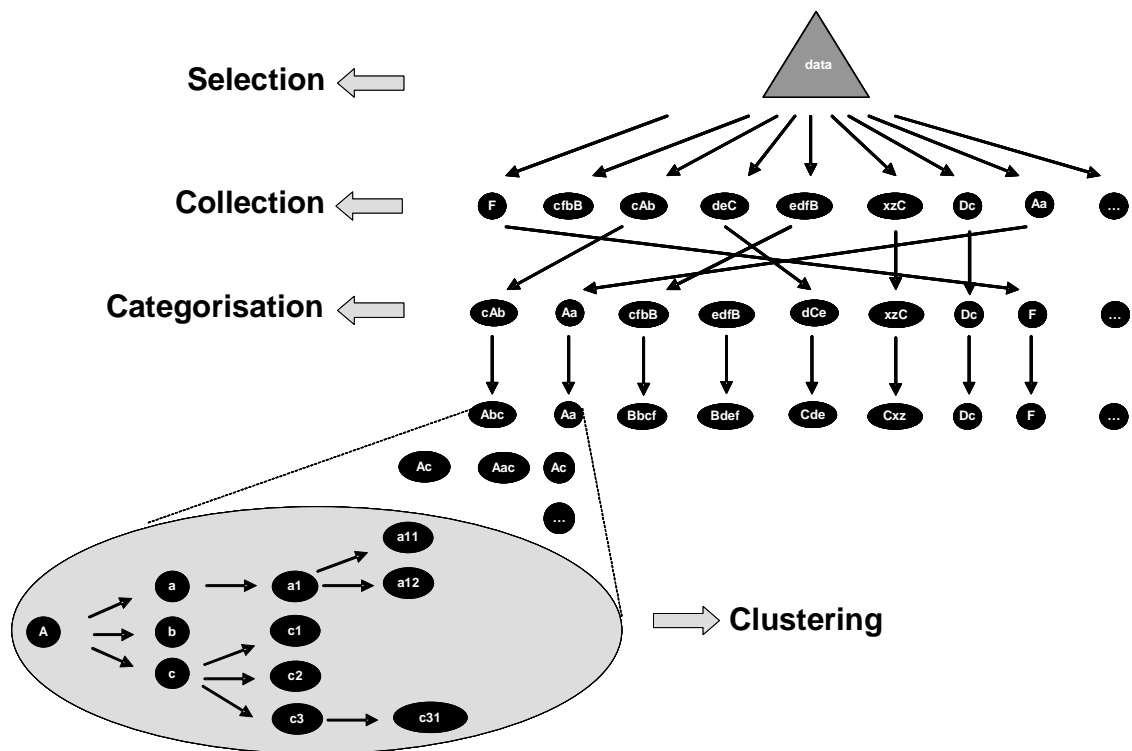


Figure 3 Problem Analysis Approach

### Stage 3: Cluster Structure Description (documented in Chapter VII)

The third stage concentrates on the clear documentation of the cluster structure. The description is an explanation and elaboration of the classification structure. In this stage, proper problem description is important in order to understand, summarise and evaluate the problem structures identified. Some detailed aspects of the problems are only touched upon briefly. The focus of this chapter lies in developing an understanding of the cluster structure and the domains, but not in the detailed documentation of each single issue and aspect.

### Stage 4: Cluster Structure Comparison (documented in Chapter VIII)

In the fourth stage, a comparison is made between the classification of problem attributes belonging to one of the developed domains and a second classification developed through an interview with an expert. Due to the large size and numerous fields of the entire problem structure, the comparison concentrates on only one of

the problem domains. Problems and their attributes identified through the interview are brought into a hierarchical structure, as was previously carried out for the research data from the literature. Finally, the two problem clusters, one based on the research data and one developed based on the expert interview, are compared in order to identify similarities and differences.

**Stage 5: Cluster Structure Resolution** (documented in Chapter IX)

Based on the results of the identified domains and clusters an analysis of cluster structures and their respective problem areas allows the recommendation of measures for addressing problem areas to be inferred. To ensure that measures identified for solving problems are applicable in practice, certain criteria which the identified measures should fulfil are proposed.

Next, the effectiveness of the potential resolution measures is investigated. To achieve this, a review of the problem attribute clusters with respect to the suggested measures is conducted to show which problems may be positively influenced by the measures and which ones cannot be influenced at all with a reasonable effort. This part is conducted in several steps beginning with an analysis of an exploration of the resolvability of all the problem attributes. The result is a segmentation of the entire problem structure into two main sections: *unsolvable* and *influenceable* problem attributes, where the latter is subdivided into *solvable* and *reducible* problems.

This analysis of the effectiveness of identified resolution measures is intended to allow companies to take efficient and effective actions in typical problem areas they might be able to influence. Furthermore, they are thought to address typical areas of JV problems, rather than individual problems. This is to increase the theoretical effectiveness of the suggested resolutions, since if the measures can potentially solve a problem cluster. Consequently, its problem solving ability is greater than a solution aiming to solve a single problem only. With this advice, the goal is that

Western companies are more likely to achieve their business objectives and thus to make the JV more successful.

### **Selection and Collection Criteria**

Lauth and Winkler (2009, p. 56) raise the problem of selecting errors in connection with the selected and collected data source. In practice, aspects such as the availability of and access to data, language capabilities, financial resources and personal preferences play a role in this selection process. A key problem is called selection bias, in which the selection of the data significantly influences the research outcome.

The data selection and collection process for this research involves collecting problems which arise when forming or operating a Sino-Western JV. Various literature sources were reviewed, as described below. Additionally, during the early evaluation of this topic, personal interviews with Western expatriates working in Sino-Western JVs were conducted. All the problems cited by the expatriates during the interviews could also be identified in the reviewed literature. Thus, early in this study, literature was selected as the primary data source, serving the function of interviews.

There is a wide range of literature available citing problems related to Sino-Western JVs. A reference list of the literature reviewed in this context can be found in Appendix D. Most newspaper articles reviewed (e.g. Rong, 2005) describe problems on a higher, more aggregated level. Further, few specific articles about JV problems in the Sino-Western context were found. Research journal articles are numerous (e.g. Cheng, 1997; Shankar, 1990; Teece, 1977), but usually deal with JV problems on a more abstract level, focussing on certain aspects and tend not to include hands-on operational problems. There are a growing number of business books on the topic of doing business in China and running JVs. Some of these

focus on specific aspects such as the liability problems Western companies encounter in China (Riley, 1999) or focus on other specific issues such as contractual matters (Claydon Gescher, 1994) and taxation (Zee and Ho, 1994). Altogether, approximately 1,500 problems were collected from the sources cited above and are documented in Appendix E.

### **Categorisation and Clustering Criteria**

The empirical case studies used as the data source represent complex problematic circumstances, which are broken down into single aspects – their problem attributes. The approach of this study builds on the examination of a large number of JV problems. As mentioned above, each problem represents a case which provides a picture of the issues experienced in the JV<sup>1</sup>. However, in order to get a comprehensive overview of typical problem areas, the original problems are reduced to their respective attributes. This is achieved by shortening the original case study problems to individual statements, which are then split into problem attributes.

Having collected all the problems in a database, the statements are grouped and refined first in order to facilitate the clustering process of the problem attributes. For this reason, various main categories are defined which the problem statements are assigned to. To enable a more detailed grouping, a second grouping level get created to differentiate between the main problem category and a second related category. Consequently, in the course of the data preparation, the wider setting of the problem statement is disregarded and the classification concentrates on the problem attributes only. A problem attribute characterises key elements included in the respective problem case.

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<sup>1</sup>The method used to analyse JV problems in this work may be compared with the method used to report multiple case studies based on typologies. This comparison is reasonable, as in this research each individual JV problem represents a component of a case study, or a “mini case”.

Each problem attribute is compared to other problem attributes for similarities and differences and are conceptually labelled. As a result, conceptually similar problem attributes form categories and are further refined by specific sub-categories. In the process of assigning a category for each problem statement, the categories are iteratively reviewed and renamed to ensure suitability. To ensure consistent categorisation and grouping of the statements within the process, five rules are established, as follows:

1) Amount of detail:

The nature of the problems ranges from very general comments to very detailed manager reports. The categories include both general and detailed problems at this stage.

*Rule: the categories contain both general and more detailed problems.*

2) One statement – several issues:

A single statement can relate to a number of obvious and also implicit problems.

*Rule: the original problem statement is always retained in its wording where possible and is broken down into individual aspects where applicable.*

3) One statement can consist of a number of problems:

A statement may refer to a main problem and several sub- or related problems. To allow for a more precise categorisation and more specific grouping, a second category is introduced in addition to the main category.

*Rule: a category may appear as a main category or also as a subcategory under a different main category.*

4) East-West differentiation:

The categories do not specifically differentiate if problems are related to either the Chinese or the Western side. As the case studies are reported by westerners, it is assumed that all problems are seen from a Western perspective.

*Rule: all problems are reported from westerners and do not differentiate if they are caused by the Chinese or the Western side.*

5) Difficult categorisations:

Some of the categories require renaming or modification during the course of the categorisation. Due to the diversity of problems, it is not possible to group all of the problems immediately.

*Rule: problems that are difficult to group may be categorised at a later stage once more experience is gained with the clustering process and the categories are more established.*

In a next step, the pre-categorised problem attributes are classified through a clustering process. As stated by De Vaus' (2004, pp. 225-226), once a typology is established, clustering may be used to compare different cases. To do this, multiple cases are necessary and a set of characteristics need to be identified. In this way, problem attributes with similar characteristics are classified. Through further analysis, problem attribute clusters<sup>1</sup> with similar characteristics are arranged according to a cluster structure. Finally, the large number of diverse Sino-Western JV problem attributes is brought into a hierarchical structure<sup>2</sup>. The result of the clustering process is a structure based on a cluster hierarchy which represents the classification of problems.

The clusters to be generated are intended to group related problems and do not describe the quality or the significance of the problems themselves. The result is that the applied classification is subject-oriented. This categorises the problems in different attribute clusters on a highly condensed level. These are called "domains". Therefore, the quality (i.e. significance or impact) of the problems is intentionally

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<sup>1</sup>In this work, the term "class" is used interchangeably with the term "cluster".

<sup>2</sup>Even there is an implied hierarchy of problem clusters; from the view of the researcher taxonomy is not created. The main reasons are that the hierarchy of taxonomy builds on a clear rule based structure with dedicated parent-child relationships.

not considered. This subject-oriented approach is necessary in order to cluster the problem attributes and to identify similarities among them.

During the clustering process, the following guiding principles are applied in order to reduce complexity and to enable visualisation:

- If a problem is relevant for more than one different cluster, it is assigned only once to the most fitting cluster.
- If a problem recurs in several different case studies, it is documented only once in its appropriate cluster.
- Connections between clusters exist only between subsequent levels in one lineage starting with a common domain. Thus, there is no cross-linking among clusters of the same level or under different domains.

### **Similarities of Problem Attributes**

In line with Bailey (1994, p. 7), this work establishes a classification based upon polythetic classes, as it clusters problem attributes according to their overall greatest similarities. The final classification consists of clusters of problem attributes highlighting certain problem areas. In essence, this approach follows Wittgenstein's polythetic concept of "family resemblance", where problem attributes are considered to be connected through a series of overlapping similarities and where no clear feature is common to all elements. A monothetic type of classification does not exist here, as the problem attributes are not identical with respect to all characteristics. Consequently, this concept allows a clustering of elements which cannot be sufficiently captured through a taxonomy classification.

The family resemblance concept applied to problem attributes means that they are grouped into categories based on their subject-related similarity. As documented in Appendix F, where the problem categorisation worksheets are shown, the similarity of the problem attributes plays a crucial role in the clustering process. Similar problem attributes are put together in the same main category. In order to allow a refined categorisation of the problem attributes, a second category is introduced.

The resulting cluster hierarchy consists of problem attributes grouped in clusters with different degrees of detail. Problem attributes of a more general nature are clustered on a higher, more aggregated level in the hierarchy. Whereas, problems dealing with more specific aspects and providing greater detail are clustered according to certain common underlying subject-related aspects on lower levels. Consequently, clusters on higher hierarchical levels are contained in the lower classes and the clusters show a hierarchical order of up-ordination or subordination.

This process enables all problems to be documented (refer to Chapter VII, Cluster Structure Description) without the risk of over-generalising or losing specific characteristics of the problems. This is possible as the problem attributes are still represented in their original form. As a result, problem attributes are clustered and linked through a hierarchy. This hierarchy ascends from general problem attribute clusters to increasingly specific clusters containing more specific problem attributes. By bringing the data into this form, key problem areas as well as interrelations among the problem attributes are identified.

Some ways of simplifying the clustering process could be addressed in future research, for example by weighting the problem attributes in terms of relevance to a particular cluster or frequency of occurrence among the data, or allowing further inter-connections (refer to Chapter XI, Outlook).

As shown in Appendix B, Research Approach, according to Set Theory, the process of analysing the data through a segmentation and grouping of the entire population of problem attributes into problem attribute clusters can also be described in a mathematical way by using set theory. In this respect, the clusters consist of different sets of problem attributes. However, the chosen research approach is predominantly based on visualisation as outlined in the following.



### **Visualisation of Problem Similarities and Hierarchies**

Early in the work, the difficulty of administering the cluster structure containing numerous problem attributes became evident. As described in Chapter VI, Data Examination, the analysis of the data is an iterative process which requires numerous and flexible modification. At an early stage of the work, a paper based approach was used. Since the constant modifications were very time consuming and the clusters continued to grow larger with each additional problem attribute, the paper based classification process became unmanageable.

In order to support the analysis process, a review of software was conducted. The result of the investigation, which included interviewing consultants working as information technology specialists, was that the software *Free Mind – free mind mapping and knowledge building software* would be the most suitable for this research. However, the methodology introduced in this work does not require a specific software, any modern mind map software is suitable. A universal data format was chosen so that the files can also be used with other mind map programs such as SciPlore MindMapping.

Initially, the development of a mind map supports the process of illustrating first ideas and the collection of key data. Different but interrelated data elements are easily linked and initially do not follow a given structure. Over time, a hierarchical structure is developed interactively by adding more and more data elements. The hierarchical structure is shown in the form of data trees, where key elements are usually shown as stems and further elements are added in the form of main and sub-branches.

With respect to this work, the main reason for choosing mind map<sup>1</sup> software is that it enables a large data set to be administered efficiently. It enables a flexible arrangement and re-arrangement of problem attributes according to clusters in a hierarchical arrangement. Furthermore, it allows one to include references and

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<sup>1</sup>Mind Maps are predominantly used for brainstorming sessions.

symbols, to zoom into individual data trees and to export the data in different formats, including in the form of a table. Thus, subject-related similarities among problem attributes, once identified, can be easily linked and de-linked in the mind map trees. The end result is a hierarchical, tree like form consisting of problem attribute clusters. Hugi (1995) summarises the major general advantages of producing mind maps in electronic form with the help of software:

- a large number of user-defined objects can be administered
- data trees can be easily built, reorganised, folded and unfolded
- different object types can be marked and formatted

Mind map software comes with advantages, however also has its limitations. The major limitations of using mind map software in reference to this work are:

- The precondition for using mind maps is that common aspects must exist among the elements in order to enable categorisation. Consequently, similarities must also exist among the problem attributes to enable this.
- The more problem attributes are included, the more difficult it becomes to visualise the structure, hence, the more difficult it is to analyse the results and make interpretations.
- Linking problems directly between different clusters makes the structure unclear and difficult to read. On one hand, it may be interesting to link the problems and show their connections, but on the other hand, the original structure is no longer visible.

From the personal point of view of the researcher, mind maps are a powerful tool with which the clustered problem attributes are visualised in this work. Using mind map software enables a large number of data elements (problem attributes) to be administered. An efficient manipulation of such a large data set would most likely not have been possible for this research without the help of a software. Additionally, by visualising this work through mind map software assists in the analysis of the problem areas, their linkages and, in the end, also the identification of potential resolution measures.

### **Resolution Measures Criteria**

One objective of the research is to evaluate whether the developed cluster structure can enable possible resolution measures to be identified. In order to specify the objective, the research approach includes two steps:

- 1) Definition of criteria and properties general resolution measures should fulfil
- 2) Evaluate the effectiveness of possible resolution measures

Having developed an extensive and complex structure with numerous domains and problem attribute clusters and sub-clusters, the question arises as to how these problem attribute clusters can potentially be resolved. This leads to several questions:

- Is it reasonable to try to solve all the problems?
- Which problems can be solved and which cannot?
- Which measures need to be taken to address which kind of issues?
- Who should do what to improve the situation?
- Where does one start?

As outlined in Chapter III, Literature Review, the actual or perceived solvability of problems depends, for example, on the level of resource investment, such as in the form of knowledge or financial resources. Consequently, in order to systematically address the identified problem patterns and to offer practical managerial solutions, it is suggested to define criteria and properties which the resolution measures should fulfil:

#### *Westerners implement measures*

Measures identified through this work are to be implemented by the Western company investing in China. The investment is made on China's territory, thus the Western company must deal with the Chinese socio-cultural and business environments. Normally, a few westerners must deal with a large number of Chinese. Thus, it makes more sense for westerners to learn how to adapt to the

Chinese environment. Potential measures should be implemented by the westerners themselves and not by the Chinese or a third party.

*Resource allocation for the measures*

Factors such as the length of time, financial involvement and expertise required to address problems are crucial factors which companies should take into consideration. The resources allotted for a measure will depend on how a particular company chooses to implement it and which constraints exist.

*Desirability of the solutions resulting from the measures*

The measures should lead to desirable solutions and be rational from the Western perspective. For example, a measure should meet the expectations of the Western management regarding various aspects, such as their role, involvement and resources.

*Preventative character of the measures*

Addressing problems at an early stage may save much time and effort. Hence, preventative measures should be taken a priori. This may reduce the risks faced by the westerner.

*Generalisability of the measures to a wide range of industries*

Problems companies face will vary in their specific circumstances. Thus, measures are identified in general terms, as precise aspects regarding their implementation are expected to vary. These general measures aim to be of practical value for various companies and not only for a certain industry.

*Applicability of the measures to a wide range of problems*

The results of the clustering process show that JV problems can be found in almost every area of an alliance. Thus, it will be of limited value if a measure tackles only a very specific type of problem. In other words, identified solutions must be able to positively influence a number of different challenges.

*Prevention of problem recurrence*

The measures identified shall act in a way that they prevent or lessen the recurrence of the problems they address.

It is acknowledged that the quality of potential measures depend on the quality of the problems. As outlined in the Scope and Limitation section, in this work, the quality of the problems is not investigated. The quality of the measures, however, is addressed to some extent through the definition of the above properties. In addition, the quality of the measures is certainly influenced by other aspects not considered, such as interactions among JV partners and their objectives.

Furthermore, solutions vary in their effectiveness: that is, to what degree the problem is resolved. Also, solutions may vary in their elegance to solve a particular problem. For example, a solution may not only affect the targeted problem, but also affect other problems or create side-effects. These side-effects may, in fact, be further problems. In addition, the outcome of applying a resolution measure is difficult to predict.

Up to this point, the general requirements for solving JV problems have been proposed as well as the limitation of potential resolutions in terms of quality, effectiveness and elegance (limitation of side-effects).

**Evaluation of the Effectiveness of Identified Resolution Measures**

The basic concept applied in the theoretical application of potential resolution measures follows the evaluation of the resolution measures' effectiveness based on the principle of the "Circle of Influence" (refer to Chapter III, Theoretical Framework, Problem Solving and Solutions). It is assumed that the Western management has limited resources to tackle the problems arising in the JV. Consequently, it should focus on problems which are potentially resolvable and within its "circle of control" or in its "circle of influence". Every attempt to resolve problems outside these circles is an economic waste, as things are not changeable

and outside the influence of the Western management. For example, it may be difficult to influence changes in the guidelines of the central government. Energy is better invested in relationships with the local municipality which might be within the circle of influence. However, the key challenge for Western managers is to find out whether the problems they are facing are really in their circle of influence. Then the Western managers should also question whether it is worth addressing specific problems within their circle of influence or rather to address different issues. Therefore, a good understanding of the resolvability of JV problems and their attributes is important.

To theoretically explore the effectiveness of the suggested resolution measures, the idealistic concepts of *influenceable* problem attributes, which may be either *solvable* or *reducible* and *unsolvable* problem attributes are introduced. These concepts are introduced below in order to provide the reader with a common understanding of these problem categories later employed. Some problem attributes seem to be *influenceable*, while others seem to be very difficult or almost impossible to solve. This approach is rather theoretical, as the degree to which problem attributes can be influenced, varies depending on the context and situation. Furthermore, as outlined in Chapter III, Literature Review, the actual or perceived solvability of problems is subjective in general. In respect to this work, the process of determining the degree of solvability of the problem attributes is subjective by nature.

#### *Influenceable problem attributes*

Problem attributes in this category can be positively influenced by the Western company. To be able to address these problem attributes, the company must take certain measures. The result of taking such measures may be to either fully resolve or reduce the problem attributes. *Influenceable* problem attributes are further subdivided as either *solvable* or *reducible*.

- *Solvable problem attributes*

Solvable problem attributes are considered to be most likely resolved if the recommended resolution measures are taken. However, suggested measures may not completely resolve the particular problem attribute but considerably improve it. The introduced concept of solvable problem attributes is proposed as an idealistic concept.

- *Reducible problem attributes*

Through the application of the recommended measures, reducible problem attributes cannot be solved, but rather the situation may be improved upon. The level of reduction depends largely on the particular issue and the individual circumstances. Therefore, each case requires a deeper analysis. Hence, the degree of improvement can vary widely. However, as some problem attributes may not be influenced at all, the category of *unsolvable* problem attributes is introduced below.

*Unsolvable problem attributes*

This work defines *unsolvable* problem attributes as issues that cannot be solved at all through a reasonable effort. At best, the Western company can be made aware of this circumstance and prepare properly. However, the Western company is powerless to influence these.

Potential resolutions are considered for all problem attributes identified from the case studies and accordingly categorised as *influenceable* (*solvable*, *reducible*) or *unsolvable* problem attributes. However, precisely how effective the proposed resolution measures are or how they may influence other problems or create side-effects cannot be fully predicted. The general applicability will always depend on the individual circumstances of the JV.

As stated in Chapter I, Scope and Limitations, the aspect of culture is an inherent limitation in this work. The categorisation process is carried out by a westerner, whereas a Chinese researcher might have a different view of which problem attributes are considered influenceable or unsolvable.

### **Application Process of Suggested Resolution Measures**

The following describes the process of applying the potential resolution measures to the entire set of problem attribute data to determine which are *influenceable* (*reducible* and *solvable*) or *unsolvable*.

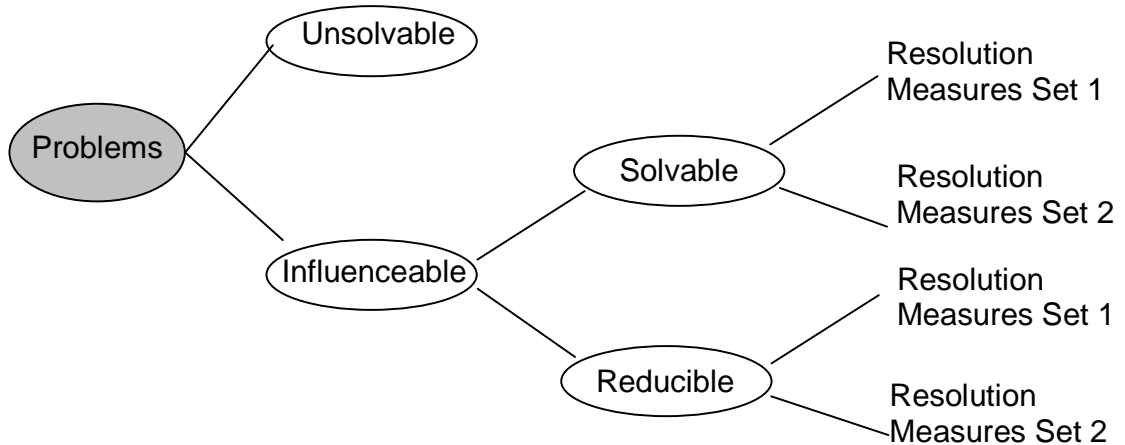
In the course of the application, all the collected problem attributes are assessed and categorised. The result is a segmentation of the entire problem attribute cluster structure into two main sections: *unsolvable* and *influenceable* problems, where the latter is further subdivided into *solvable* and *reducible* problems. Two different, but complementary sets of resolution measures are suggested.

The steps involved in reviewing all problems with respect to the recommended resolution measures related to communication capabilities and cultural awareness are summarised in the following flow chart. The chart shows the categorisation process for problems into the *solvable*, *unsolvable* and *reducible* categories with respect to the two types of measures. The original cluster levels of the problems are retained to ensure traceability of the original problem structure.

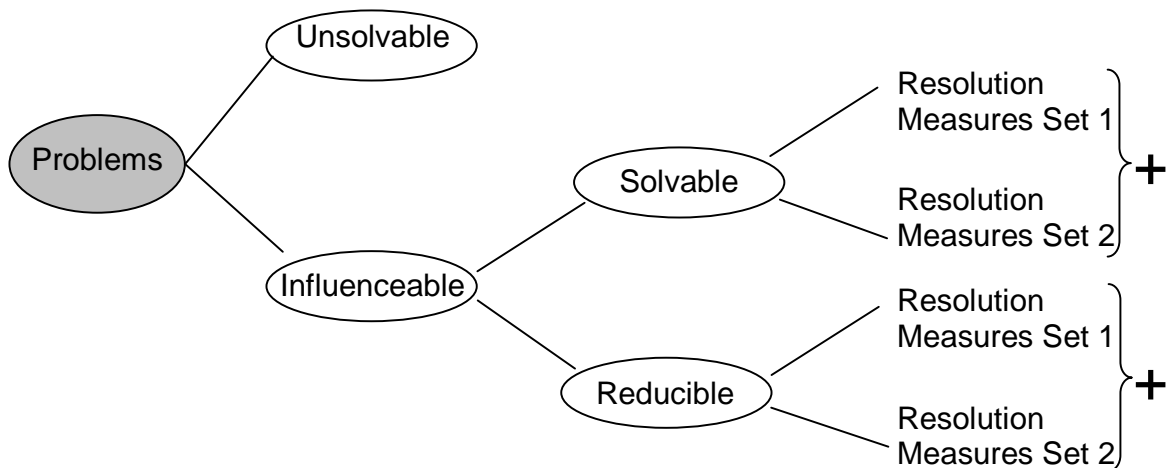
The final categorization of the problem attribute depends on the evaluation of the effectiveness of all suggested measures. For example, if a problem is considered to be *solvable* through at least one of the suggested measures, it is categorized overall as *solvable*. If it is considered as not solvable, but *reducible* through at least one of the measures, it is categorized as *reducible*. If it is considered as not *solvable* or *reducible* through at least one of the measures, it is categorized as *unsolvable*.



As the *solvable* and *reducible* problem attributes are applied in a step-by-step approach in order to understand their effectiveness, they are kept separate in the beginning and get merged later as shown in the following two figures:



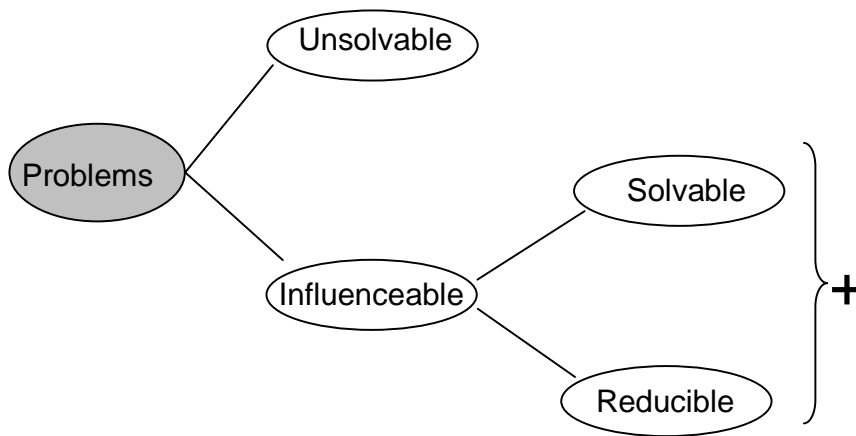
**Figure 4 Summary Resolution Measures Application**



**Figure 5 Merge Resolution Measure Types**

Lastly, the two *influenceable* cluster structures containing problem attributes considered to be *solvable* and *reducible* problem attributes are merged as shown in the figure below. Finally, the cluster structure is divided into two main areas (given the definitions above): clusters with problem attributes which are believed to

be unsolvable and clusters with problem attributes which are believed to be positively *influenceable*.



**Figure 6 Merge Solvable and Reducible Clusters**

As outlined above, the JV problem attributes are the data elements of this work. The process of categorising and clustering aims to classify these in terms of similarities and patterns to discover typical JV problem areas. To be able to do this, the data elements need to be prepared as described above. In determining appropriate similarities, implicit or explicit domain knowledge (human expertise) is necessary. This expertise may lie within the knowledge domain of the researcher or an expert. Similarly, the process of identifying and theoretically applying resolution measures to the problem attribute cluster structure requires the involvement of the researcher.

### **Quality in Naturalistic Inquiries**

There are distinct elements of what characterises qualitative research. Smith (1987, 174-176) highlights that qualitative research is, first of all, empirical in that data is collected in order to study a phenomenon. Besides this, qualitative research investigates in the context of the phenomenon, such as the social environment.

She believes that context sensitivity is necessary to understand, for example, the situation in which people find themselves in order to be able to interpret the larger context. Consequently, to be able to become context sensitive, it is required that qualitative researchers become situated in the natural setting of the phenomenon over a prolonged time.

Similarly, Glaser and Strauss (1965, p. 8) argue that: 'the analytical framework which emerges from the researcher's collection and scrutiny of qualitative data is equivalent to what *'he knows systematically about his own data'*... 'What is more, if he has participated in the social life of his subjects then he has been living by his analyses, testing them out not only by observation and interview but in daily liveable fact.' According to them, this kind of experience emphasises the importance of trusting in one's own credible knowledge. This requires that the role of the researcher as well as the researcher's views and approach must be made transparent. In this respect Smith, 1987, p. 175, highlights:

Objectivity, in the conventional sense is an illusion; the subject's intentions, beliefs, views of the researcher, and interests must be considered. A further implication of the belief of context sensitivity is a deemphasis of standardized or general research methods... Methods are not viewed as guarantors of truth, as they seem to be in the orthodox, textbook model of experimentation. Rather, methods are used inventively and tailored to the situation. In many cases, multiple methods are employed, and the findings of alternative methods are played off against each other.

As there is no catalogue of certified methods, Smith (1987, p. 175) concludes that qualitative research must be 'marked by self-examination and criticism of the roles established, of the methods used, and of mistakes made.'

In the history of qualitative research, there has long been a dispute between traditional quantitative and qualitative driven results. While quantitative results aim to be generalisable and objective, qualitative results are contextual and therefore more difficult to generalise. Objectivity in qualitative research is reached by

introducing multiple perspectives and findings tend to vary in broader contexts. Consequently, quantitative researchers argue that bias in the freedom of the research process and of the researcher produce validity issues (Whittemore, Chase and Mandle, 2001, p. 523/524).

As an outcome of the debate, Lincoln and Guba (1985) translated and applied quantitative validity criteria into qualitative criteria for naturalistic paradigms: 'internal validity into credibility, external validity into transferability, reliability into dependability, and objectivity to confirmability'. In search of qualitative validity research criteria, their contributions, which emphasise the need for credibility and authenticity as benchmarks for quality, still remain as a 'gold standard' (Whittemore, Chase and Mandle, 2001, pp. 523-528).

However, the established criteria of Lincoln and Guba (1985) are also debated and challenged. Apart from different views on certain criteria, the main critique is that their suggested criteria are translated from positivist criteria, while at the same time they reject the positivistic paradigm (Sparks, 2001). This argumentation is in line with Hammersly (1992), Bailey (1996) and other researchers, who argue that a translation of quantitative validity criteria to qualitative research is inappropriate and inadequate due to different research goals. For example, generalisability of research results tends not to be an important research goal in qualitative research. Accordingly, the importance of internal and external validity of research results in qualitative research is not as relevant.

Besides this, other researchers suggest a reconsidering certain positivistic parameters, such as completeness and interpret them from a naturalistic point of view. Tobin and Begley (2004) argue that completeness is important for quantitative researchers to confirm existing data, while for qualitative researchers it allows them to recognise multiple realities of a naturalistic phenomenon. Johnson (1999) crisply summarises the debate by highlighting that the challenge of

qualitative research is to incorporate rigor and subjectivity, but also creativity in scientific work.

The interpretative research approaches focus on meanings of events in a certain social context as described by actors. The belief is that for gaining social knowledge, one needs to experience and understand the context, while there are no criteria which can be used to verify the results, as there are no universal laws. The artistic approaches are usually artistic narrative reports of a phenomenon and not descriptions that explain the empiric assertions. As there are no standardised criteria, one must rely on the criteria applied by the researcher. In contrary, systematic research approaches try to develop assurance of the findings via well described methods of data collection and analysis (e.g. Lincoln and Guba 1985; Miles and Huberman, 1994). Criteria of reliability and validity are adopted to judge the objectivity of the work. Lastly, there are also so called theory-driven research approaches, such as conflict theories or structural-functional theories. Standards of reliability and validity are applied based on the chosen framework.

Pertaining to systematic approaches, Whittemore, Chase and Mandle (2001) propose a synthesis of different viewpoints of qualitative validity standards and criteria which have emerged over the last 20 years. In their work, they differentiate between primary and secondary criteria and techniques. Criteria are different standards which help to judge the quality of the research results, while techniques describe the employed methods and help to diminish validity issues.

Primary criteria (credibility, authenticity, criticality and integrity) are considered to be applicable to all qualitative research, while secondary criteria (explicitness, vividness, creativity, thoroughness, congruence and sensitivity) are applicable to a particular investigation and are thus more flexible. Techniques (design consideration, data generating, analytic and presentation) are methods which help to contribute to validity by assuring the respective validity criteria. As a result, Whittemore, Chase and Mandle (2001) conclude that qualitative research findings

must be presented in line with their established validity criteria and applied techniques in order to meaningfully critique the results.

Tobin and Begley (2004) integrate different validity criteria into new terms which are called “goodness” and “trustworthiness” to evaluate the robustness of a qualitative study. However, their review is only a snapshot of a contemporary analysis and debate. This is demonstrated by Cho and Trend (2006), who propose concepts to establish validity termed “transactional validity” and “transformational validity”.

The debate between the applicability of quantitative and qualitative quality criteria of research is also an evolutionary debate between quantitative researchers due to different backgrounds of diverse philosophical schools of thought. Broadly, Smith (1987) differentiates qualitative research from different approaches: interpretative, artistic, systematic and theory-driven.

Therefore, as validity criteria for naturalistic inquiries are still evolving, Lincoln postulates already in 1995 that the aim is not to achieve a consensus about the criteria, but rather to recognise and appreciate new emerging criteria for qualitative paradigms. Lincoln points out (1995, p. 287) that ‘the standards for quality in interpretive social science are also standards for ethics’.

### **Grounded Theory and Coding**

Other qualitative researchers have attempted to formulate processes and criteria describing how to conduct valid qualitative research, such as Glaser and Strauss (1967) in ‘The Discovery of Grounded Theory’. With respect to the time of this publication, the researchers additionally had polemic interests to challenge the post-war sociological research community of the ‘grand theories’. In the eyes of Glaser and Strauss, the grand theories had lost touch with reality, as they develop hypotheses based on deductively derived variables. From their point of view the grand theories were seen problematic due to the building of generalised and

sometimes quite abstract theories of society. Consequently, they suggested an alternative research model to the systems theorists, such as Talcott Parsons and quantitative driven social studies. They proposed a move back to basics, directly into the research fields in order to derive hypotheses inductively (Alheit, 2000). Therefore, one of the central ideas of the grounded theory is that central concepts shall be developed in the course of the examination of the data material.

Corbin and Strauss (1990) argue that 'procedures and canons' need to be stated explicitly in order to allow a proper evaluation and to eventually produce a 'grounded theory'. However, the grounded theory is not a specific method, but rather a style of how to analyse qualitative data.

For the development of grounded theory, Corbin and Strauss (1990) formulate procedures on what they believe gives research project rigor. They demand that grounded theory is reproducible in the sense that it is verifiable. However, they also put this into perspective by cautioning (1990, p. 424):

However, probably no theory that deals with a social psychological phenomenon is actually reproducible insofar as finding new situations or other situations whose conditions exactly match those of the original study, though many major conditions may be similar.

Within the grounded theory, the process of data coding is distinguished from other qualitative methods. Glaser and Strauss (1965, p. 6) emphasise that there is no clear distinction between implicit coding and data collection and data analysis. In 1990, Corbin and Strauss (1990, p. 419) highlight that the processes of data collection and analysis are interrelated, calling coding a 'fundamental analytic process used by the researcher'. Likewise, Walker and Myrick (2006, p. 549) regard coding as not simply a part of data analysis, but rather as an essential process, as it transforms 'data from transcript to theory'. Miles and Huberman (1994, p. 69) confirm that 'the researcher needs to reduce and channel data into a

small number of concepts that can mentally be encoded, stored, and readily retrieved.'

Corbin and Strauss (1990) state different types of data coding (open, axial and selective) and lastly seven criteria for the evaluation of a grounded theory. They define **open coding** as an analytical process by which data gets broken into its elements. Within this process, conceptual categories are formed and data gets sorted for the initial coding. The main purpose is to gain new insights by developing new interpretations regarding the phenomena. Events/elements/actions are compared to each other with respect to their similarities and differences. Conceptually, similar elements are grouped together based on their properties in categories and respective sub-categories based on their subtypes (Corbin and Strauss, 1990, p. 423; Marshall and Rossman, 2011, pp. 214/ 215). Corbin and Strauss summarise the main advantages of open coding with respect to grounded theory as follows (1990, p. 423):

Open coding and its characteristics of making use of questioning and constant comparisons enable investigators to break through subjectivity and bias. Fracturing the data forces examination of preconceived notions and ideas by judging these against the data themselves. A researcher can inadequately attempt to place data into a category where it does not analytically belong, but by means of making systematic comparisons, these errors will eventually be located and the concepts placed in appropriate classifications.

**Axial coding** relates categories to their sub-categories, while the relationships are tested against the data. The idea is to complement the existing categories by forming new ones. This coding method requires the collection and analysis of alternative data. Otherwise one can expect large gaps in the developed theory (Corbin and Strauss, 1990, p. 423). Marshall and Rossman (2011, p. 215) describe that in axial coding, 'codes are clustered around points of intersection, or axes.'



**Selective coding** focuses on clustering all categories around a central category. The central category represents the central phenomenon of the study. Categories which need explanation are complemented by further descriptions. Corbin and Strauss (1990, p. 424) explain the process as follows:

The core category might emerge from among the categories already identified, or one might find that another more abstract term is needed in order to explain the main phenomenon. ... Diagramming can be a very useful tool for assisting in this integration of categories.

As qualitative research produces rich descriptions, the coding process is important to carve out concepts and to reduce the massive amount of empirical data. In general, coding is understood as the process of analysing the data for similarities and differences. Thereby the raw data gets broken into elements which are then labelled and categorised (Patton, 2002). In the subsequent coding process, the labelled elements are compared and put into categories. Similar elements are put together and if there is a non-fitting element, a new category is created. According to Walker and Myrick (2006, p. 549), 'coding is an iterative, inductive, yet reductive process that organises data, from which the researcher can then construct themes, essences, descriptions, and theories.' Consequently, data collection and data analysis are interrelated in qualitative research.

However, even the grounded theory approach, once perceived as revolutionary among qualitative researchers, is heavily debated (Walker and Myrick, 2006). The main debate centres on Glaser (1992) and Strauss and Corbin (1990), who both propose different versions of the grounded theory approach.

The interpretive process of this work may also be compared with an open data coding process based on the approach of data categorisation and clustering. In order to break through and interpret new phenomena (in the case of this work typical Sino-Western JV problem areas) which are provided in the literature, the

data needs be categorised. This categorisation process entails a broad structuring of the wide range of problems and challenges identified. This is carried out by analysing the problem statements and by separating them into their individual attributes. This separation is necessary in order to be able to clearly assign a problem attribute to a specific group.

In line with Glaser and Strauss (1965), the chosen approach of this work does not draw a clear distinction between implicit coding, data collection and data analysis, as data collection and data analysis are interrelated. Problem cases are identified, examined, and broken down into problem statements in order to finally extract their problem attributes. Within this process, the problem data is broken into elements and gets categorised. Similar problem attributes are grouped according to their subject related similarity, while a new category is created when a problem attribute is non-fitting (refer to Chapter VI: Data Examination). By grouping the statements into categories and using the problem attributes for the clustering, a specific labelling is not necessary.

Consequently, empirical data of Sino-western JV problems is collected in order to establish a classification with the aim of gaining further insights into the main problem areas of these collaborations. Given the explorative and interpretative character of this work, ideally, a “grounded theory”, as originally postulated by Glaser and Strauss (1967) would be established to make the research results reproducible and ideally, verifiable. This would entail establishing empirical problem clusters followed by the development of their conceptual labels.

The following is a personal reflection of why the grounded theory approach is not applied in this work, although this was at first attempted in the process of this research:

First, as mentioned above, Glaser and Strauss (1967) recommend that when collecting and analysing data, the researcher should have no ‘preconceived ideas’. With respect to this research, there was a concept and an approach in place from

the beginning as to how to analyse the data and what should be achieved in the end. That is, a classification approach of Sino-western problems requires a concept and not an unfocused investigation.

Second, with respect to coding, the researcher could not identify a precisely defined coding process, although the analytic process of data coding plays a central role in the theory establishment (Glaser and Strauss, 1967). Corbin and Strauss (1990) do at a later stage suggest 'procedures, canons and evaluative criteria' to establish a grounded theory. From the point of view of the researcher these procedures resemble rather a concept and not clearly described processes. With respect to this work, the approach to establish an open coding to 'break' the data into pieces, followed by an axial and selective coding process would not support the research objectives of this work. Furthermore, the researcher could not clearly identify when and how to end the coding process, i.e. when the saturation point is reached.

Since the first publication in the nineteen sixties, the theoretical approach has undergone major changes. In particular, there are different positions on how coding is to be done to develop grounded theory. For example, the former research fellows Glaser and Strauss developed two opposing positions over the years. In conclusion, based on the imprecise instructions and the ongoing discussions related to coding in the literature as well as the question of its overall applicability to this work, the researcher was reluctant to apply a grounded theory approach. Although some of the general principles have been applied in this work. As other researchers seem to have made very similar experiences (Allen, 2003), this might be a reason why the grounded theory approach is not generally applied in qualitative research.

**Quality Criteria, Questions and Techniques**

Based on the review above, there seem to be three common denominators between the propagators of different quality criteria in qualitative research. First, undebated universal criteria do not exist and as a result, simplistic views must be avoided. Second, validity in qualitative research must be understood within the context of the research and can only help to reduce bias. Third, the chosen criteria must fit to the purpose and circumstances of the research approach (Corbin and Strauss, 1990; Maxwell, 1992; Whittemore, Chase and Mandle, 2001).

Having presented the design of this research, five criteria pertaining to the league of the so called systematic qualitative research approaches are introduced to evaluate and assess the quality of qualitative research. The criteria are predominantly based on Miles and Huberman (1994, pp. 277-280). After each validity criterion, relevant queries to assess the quality of the implementation of the respective criterion in the form of questions are given. Lastly, for each criterion, selected techniques are listed, as predominantly suggested by Lincoln and Guba (1985).

These techniques are intended to contribute to the assurance of the respective validity criteria and to achieve a balanced and neutral view on the findings. The goal is to contribute to the objectivity and credibility of this work. However, none of the suggested techniques alone are sufficient, as a number have drawbacks. For example, to strengthen the dependability of the work, an external audit is suggested. This technique (also the suggested “member checking” technique to strengthen the credibility of the work) is based on the assumption that ‘truth’ can be found in the naturalistic research results which can be verified or falsified by an external auditor.

**Credibility (internal validity/ authenticity)**

Miles and Huberman (1994, p. 278) translate this criterion into the question of whether the results make sense and are plausible. Glaser and Strauss (1965, p. 9)

highlight the difficulty to convey credibility in qualitative research. They divide the problem into two sub-problems: first, to get the reader to understand the theoretical framework of the research approach; second, to describe comprehensibly the social phenomenon in relation to the theoretical framework.

Relevant queries to assess the criterion (Milles and Huberman, 1994, p. 278):

- Is the account rendered comprehensive and respecting the configuration and temporal arrangement of elements in the local context?
- Are the findings internally coherent?
- Were rules used for confirmation of propositions, hypothesis, etc. made explicit?
- Do the research results reflect the experience of participants or the context in a believable way? (Whittemore, Chase and Mandle, 2001, p. 534)

Relevant techniques (Lincoln and Guba, 1985):

- “Prolonged engagement”: to be engaged in the research setting for a long period of time.
- “Member checks”: sharing of data and interpretations with participants who are asked to confirm the findings.
- Triangulation: data gathering from multiple sources and usage of different theoretical viewpoints (use of different data sources, methods, theories or analysts).
- “Peer debriefing”: challenging of preliminary findings together with critical friends.

### **Transferability (external validity/ fittingness)**

Addresses the question of generalisibility of the research results. The criteria of external validity is fundamentally different between quantitative and qualitative research. In the case of naturalistic inquiries, there cannot be a correct or true interpretation or one-to-one comparison of research results, since circumstances

are different on a case-by-case basis. Furthermore, the individual subjective meaning of the researcher is involved (Tobin and Begley, 2004, p. 392).

Relevant queries to assess the criterion (Milles and Huberman, 1994, p. 279):

- Is the sampling theoretically broad enough to encourage broader applicability?
- Does a range of readers report the findings to be consistent with their own experience?
- Do the findings include enough “thick description” for readers to assess the potential transferability and appropriateness for their own settings?

Relevant technique (Lincoln and Guba, 1985):

- “Thick description”: a way of describing a naturalistic phenomenon in such detail that others can transfer the results and conclusions to other settings and situations.

### **Dependability (reliability/ auditability)**

Miles and Huberman (1994, p. 279) describe this criterion as: ‘whether the process of the study is consistent, reasonably stable over time and across researchers and methods.’ According to Tobin and Begley (2004, p. 392) the criterion is achieved through an auditing process. The idea is that other researchers can follow and examine the inquirer’s data documentation, applied methods and the end product. Consequently, dependability (comparable with reliability) can also be used to verify confirmability.

Relevant queries to assess the criterion (Milles and Huberman, 1994, p. 278):

- Are the research questions clear, and are the features of the study design congruent with them?
- Is the researcher’s role and status within the site explicitly described?
- Were any forms of peer or colleague review in place?

Relevant technique (Lincoln and Guba, 1985):

- “Inquiry audit”: is an external audit in which the researcher is not involved and investigates whether the process and the findings are supported by the data.

**Confirmability (objectivity/ neutrality)**

Tobin and Begley (2004, p. 392) describe the criterion as ‘establishing the data and interpretations of the findings are not figments of the inquirer’s imagination, but are clearly derived from the data.’ This is in line with Miles and Huberman (1994, p. 279), who emphasise the importance of the neutrality of the researcher in light of his inevitable biases.

Relevant queries to assess the criterion (Miles and Huberman, 1994, p. 278):

- Are the study’s general methods and procedures described explicitly and in detail: Do we feel that we have a complete picture, including “backstage” information?
- Can we follow the actual sequence of how data were collected, processed, condensed/transformed, and displayed for specific conclusions drawing?
- Has the researcher been explicit and as self-aware as possible about personal assumptions, value and biases, affective tastes – and how they may have come into play during the study?
- Are study data retained and available for reanalysis by others?

Relevant techniques (Lincoln and Guba, 1985):

- “Confirmability audit” and “audit trail”: the confirmability audit is similar to an external audit as outlined above. The audit trail is a description of the research steps including records from the beginning of the research project until the creation of the findings.
- “Reflexivity”: describes the researcher’s perspective or position which shapes the research in each step of the research.
- Triangulation: as outlined above.

**Applicability (action orientation/ utilisation)**

The above introduces four criteria which are predominantly based on Lincoln and Guba's (1985) criteria, which are translations from quantitative into qualitative research approaches. Miles and Huberman (1994, p. 280) highlight an additional criterion of so called "action orientation". What is meant by this criterion is the practical applicability of the research results and if they lead to action. As highlighted by Patton (1990, p. 469): 'The ultimate test of the credibility of an evaluation report is the response of decision-makers and information users of that report.'

Relevant queries to assess the criterion (Miles and Huberman, 1994, p. 280):

- Do the findings have a catalysing effect leading to specific actions?
- Have the users of findings learned or developed new capabilities?
- Do the findings stimulate "working hypotheses" on the part of the reader as guidance for future action?

Relevant techniques (Erlandson *et al.*, 1993):

- "Thick description": as outlined above.
- "Reflexive journal": creating reflexive journals to explain the constructed nature of the research findings to the reader (Ortlipp, 2008, p. 695).
- "Purposive sampling": is a type of non-probability sampling technique (also known as *judgmental*, *selective* or *subjective* sampling) which focuses on sampling units which are selected based on the judgement of the researcher.

**Quality Criteria of this Work**

This section presents the applied criteria to establish the soundness and credibility of the research. Based on the theoretical underpinning and the introduced quality criteria, the following outlines how each criterion is addressed in this work. The quality criteria, queries to be conducted and suggested techniques stem



predominantly from Lincoln and Guba (1985), Miles and Huberman (1994) and Marshall and Rossman (2011). For some quality criteria, the same technique is suggested; for example “thick descriptions” for the criteria transferability and applicability. In these cases, the reference is only provided once.

**Credibility:** prolonged engagement in the work is ensured by the researcher in the following ways: the researcher has been engaged in the topic of Sino-Western JV problems over the past ten years. The engagement started with his personal engagement in JVs in China, followed by this academic work over the last eight years and still today via various investment projects in China. Insightful peer debriefings have been conducted with a number of practitioners and academics over these years. There are a number of established and introduced theories and methods which build the framework of this work.

**Transferability:** as outlined in the literature review and the theoretical framework, external validity is difficult to establish in qualitative research. The sampling of the selected JV problems is broad. As introduced in the theoretical framework, the definition of a problem is broadly defined in this work and problem attributes stem from numerous case study reports (Blackman, 2000). The problems selected provide the raw data for this work. In the course of the further analysis the relevant problem statements are selected, down to the specific attributes of the respective problem. The developed classification, consisting of domains of problem attribute clusters is documented and interpreted in Chapter VII, Cluster Structure Description. Consequently, the former anecdotal problem descriptions become a highly valuable source of raw data. Furthermore, this original data source is available for interested parties.

The results of approximately seven hundred JV problems allow a broader applicability and conclusions to be drawn regarding typical JV problem areas. All problems are documented in Appendix E, List of Original Problems, in order to make the collected JV problems transparent to the reader.

The problem selection and clustering process is described in Chapter VI, Data Examination (more details are given in Appendix C, Illustrative Diagrams). The categorisation of all of the problems is documented in Appendix F, Problem Categorisation Worksheets. A detailed description and interpretation of the clustering results can be found in Chapter VII, Cluster Structure Description.

**Dependability:** To confirm the appropriateness of the collected problems, the problem categorisation, the clustering process and ultimately the results of an independent expert contribute to the reliability of this work. The expert executes the same process described previously. This is based on problems cited by the expert in an interview and concerning one of the identified domains (refer to Chapter VIII, Cluster Structure Comparison). Further, the role of the researcher is explained below and further details are given in Appendix A, Profiles. Additionally, for this study, one way to limit potential bias is to only use problems from case studies in the literature and document these in the form of a database. Furthermore, independent expert reviews regarding the research approach and results have been conducted, as described below<sup>1</sup>.

**Confirmability:** general methods and procedures are described in Chapter IV, Theoretical Framework and this Chapter. Additional information of the evaluated theoretical background is given in Chapter III, Literature Review and Appendix B, Research Approach according to Set Theory. The results are documented in Chapter VII, Cluster Structure Description and Chapter IX, Cluster Structure Resolution. The entire process from data collection to findings is structured so that other researchers can conduct further research to build upon this work.

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<sup>1</sup>This work complies with the guidelines of the Ethical Principles for Conducting Research with Humans of the University of Lincoln.

The methodology and the related procedural steps of building this classification are described in detail. The developed classification of JV problem attributes forms a kind of hypothesis. This hypothesis (the classification) is not tested based on existing theories. As Chapter VIII, Cluster Structure Comparison, will demonstrate, the whole procedure can be replicated. Consequently, the developed classification approach is a replicable method, open for other researcher and interested parties to be used and reproduced if needed. Testing is carried from a practitioner's point of view through the identification of potential resolution measures (refer to Chapter IX, Cluster Structure Resolution) and also through expert reviews. Consequently, this work is rather concept and predicative driven.

**Applicability:** the practical applicability of the research results are intended to support implementation, for researchers as well as for practitioners. This is in line with the overall objective of this research to better understand Sino-Western JV problem areas, to facilitate the identification of measures and consequently, to increase the success rate of these JVs.

As mentioned above, the research has been reviewed by three independent experts. This review includes not only the research approach, but also key results, such as the final cluster structure, typical problem areas and the applicability of identified resolution measures. Consequently, the China experts were selected to represent expertise from three different perspectives: an academic focus, a practitioner focus, and a perspective which combines both an academic as well as a practitioner focus (refer to Appendix A, where the profiles of the experts are introduced). The following section outlines what constitutes an expert, introduces common methods for gathering expert knowledge and explains the role which the expert reviews play in this work.

## Expert Involvement

Kotler *et al.* (1996, p. 766) highlight the importance of the source credibility of experts. This consists of the elements expertise, trustworthiness and likeability. The most important element of credibility is expertise, which allows the expert to substantiate and back statements, distinguishing them from less experienced people. Meyer and Booker (2001, p. 3) define the notion of “an expert” as follows:

...an expert is a person who has background in the subject area and is recognised by his or her peers or those conducting the study as qualified to answer questions. Questions are usually posed to the experts because they cannot be answered by other means.

The above statement summarises one of the main reasons why the input of experts is often needed. Meyer and Booker (2001, p. 4-5) give additional reasons to inquire with experts:

- to provide input of phenomena which are new, rare, complex or otherwise poorly understood
- to make predictions on future events
- to integrate or interpret data which already exist
- to learn the problem-solving process
- to learn a group’s decision-making process
- to investigate the status of knowledge on certain research areas

The process of forming expert opinion is described by Kotler *et al.* (1996, p. 306) as follows: ‘knowledgeable people are selected and asked to assign importance and probability rankings to possible future developments’. Herbert Simon and other researchers developed different models to follow the development from a novice to an expert. For example, Chase and Simon<sup>1</sup> (1973) investigated the perceptual structures of chess players. This lead to the question of how much experience a

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<sup>1</sup>Simon was awarded the Nobel Prize in 1978 for his interdisciplinary and novel theories in economics.

person needs in order to acquire expertise in a certain field. They attempted to define how many pieces of information a person requires and also how long it takes to gather these in order to gain expertise. In the case of an expert, the time was estimated at 10 years.

There are also numerous limitations to expert judgement (Meyer and Booker, 2001, pp. 17-32).

- People may interpret research questions differently. Hence, the researcher should provide clear definitions to ensure that the researcher and the expert share the same understanding regarding the research questions.
- The quality of the expert's statements depends on his or her knowledge and capabilities, but also on the process applied to gather, analyse and interpret the data.
- An expert may base their statements on previous experience and not on up to date information.
- No human is perfectly neutral. Even experts may be unintentionally biased regarding certain events or data.
- The mental capabilities of humans, including experts, are limited.
- Often the level of detail in the data affects the expert's judgement.

In conclusion, the quality of information provided by an expert may vary. Therefore, the insights generated through an expert have limitations. This means, the research should not completely rely on expert opinion (Meyer, Booker, 2001, p. 24). Critique of expert opinion may also be found in an intercultural context. Ahmed and Li (1996, p. 282) point out that in the context of China, the forming of expert opinion and the value of evidence are less relevant, as these are typically Western approaches.

In contrary to the Western reliance on expert opinion, the Chinese base their opinions and decisions on numerous other factors, which stem from Confucianism teachings, such as preserving harmony. In this context, Berrell, Wrathall and

Wright (2001, p. 11) underline the reluctance of Chinese management to question the opinions of Western “experts”. According to Oscar Wilde, an expert is ‘an ordinary man away from home giving advice’. This may be particularly fitting in the case of westerners reporting about China.

### **Expert Knowledge Gathering**

Meyer and Booker (2001, p. 10-11) cite three methods with which to gain expert knowledge: individual expert interviews, interactive groups or Delphi Situations.

Interviews allow the interviewer to obtain in-depth knowledge, such as regarding how to solve a proposed problem. In the following, the concepts related to conducting an expert survey and an expert interview will be introduced. A survey is a means of gathering information about the characteristics, actions or opinions of a group of people (Tanur, 1982). There are various forms of surveys. These can be divided into two broad categories: the questionnaire (mail, electronic surveys) and the interview (face-to-face interview, telephone interview). Both allow information to be obtained either directly or indirectly from participants in a written or oral form (Emory and Cooper, 1991, pp. 320-343; Zhang, 2000). Surveys may be addressed to single respondents in a firm, multiple respondents, single or multiple expert panels or to both the corporate and subsidiary officers in a firm (Snow and Thomas, 1994, p. 462). Three different types of information can be gathered through a survey: facts, opinions and behaviours (Dane, 1990, pp. 119-123).

Personal or telephone interviews are typically conducted in the form of surveys. Due to the direct personal interaction, the researcher can obtain detailed evidence (Cooper and Schindler, 2000, p. 291) and can generally decrease the number of ‘don't know’ and ‘no answer’ responses. The researcher is also able to give an immediate response to the respondent's reply by asking additional questions and thereby clarifying uncertainties. An advantage of the personal interview is the possibility of gathering supplemental information through observation (Emory and Cooper, 1991).

A disadvantage of the personal interview is that the interviewee might not reveal sensitive information (Sekaran, 2000, p. 230). A personal interview requires a high financial and time effort, whereas telephone interviews are less expensive to carry out. Since telephone surveys are more impersonal, the respondent may be more willing to divulge sensitive information than in a face-to-face interview. However, the lack of personal interaction in a telephone survey may make the respondent less motivated to provide a thorough response.

### **Expert Reviews**

As introduced above, especially experts can support the establishment of the quality of naturalistic inquiries and are commonly used to review and confirm outcomes of research projects. One needs to keep in mind that the notion of what constitutes an expert and the quality of information provided by an expert may vary. Depending on the intent and scope of the review and the role of the experts, different nomenclature is applied. For example, one can find terms such as peer reviewers, expert witnesses or interpretative group. Suggested techniques to involve experts are refereeing, member checks, triangulation, peer debriefing, colleague review, audits of confirmability, reflexivity and inquiry. Myers (2009, p. 241) highlights that the review process may include several experts, each of which might have a different specific focus area within the work, for example, one expert may be specialized in a certain subject, or methodology.

According to Miles and Huberman (1994, pp. 275-280), the quality criteria which benefit most through expert involvement are: credibility (internal validity/ authenticity), confirmability (objectivity/ neutrality) and dependability (reliability/ auditability). In addition, to some degree, also applicability (action orientation/ utilisation) and transferability (external validity/ fittingness) benefit. However, the common denominator among benefits related to the involvement of experts is related to achieving the main goal of providing a credible review the quality of a research project's process and outcome.

For example, Terpstra and Olson (1993) engaged MBA students to test the validity of their developed classification scheme. In another example, the Wellcome Trust (Allen et al., 2009) arranged for its associated research papers to be assessed by expert reviewers in order to evaluate the reliance of bibliometric indicators. The outcome of this assessment through an expert review was valuable to the Wellcome Trust, clearly showing that reliance on these indicators would have led to the omission of research papers containing important results.

Conducting a peer review of research results also aims to ensure that a certain quality standard is upheld for scientific journal publications. Experts in the same field review the author's manuscript with the verdict to either accept the work, to propose revisions or to reject it. Further, publications which adhere to a formal peer review process involving experts are considered to be of a higher rigor and academic standard among scholars than those which do not. Consequently, the expert peer review is generally considered as an essential element to ensure academic quality.

With respect to this work, experts have been involved to challenge, support and confirm the quality of the research. Three independent expert reviews have been conducted to investigate: firstly, whether the research approach and process are appropriate in order to adequately answer the research question, and secondly, whether the findings are relevant and conclusive.

The three independent experts are Paul Vega, Wolfgang Kohl and Max von Zedtwitz. Dr. Vega, a westerner of Chinese ethnic background, is a senior management consultant and commutes between the West and Asia/China. Mr. Kohl, a recognised expert in Chinese-German business relations, has been living in China and Taiwan for almost 20 years and is a regular contributor to diverse advisory business publications. Dr. von Zedtwitz is a permanent professor at the Peking University who focuses on cross-cultural innovation and R&D and a leading advisor on strategy and business in China. The profiles of the independent experts



can be found in Appendix A. Where appropriate, their comments have been included throughout the work. A summary of their feedback can be found in Chapter X, Discussion and Findings.

As outlined above, one way to establish quality in naturalistic inquiries is to provide transparency regarding the role of the researcher. Consequently, this topic is addressed below and further details are provided in Appendix A, Profiles.

### **Role of the Researcher**

Creswell (2003, pp. 21-23) points out that the personal experience and training of the researcher plays a role in selecting the research approach. In this respect, he recommends that the role of the investigator should be defined and revealed to include their past experience (*loc. cit.*, pp. 184-201). The reason is that the researcher functions as the 'primary data collection instrument' (*loc. cit.*, p. 200), which requires the researcher to share his assumptions, values and biases. De Vaus (2004, p. 23) also highlights that the researcher should not ignore his own experiences. Rather, the researcher should make use of them to interpret observations, develop ideas and derive explanations. Along these lines, Denzin and Lincoln (2005, pp. 3-4) state

*Qualitative research involves the studied use and collection of a variety of empirical materials - ... - that describe routine and problematic moments and meanings in individuals' lives. Accordingly, qualitative researchers deploy a wide range of interconnected interpretive practices...'*

Authors reporting on research methods (Creswell, 2003; de Vaus, 2004; Locke *et al.*, 2000; White, 2000) tend to agree that the researcher should explain his personal involvement in the research in order to show where he may encounter a personal bias, ethical issue or conflict of interest. In describing the research setting and researcher's role, it is generally felt that the research gains credibility. According to the above reasoning, the profile and experiences of the research

have been included in the Appendix A for further reference. The researcher's operational and strategic experiences with new and existing JVs in China provide substantial background understanding of the topic addressed in this work. Hence, this research is approached according to the author's experiences, as described above. However, the author's experiences are limited and represent only isolated case examples. Further, personal experiences may be positive or negative and shape views and opinions, which may lead to a certain bias (refer to Chapter I, Introduction, Scope and Limitations).

### **Workflow of the Research**

This section summarises the complete workflow of the research. Process illustrations are employed to show the activities and decisions of the research, step by step. The main characteristics of the process illustrations are:

- There is one workflow illustration per research stage, which has a defined start and end.
- The depiction of activities and decisions shows a low level of detail. The workflow concentrates on the input and output parameters from left to right following their logic, illustrated by arrows. Other dimensions are not shown, such as time. However, the process flow from top to bottom shows the order of the activities.
- The workflow is shown using a basic set of standard symbols, following the method set out by ARIS (ARchitecture of integrated Information Systems), a system which is predominantly used for the illustration and analysis of IT and business processes.
- The process symbols applied to describe the research workflow are explained in the table below:






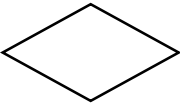

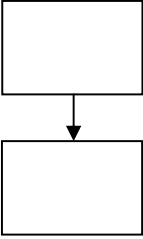
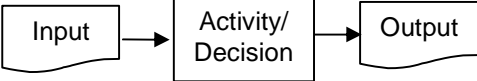
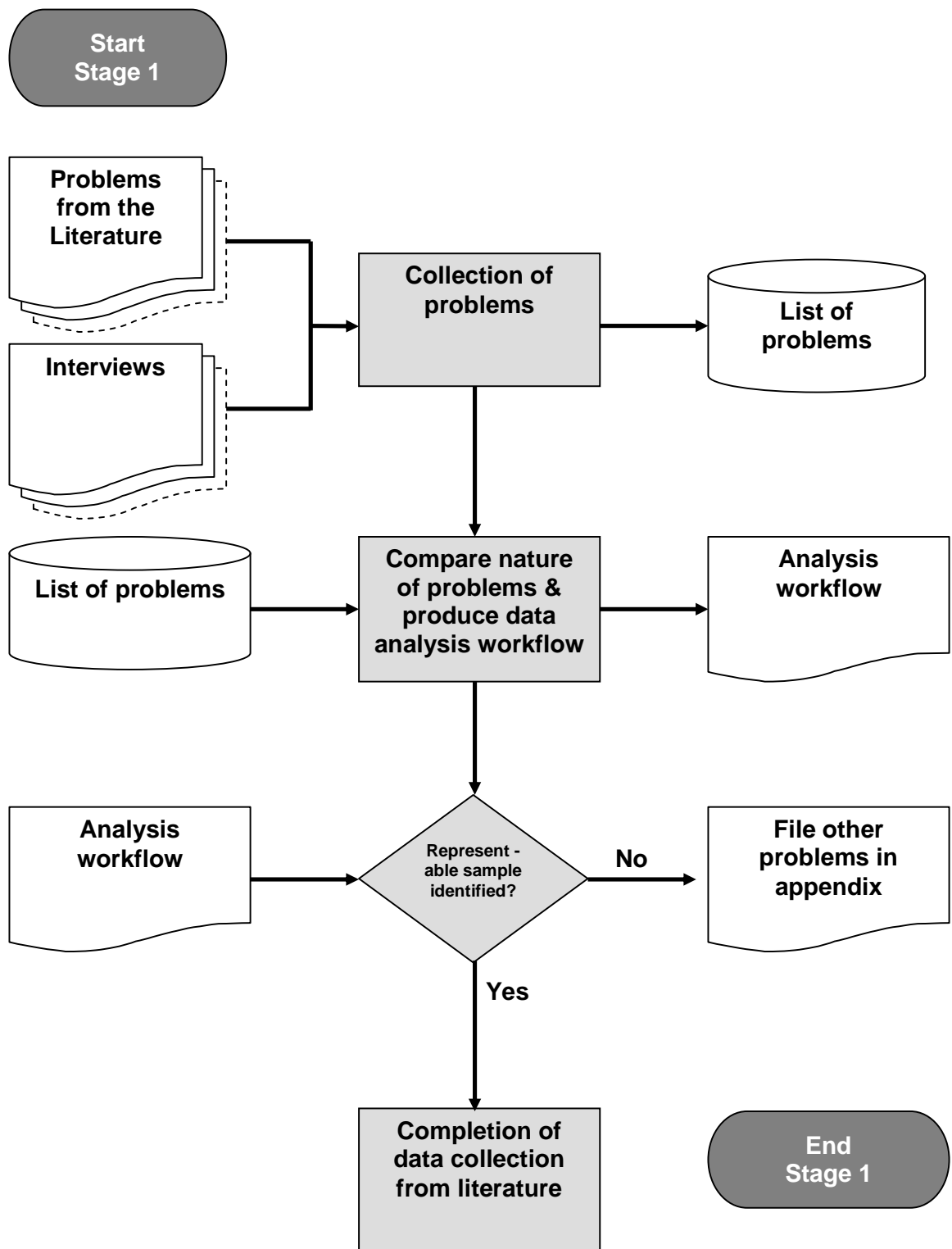
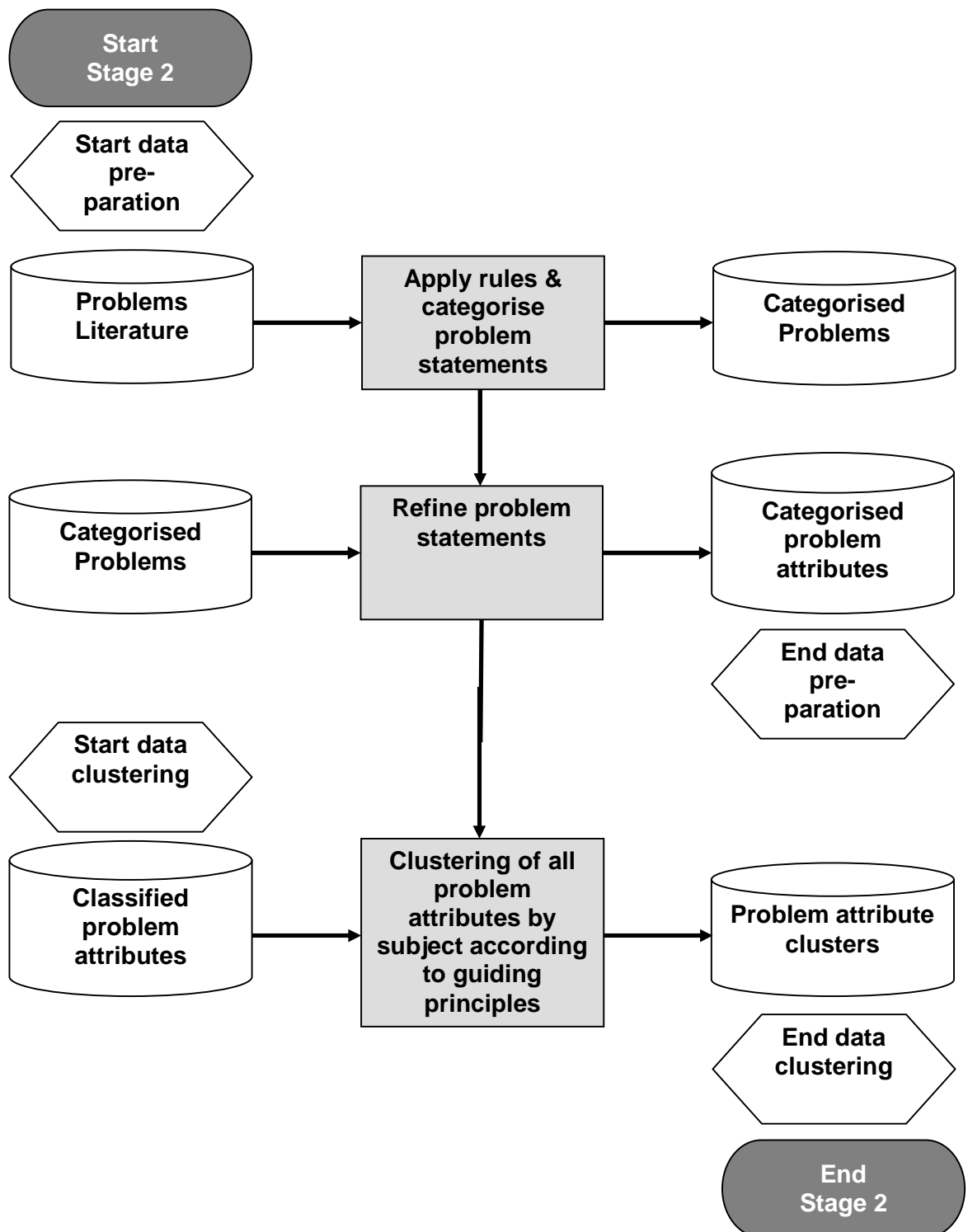
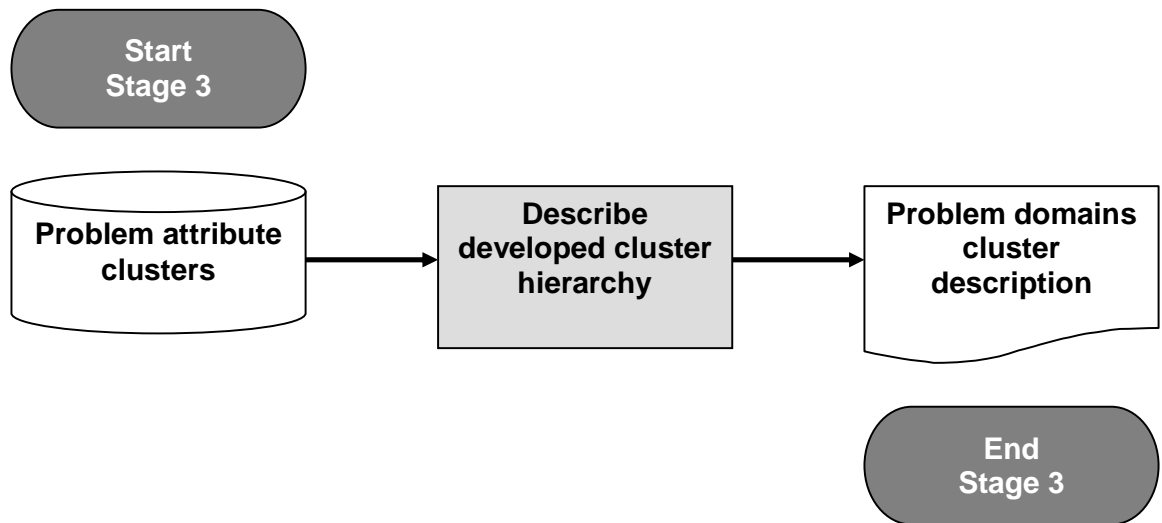
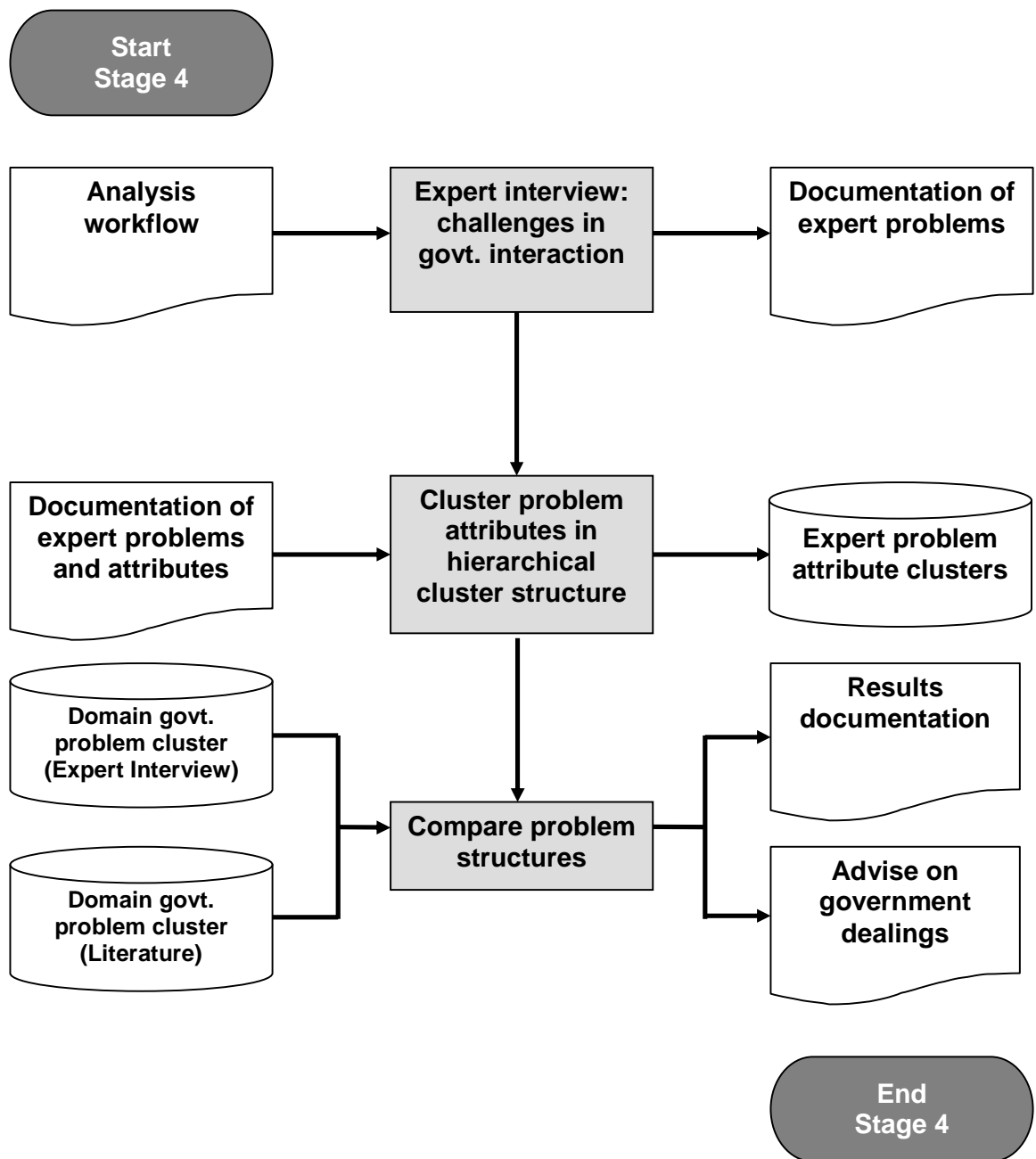
Used Symbols	Description
	Start or end point of a main process
	Trigger or end of a sub-process
	Process activity (low detail level)
	Data base / file
	Document
	Decision
	Information / process flow
	Moving from one activity or decision to another
	Workflow moves strictly from input to an activity or decision to an output

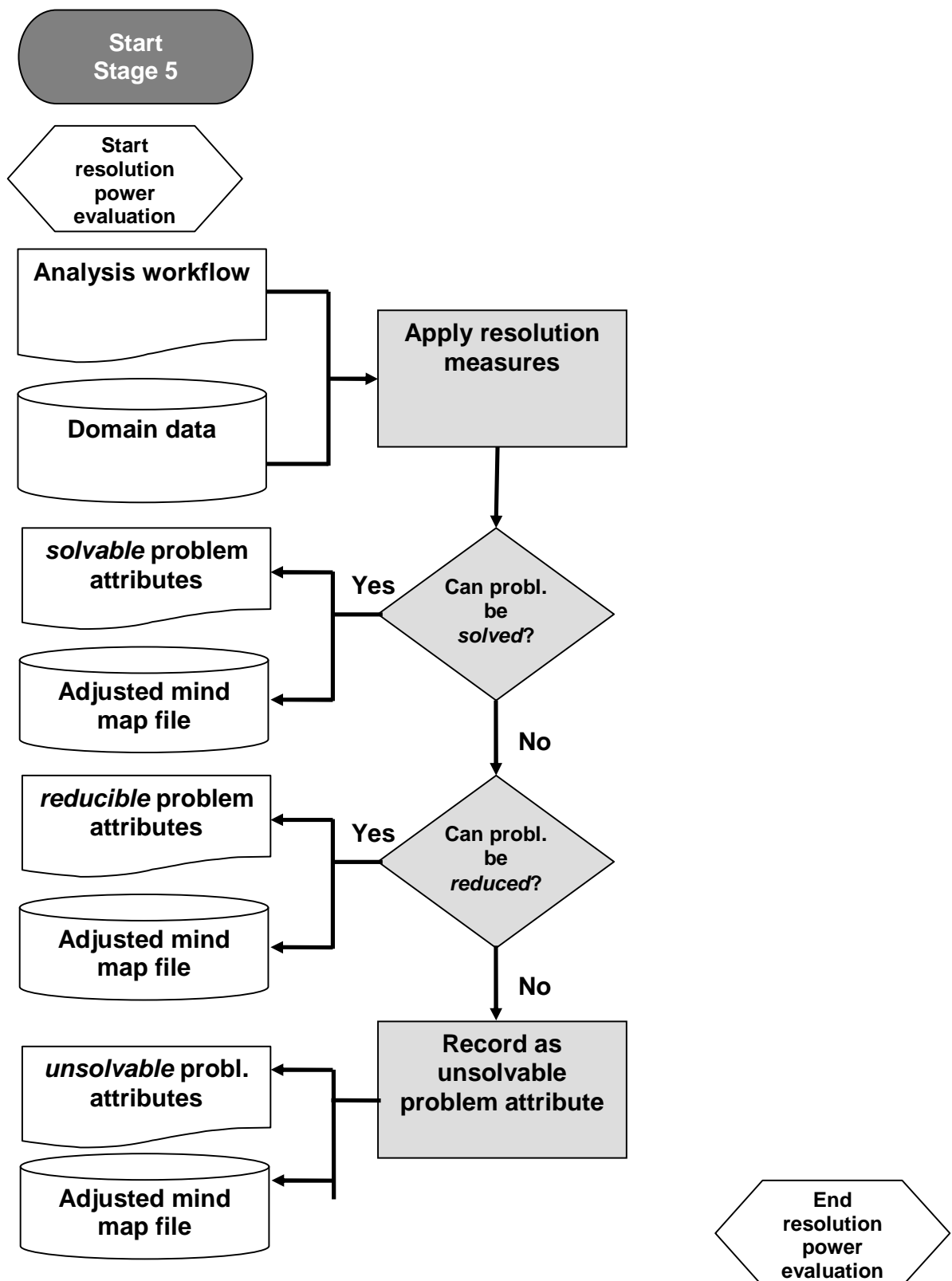
Table 10 Process Symbols

**Problem Selection and Collection**

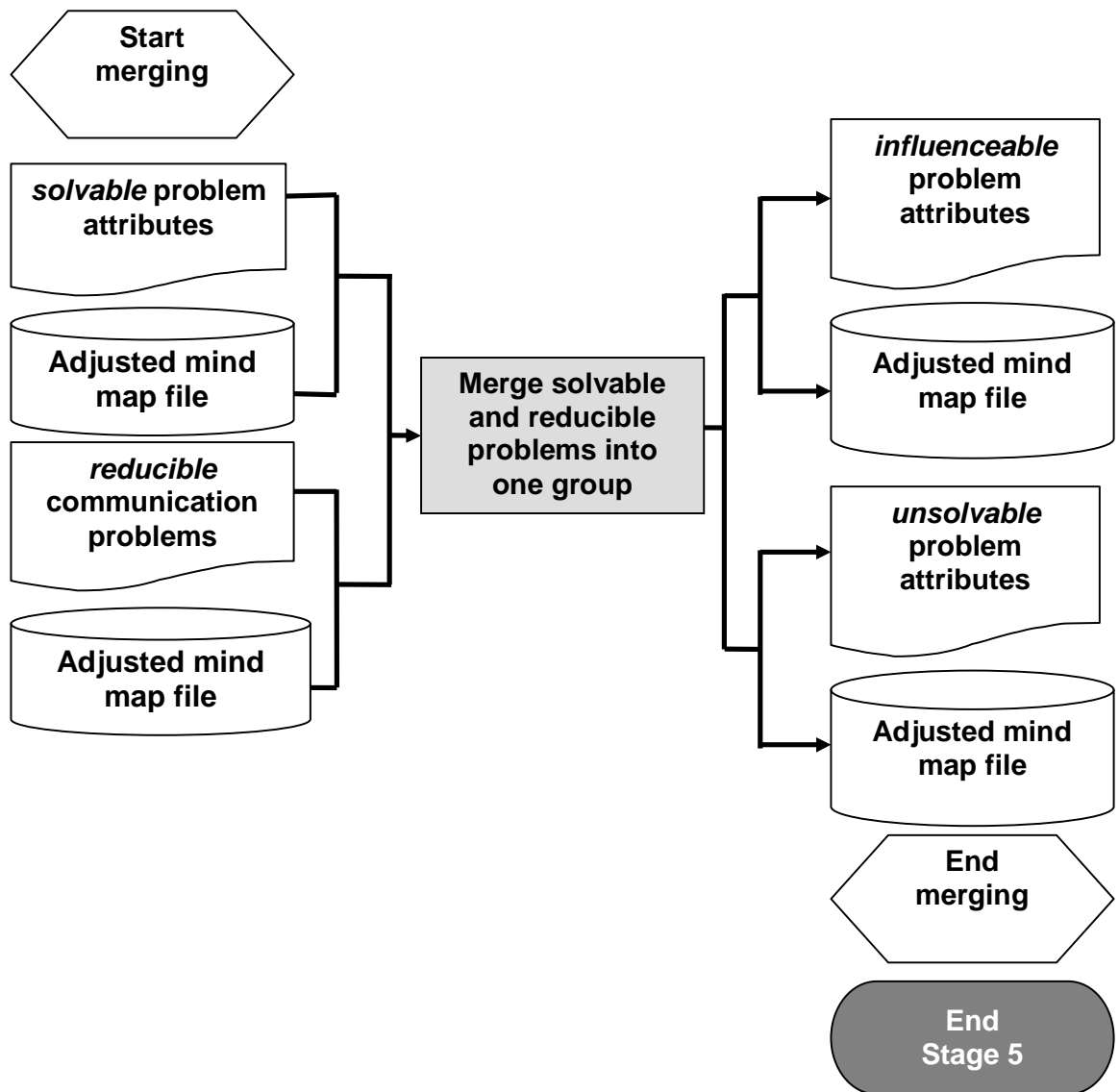
**Categorisation and Clustering****Cluster Structure Description**



**Cluster Structure Comparison**

**Cluster Structure Resolution**





## **Concluding Remarks**

This chapter illustrates the establishment of a conceptual polythetic empirical classification of Sino-Western JV problem attributes. The classification represents certain common characteristics among clusters of problems attributes. In analysing the problem data, problems sharing similar characteristics are classified in subject-related clusters and brought into a meaningful hierarchy. The development of a special classification system is a first step in consolidating the large number of diverse problem attributes in a coherent manner. Furthermore, the development of a cluster hierarchy supports the consolidation of the data showing typical problem areas. This hierarchy ascends from general problem attribute clusters to increasingly specific clusters containing more specific problem attributes. By bringing the data into this form, key problem areas as well as interrelations among the problem attributes are identified. This allows a better understanding of typical problem attribute clusters to be developed and potential resolution measures to be identified.

Details regarding the research approach including its research stages are provided. The approach employed in selecting the problems and developing the clusters (stages 1 and 2) is explained. The application of clustering offers advantages, such as that it consolidates a great deal of diverse information, but also has limitations. The problem collection, categorisation and clustering processes require interpretation on the part of the researcher and thus draw from the domain knowledge of the researcher. Therefore, this chapter also documents the role of the researcher. In addition, each problem attribute identified is included in the database, without investigation into the quality of the data elements. For example, problems are not categorised according to their perceived importance or their potential consequences.

The classification of JV problem attributes is an instrumental part of this work in order to address the research objective. The classification of the problem attributes will allow a further analysis and interpretation of the data with the aim to potentially identify resolution measures. The methodology suggests specifying the criteria of potential resolution measures and to investigate their effectiveness by theoretically applying the suggested measures to the problem attributes and investigate whether these are *solvable*, *reducible* or *unsolvable*.

The research approach represents an empiric and subjective classification method. The empiric component consists of the collection and analysis of problem attributes based on classification rules. However, the process employed in sorting the problem attributes and structuring them in the form of a classificatory framework is subjective by nature. In order to assign problems to specific clusters, interpretation on the part of the researcher is necessary. Furthermore, the author is aware of potential bias relating to the data selection and collection.

Consequently, there are tensions in the developed methodology of pursuing an analytical and reproducible research approach which lends the work validity, with the more interpretive process of extracting and modelling the data. As subjectivity is one of the major limitations of this work, the suggested method builds on a number of established, individual concepts and combines them with the aim of limiting subjectivity and potential bias. Consequently, the methodological framework of this work is rather unique and specifically developed to increase the objectivity of this research.

In the final section of this chapter, the workflow for the overall research is shown schematically in order to summarise the various steps and decisions involved in the research. This workflow is helpful in showing how the different problem attribute clusters are regrouped following the application of the potential resolution measures. Further, greater clarity is provided by bringing the main research steps into a consolidated form.

## CHAPTER VI: Data Examination

*'You cannot eat a cluster of grapes at once, but it is very easy if you eat them one by one.'*

Jacques Roumain

This chapter provides an overview of the data analysis process and the steps of the research stages. The aim of the data analysis is to gain deeper insight into typical problem areas in order to further investigate whether resolution measures can be identified which will help to address these problems.

It begins with a review of the collection of the research data, followed by a grouping of Sino-Western JV problems. The collected problem statements are then sorted according to defined, but rather broad categories. Next, the problems statements are separated into individual problem attributes in order to be able to assign them to better-specified categories. To demonstrate the applicability of this particular research approach, one well recognised form of data analysis, the principle of root cause analysis, will be examined in an excursion. Lastly, the analysis process shows how individual problem attributes are clustered and classified in a hierarchical structure. The result is that all problems are found to originate from eight domains.

### Data Collection and Categorisation Process

As described earlier, a “problem” is usually defined broadly (Lüer and Spada, 1990) and includes, with respect to this work, any kind of difficult issue, unforeseen event and circumstance which can lead to extra work, financial losses or other negative consequences. Problem statements are collected in their original wording in order to limit losing information related to their original intention. For this

purpose, problems are extracted from the statements contained in the literature case studies, put into a tabular form and properly referenced (refer to Appendix F: Problem Categorisation Worksheets). As a result, a very wide variety of individual problems relating to Sino-Western JVs are collected, which may be traced back to their original source if required.

While the true total number of Sino-Western JV challenges is unknown, the total number of problems under review in this work is approximately seven hundred. These problems are collected from case studies as described in Blackman (2000). They provide a wide range of problems and are based on interviews with business people, Western and Chinese researchers and members of trade commissions. The identified problems and challenges are documented in detail in Appendix F. These problems serve as the main source of data to achieve the objective of this work. Miles and Huberman (1994, p. 55) argue that data collection is inevitably a selective process and it is not possible to collect all data possible.

The following section illustrates the process of how problems are collected from the literature case studies. The case study provided below is taken from Blackman (2000, pp. 57-58), Part II: Strategic Plans meet Chinese Reality - 5 Disappointed expectations, 'An absolute mirage'. The underlined sections designate the individual problems (or "mini cases") extracted from the case studies by the researcher. The case study example describe a difficult situation involving several problems a Western manager encounters directly after his company has legally established a JV with a Chinese partner:

The Chinese are inherent deal makers. You don't know who is in charge, who is making the decisions. When we were negotiating the plant with our joint venture partner, he said "I can't make these decisions because the Light Industry Bureau makes them on our behalf". So we went to the Light Industry Bureau and the person we talked to there said: "Well, it isn't me who is making the decisions; it's someone higher up." So we tried to identify who the "someone higher up" was who was making the decisions. It was constant buck-passing. We couldn't figure out

who to talk to. And then they never tell you the truth, which was that they didn't have any money. They said things like "We don't trust your figures" or "You don't have the figures set out the right way" or "You don't have the right contractor". All these sort of things. In the end they didn't have any money. It became obvious to us after a while. Then we asked a few more questions like: "What other businesses are you connected with?" That might take three months of your working life. In our home market we are used to people having a common business ethic. We all operate by the same rules. If you say you'll do something, you do it. The opposite is true in China. They say something and it doesn't mean that they actually do it. That has been my experience.

Based on the interpretation of the researcher, the case study above provides six different problem statements. However, some of the problems are closely related, such as the problem of determining who makes decisions and the problem of determining who one should speak with. Other problems refer to different issues, such as the broader problem of business ethics.

During this process, the selected problems are analysed in order to determine how they may be systematically categorised. After the first data review, a number of categories are defined in order to group the wide variety of problems and structure them into smaller units. In this work, the elements are problems which are organised into groups. The groups are themes the problems relate to. The grouping is carried out based on the rules described in Chapter V, Methodology and conducted based on the following steps:

Firstly, at the beginning of this process, every problem is listed in tabular form. Secondly, categories are created according to recurring themes among the problem clusters. In the process of assigning every problem to a category, some of the categories are renamed and problems reassigned during the grouping process. Thirdly, every problem is grouped according to its category. In order to further refine the categories, a second category is formed carrying a different name. This allows a more precise categorisation of the problems.

Based on the example of the case study above, the next step is to collect the individually identified problems in tabular form. The statements are either recorded as a quote, e.g. 'you don't know who is in charge and who is making decisions' or the situation is summarised by the researcher, e.g. Chinese may avoid making difficult decisions by referring to a higher authority.

Once all of the problems have been recorded, single problems are categorised according to certain subjects/themes. Marshall and Rossman (2011, p. 215) describe category generation as a process of noting patterns which are 'evident in the setting and expressed by participants'. They demand that categories should be internally consistent and externally divergent.

In this process the individual problems are categorised based on similar problem characteristics. For example 'you don't know who is in charge and who is making decisions' is grouped under the category of problems which refers to challenges arising due a lack of "transparency". As highlighted in Chapter I, Limitations, all problems are described from the Western point of view. In this case, a lack of transparency might predominantly be a problem for the Western business partner. In the same context, the general transparency problem is refined in the context of the description of the particular situation. After the Western manager has spoken with various institutions and people, he states that 'we could not figure out who to talk to'. This statement is very similar to the first, however, it also relates to another issue. Not only is there a lack of transparency in the communications with the JV partner, but also with the personnel of the Light Industry Bureau. Consequently, there is another underlying aspect in this problem - the challenges westerners face when dealing with governmental institutions<sup>1</sup>.

Due to the large number and diversity of problems, a second category is sometimes created which helps to refine the main subject by including a related

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<sup>1</sup>In For more details regarding this problem, please refer to Chapter VII, Cluster Structure Description, Domain: Government.

sub-topic. This phase also allows the researcher to develop a feeling for the data elements and gain insight as to whether the problems follow certain patterns and problem domains.

In the case above, a second category under the main category “government” is introduced which is entitled “bureaucracy”. This helps to further specify or refine the problem category where possible and needed. Therefore, in the process of categorising all the collected problems, the main category describes a common attribute among the problems, such as a lack of transparency, while the second and further categories enable further refinement among the problems. As shown in the table below, the above example includes six problems which can be categorised according to the main categories named “transparency”, “trust”, “ethics” and “culture” and the second categories “bureaucracy” and “expectations”.

Problem	Cat I	Cat II	Page
you don't know who is in charge and who is making decisions	transparency		57
Chinese give wrong excuses for not fulfilling their obligations	trust		58
we couldn't figure out who to talk to	transparency	bureaucracy	58
they never tell you the truth	ethics		58
we are used to people having a common business ethic	ethics		58
Chinese say something and it doesn't mean that they will actually do it.	culture	expectations	58

**Table 11 Example I: Problem Categorisation**

The second category is very helpful in highlighting subtle differences among the problems. For example, on page 40 of Blackman another challenge is stated in a different context: ‘authorities keep information on regulations they promulgated within the bureaucracy for their discretionary application’. In this case, the problem is categorised under the main category “bureaucracy”, while the second is “transparency”. The reason for this categorisation is that in this context, the main problem source is the proceedings of the bureaucrats, while one of the consequences is a lack of transparency.



In the analysis of the above cited case study, another problem area is pointed out - challenges which arise due to different business ethics between westerners and Chinese. One problem refers to a different understanding of the concept of truth: 'they never tell you the truth'. Obviously, the Western partner does not expect the Chinese partner to lie. Thus, from a Western perspective, the actions of the Chinese partner are interpreted as lying. A consequence arising from this problem may be the development of mistrust in the westerner with regard to future dealings with his Chinese counterpart. However, from a Chinese perspective, the situation may be perceived differently. Withholding information could be an acceptable form of tactics when conducting business (refer to Chapter VII Cluster Structure Description, Domain: Practices). Thus, cultural awareness of Chinese business practices on the part of the Western business partner could help to manage Western expectations and prevent such situations.

In another example, the categorisation process is demonstrated for two further problems. The first problem is grouped under the category of culture-related problems called "culture" and then sub-grouped under "ethics", while the second problem is grouped under "operations" and further, "infrastructure" difficulties in China.

Problem	Cat I	Cat II	Page
Westerners are outsiders without contacts and are more likely to be cheated.	Culture	ethics	12
The company needs to double up its vehicles due to transportation restrictions.	Operations	Infrastructure	9

**Table 12 Example II: Problem Categorisation**

In a last step, the problem statements are prepared for the clustering phase. For this purpose, the original statements are broken down into individual problem attributes. Thus, problem statements containing more than one theme are broken down into sub-statements. Through this process, the originally collected 670 problems increase to approximately 720. This process reduces the complexity of the wide range of statements by separating them into single attributes/ aspects.

On the one hand this level of granularity also allows the former diverse problem cases to be classified in rather well-ordered sets of a few rather homogenous clusters (Bailey 1994, p. 33). While on the other hand, the clustering process of the prepared data elements concentrates on the problem attributes only. The consequence is that through the process, the original problem setting may have been either lost or become less relevant.

### **Excursion: Root Analysis**

A potential alternative to analyse interrelations among the Sino-Western JV problems is to identify the origin of certain recurring JV problems. The concept of root analysis, introduced in Chapter III, is applied in the context of JV problems. Here, cause and effect relationships within a problem cluster are assumed with the aim of identifying root problems.

The table below illustrates the content of one problem attribute cluster. The term “cluster level” refers to the position in the hierarchy of the problem attribute cluster. With increasing cluster level, the problems progress from general to more specific.

Problem descriptions extracted from the case studies which relate to “communication” are provided on the right. It is assumed that the root problem for the following problem cluster example is the language barrier (level 3), as it is considered to trigger a number of related problems. According to the concept of cause and effect, the language barrier could lead to further problems and form a cause and effect chain of problems, represented by levels 4 to 6 in the example below. For instance, level 5, the exclusion of westerners, is thought to result due to various factors, one being the lack of personal relationships, level 4.

However, it may be argued that westerners are excluded even if personal relationships do exist. In other words, level 5 may not be a direct result of level 4. Furthermore, problem level 5 may result due to various factors, of which problem level 4 is only one.

Level	Cluster name	Description
Domain	Culture	This cluster includes problems which relate to the cultural differences between China and the West.
1	Communication	This sub-cluster includes problems which are caused through different communication forms.
2	Language	This sub-cluster includes problems related to understanding problems caused by different languages.
3	Language Barrier	This sub-cluster includes problems which may arise due to the language barrier between the Chinese and westerners.
4	No personal relationships	When language is a barrier between people, personal relationships cannot be formed.
5	Exclusion of westerners	When personal relationships cannot be formed, one effect is that westerners are largely excluded from social life
6	Integration of foreigners	When westerners are largely excluded from social life in China, they also cannot integrate themselves in society.

**Table 13 Root Problem Example for Communication from Case Studies**

The Chinese-Western language barrier could lead to more effects than those shown in the table and cited in the case studies. Other effects identified may be, for example, that no direct communication is possible between the Chinese and the westerners and that expatriates are not able to learn the unwritten rules of the Chinese. Extrapolating from this example based on the research data, the following

table suggests how the language barrier may create further problems, linked through cause and effect. The problems *in italics* do not stem from the problem database, but are intended to demonstrate potential cause and effect relationships among JV problems.

<b>Cause</b>	<b>Effect</b>
<b>Start: Language Barrier</b>	→ No spontaneous discussion possible
No spontaneous discussion possible	→ Expatriates cannot speak with workers directly
Expats cannot speak with workers	→ <i>Translator is needed</i>
<i>Translator is needed</i>	→ <i>Info gets diluted and misinterpreted</i>
<i>Info gets diluted and misinterpreted</i>	→ <i>Expat will not learn the real problem</i>
<i>Expat will not learn real problem</i>	→ <i>Expat cannot take appropriate measures</i>
<i>Expat cannot take appropriate measures</i>	→ <i>No proper training measures</i>
<i>No proper training measures</i>	→ <i>Problem will not be solved</i>
<i>Problem will not be solved</i>	→ <i>Problem will reoccur</i>
<i>Problem will reoccur</i>	→ <i>High costs, loss of production, etc.</i>
<i>High costs, loss of production, etc.</i>	→ <i>Profitability decrease</i>
<i>Profitability decrease</i>	→ <i>Headquarters pressure JV management</i>
<i>Headquarters pressure JV management</i>	→ <i>Risk of losing face</i>
<i>Risk of losing face</i>	→ <i>Cover up procedures and politics</i>
<i>Cover up procedures and politics</i>	→ <i>Further effects...</i>

**Table 14 Potential Root Problem Examples for Language Barriers**

As shown above, an assumed root problem can trigger a chain of previously unforeseen issues. However, it is impossible to predict cause and effect relationships among JV problems due to human interactions. For example, a translator is hired to prevent the problem of a language barrier between the westerners and the Chinese workers. However, this action may have side-effects

and lead to other problems. This chain of potential problems could result, for example, from the inability of an expatriate to communicate directly with a manufacturing worker who has a problem with broken equipment.

A simple hypothetical example could be as follows: a Western company has been unsuccessful in entering the Chinese market. An analysis could show that the “root problem” is a lack of understanding of the Chinese markets. One could identify the root problem to be “missing tactic knowledge” and that local markets need to be understood before the company is successful. A possible solution would be to gain knowledge by teaming up with a local partner through a JV. Now the question arises whether the main problem can be resolved by this suggested solution or if this will initiate a whole new chain of problems. These new problems may be seen as side-effects of the solution to establish a JV.

In conclusion, an approach to link Sino-Western JV problems through cause and effect is not possible. In particular, a major presumption in the application of this form of analysis is that events will recur in the same way as they have occurred in the past. Cause and effect analysis is an idealistic approach with respect to JV problems. It is almost impossible to predict future outcomes in the context of JV problems based on historic information due to numerous eventualities, unpredictable effects and related side-effects. Therefore, it is concluded that although some JV problems may be related through causal chains, a cause and effect approach cannot serve as the basis for a predictive model to analyse the entire problem database.

This excursion demonstrates that a cause and effect approach is not suitable to address JV problems. Consequently, the research presents a conceptual framework for the fragmentation and analysis of a large number of heterogeneous problems. It also shows how JV problems can be brought into a meaningful structure consisting of clusters of problems which share key elements. In the following section, the process of cluster identification is described.

## Data Clustering Process

The principle of classification is based on allocation of the pre-categorised problem attributes into clusters according to their similarities<sup>1</sup>. As a result, individual JV problem attributes are organised into several domains. Thereafter, all attributes are further organised into multiple, related clusters of problem attributes. The total of all clusters contain all of the individual problems and their attributes. Where a problem attribute relates to more than one cluster, the cluster which has the greatest relevance for the problem attribute in terms of the context of the case study is selected. Consequently, individual Sino-Western JV problem attributes are brought into problem domains, within which the attributes are considered to be interrelated. In his review, Max von Zedtwitz considers the suggested research approach to cluster Sino-Western JV problems in order to gain knowledge about JV problem domains as suitable.

For the naming of the domains, clusters and problem attributes, short descriptions and key words are used, which forces the user to be precise. A risk is that the key words selected may be understood differently by different persons. This is avoided through clear descriptions of the structure and the content of the problem attribute clusters to ensure that those interpreting the structure have a common understanding of the terminology (refer to Chapter VII, Cluster Structure Description).

The aim of the problem clustering process is to classify the problem attributes into a hierarchical cluster structure, wherein each cluster represents a problem field. For example, different problems which arise through interaction with the government are grouped under the category “government”. Thus, the common denominator for problems in this cluster fulfil the criterion that they arise through

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<sup>1</sup>Alternately, set theory may be used to describe this process in mathematical terms (Encyclopedia Britannica, 2012) and is provided in Appendix C. The process and results are the same, however, this format is additionally provided for completeness and in case some readers prefer to follow a mathematical description of how the data analysis is carried out.

the dealings with the government. Linked to this common denominator are several sub-groups, namely “legislation”, “jurisdiction”, “localisation”, “bureaucracy”, “transparency” and “business interference”. Among the government related problem cluster, these sub-groups also have common denominators. For example, all the problems related to the specifics of the Chinese legislation share this similarity criterion and are thus clustered in this group.

This classification approach is applied to all problem attributes in the database. The result is a hierarchy of clusters in which all problems are accounted for. The schematic below shows how the clustering approach is applied to arise at a tree-like structure. Here, an example is provided consisting of five levels. The domain “culture” refers to the domain of cultural differences. Further levels include problems related to more specific aspects, such as the Chinese indirect communication style and westerners’ lack of understanding.

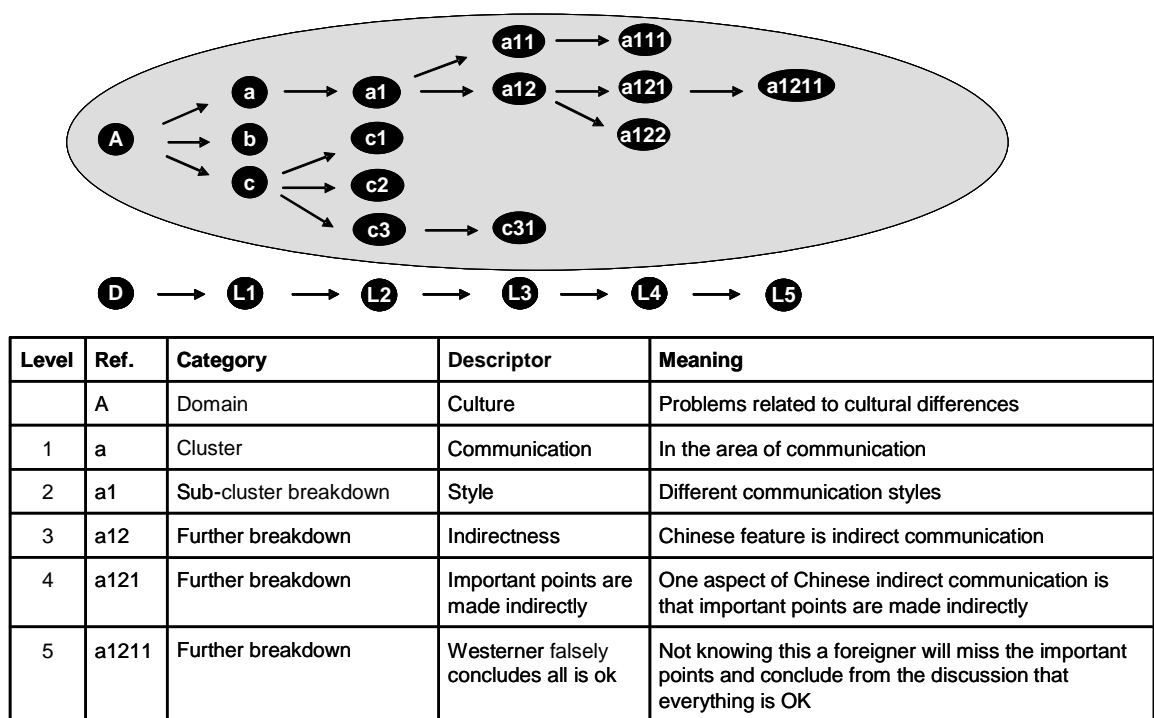
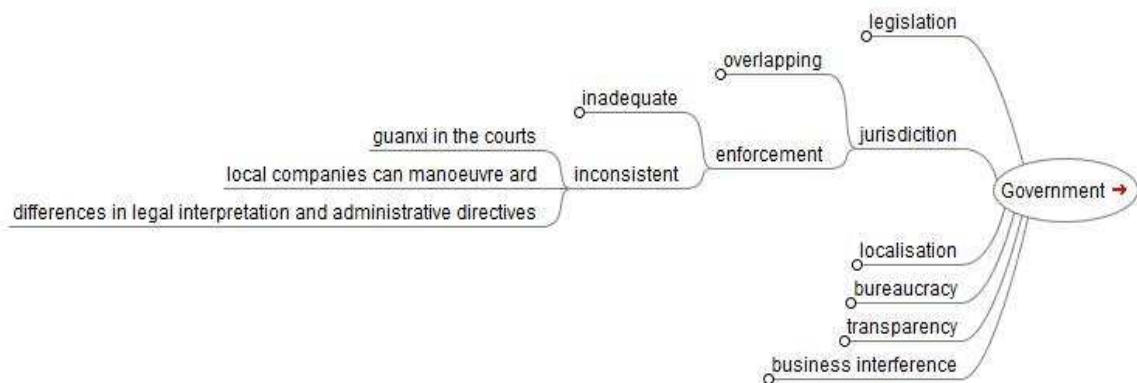


Figure 7 Hierarchy Explanation

The above example illustrates the structure of sub-categories among related problem attributes within a domain. Each cluster and further sub-cluster represents a more detailed level. The cluster level is designated by a number, where level 1 refers to the main problem cluster level, followed by successively higher levels. In the clustering process, up to seven problem hierarchy levels are defined.

Another example of the multi-tier structure and resulting hierarchy is given below. The domain “Government” and its related clusters contain all problem attributes related to government interaction. This is an important domain, since in China, the role of the government is like another partner in the alliance (refer to Chapter VII, Cluster Structure Description, Domain Government).



**Figure 8 Example of a Problem Cluster Hierarchy**

Domain: “government”

- represents a domain and groups all problems related to the involvement of the government and governmental bodies

Level 1: “jurisdiction”

- groups all problems related to the Chinese jurisdiction

Please note that the figure shows only sub-clusters belonging to this particular level. As displayed, there are several level 1 problem clusters under the domain “government”. These are named: “legislation”, “localisation”, “bureaucracy”, “transparency” and “business interference”.



Level 2: “enforcement”

- refers to problems Western companies face due to the lack of enforcement of the Chinese jurisdiction

Another level 3 sub-cluster is indicated which summarises problems that are related to “overlapping” jurisdictions.

Level 3: “inconsistent”

- refers to specific problems which result from the inconsistent enforcement of the government jurisdiction

Another level 4 sub-cluster is shown which groups all problems relating to the “inadequate” “enforcement” of the Chinese “jurisdiction”.

Level 4: “differences in legal interpretation and administration directives”

- This last level involves only one specific problem referring to “differences in the legal interpretation and administration directives” due to the “inconsistent” (level 3) “enforcement” (level 2) of the Chinese “jurisdiction” (level 1).

Previously Beckner’s (1959, p. 22) definition of a polythetic class (in this work synonymous with the term cluster) was introduced in Chapters III and IV. The conditions outlined are applied in this work as follows: G represents a cluster of problem attributes where all attributes relate to a specific characteristic. For example, the cluster “communication” consists of attributes related to communication. This cluster is found in the domain “culture”. The communication cluster has a large, but unspecified number of properties (or problem attributes), such as attributes relating to communication style. More specifically, using an indirect communication style is a common characteristic among attributes in this cluster. Therefore, problem attributes which share indirect communication as a similarity form this cluster. Within this cluster, one attribute of indirect communication style is that “important points are made indirectly”. A further attribute related to this is the consequence that the “westerner (falsely) concludes

that everything is OK”, which is the final and most specific problem attribute (for this section of the cluster) documented based on the collection of problem cases.

A sub-cluster of indirect communication style is called “keep face”. Here one can find different attributes, such as “damaging information is kept off” or “open conflict is avoided” in order to “keep the face” of another person. Each function of the communication cluster possesses a large number of problem attributes. Not all problems related to communication must include all individual problem attributes. Consequently, the cluster approach is considered to be consistent with the fully polythetic problem clustering approach for forming a problem classification system. The relevant arm of problem attribute clusters as described above is illustrated in the figure below:

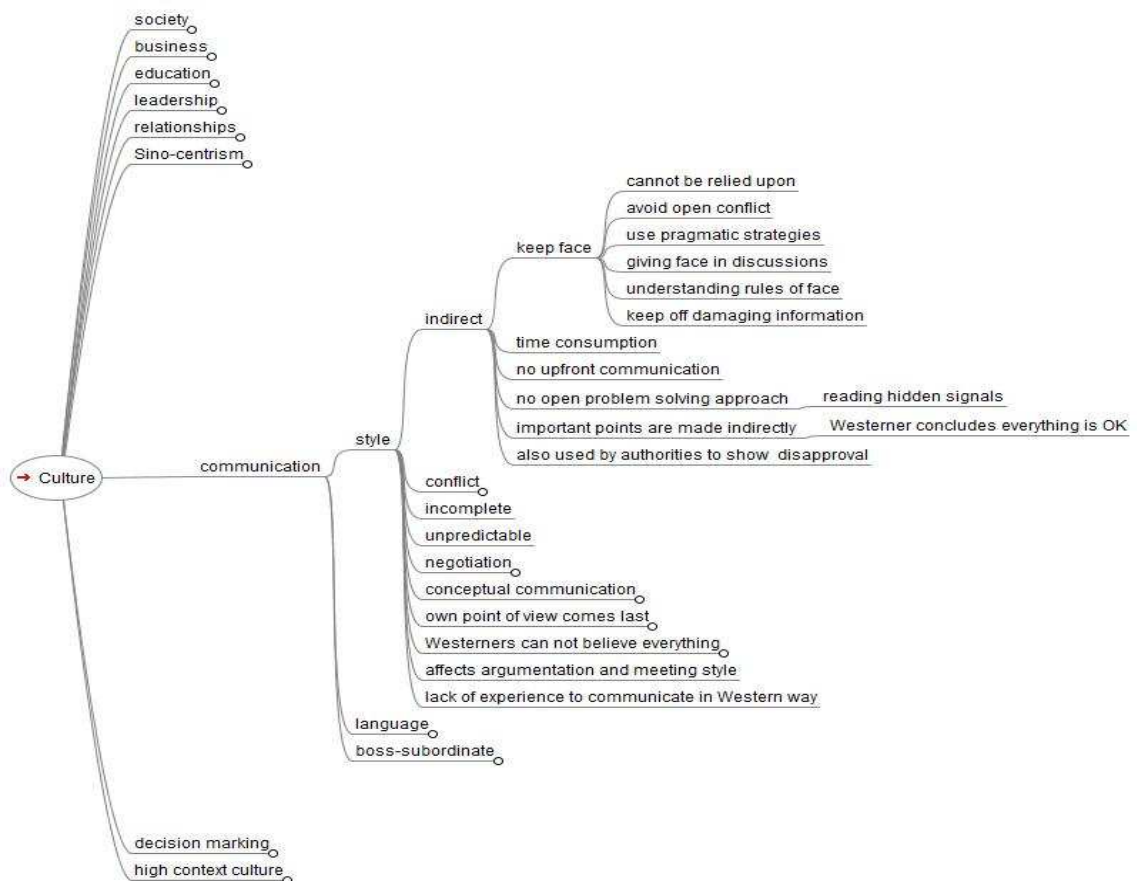


Figure 9 Clustering Process Example

## Clustering Results

As a result of the clustering process, eight domains emerge, each containing up to seven sub-clusters, which group problems characterised by certain subjects together. Below a brief explanation of the eight identified domains is given. More detailed documentation is provided in the next Chapter, Cluster Structure Description.

**“Culture”:** Although many aspects are important in cross-cultural relations, the analysis shows that certain issues are so deeply rooted in every aspect of daily life that addressing these is of utmost importance. Cultural differences between the Chinese and westerners are a substantial source of misunderstandings and potential conflicts.

**“Expectations”:** The clashing of unrealistic expectations between the Western and Chinese sides is another typical area of conflict in Sino-Western JVs. The analysis shows that differences in expectations can have various origins, such as optimism or pressure propagated by the media (Schmid, 2010, pp. 104-109) or government.

**“Practices”:** Business practices are considerably different in China and lead to a number of problems in Sino-Western JVs. Many aspects related to business ethics are viewed and addressed differently in China compared with the West. In addition, the Chinese culture is based on written and unwritten rules, which are often unknown to westerners.

**“Operations”:** There are countless issues that a manager may face in operating a JV in China. Challenges may range from common issues such as in HR, logistics and profitability, to other more specific JV issues. These could be due to the shared management, divided loyalties of managers between headquarters and JV

interests (Nooteboom, 2004, p. 83) or problems related to the uniqueness which comes with the Chinese work culture.

**“History”:** China’s deeply embedded cultural heritage has evolved over centuries. Although foreigners often do not understand China’s history, they encounter it through its influences in daily social and business environments. China’s rather recent communist history and state run economy in particular may lead to numerous challenges. Furthermore, the general suspicion towards everything foreign is a relic remaining from China’s past.

**“Government”:** The role of the government is important to understand, as it is a very comprehensive and complex institution. Problems can be found in legislation, jurisdiction, bureaucracy, missing transparency, business interference and the role of local governments.

**“Expat”:** Expatriates sent to China are confronted with many issues, such as those related to their headquarters, the local business and private issues. For example, they face issues regarding the huge disparities between the westerners and the Chinese in addition to problems related to their acceptance by the Chinese.

**“Concepts”:** A special section is devoted to the wide range of problems which arise on account of fundamental differences between the Chinese and westerners. This cluster was named concepts, as it refers to systematic differences in the concepts between China and the West.

## Concluding Remarks

The question of whether it is reasonable to analyse JV problems according to the principle of cause and effect is investigated in this chapter. The review shows that this principle, which may be appropriate for technical problems, is difficult to apply in the context of human problems due to the greater unpredictability and variance.

Alternatively, a different approach is suggested which concentrates on the classification of attributes of problems while their wider original setting is not considered. The classification of a large number of Sino-Western JV problems identified from case studies (Blackman, 2000) is based on a collection-categorisation-clustering process. By separating statements into individual problem attributes, classifying them and developing an appropriate clustering approach, a hierarchical structure is identified. Finding a structure among the hundreds of problems from the case studies is a core aspect of this work. The main difficulty of the data clustering is that many problems are highly interconnected, as one issue may lead to one or more related problems.

One major outcome of the data analysis is that eight problem domains emerge, each containing a multitude of clusters and sub-clusters. The original isolated JV problem attributes are pre-categorised and brought into a hierarchical structure. Their relationships are expressed through their subject-similarity in the cluster structure and their hierarchy is expressed from more general to more specific. As a result, each individual problem is classified under one of the eight main domains<sup>1</sup>.

One result of the visualisation is that clear problem hierarchies or dominant problem clusters do not seem to exist. Rather, there are streams or progressions of problem attribute clusters in which one cluster leads to another. These connections are often not visible for outsiders at first glance. Frequently

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<sup>1</sup> In Terpstra and Olson's (1993) research of entrepreneurial start-up and growth problems the term problem classes is used. The difference to this work is that the identified problem domains and clusters follow a different naming convention.

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they have their origin in the lack of westerners' cultural understanding and knowledge of the Chinese environment.

Consequently, the developed problem attribute cluster structure allows conclusions to be drawn regarding areas in which problems are likely to occur in a JV relationship. In order to thoroughly refine and describe these areas the following chapter describes the problem attribute clusters in detail. Based on the derived problem attribute cluster structure, Chapter VIII will examine whether it is possible to identify resolution measures addressing these clusters, while also evaluating their effectiveness.

## CHAPTER VII: Cluster Structure Description

*'If I had an hour to solve a problem I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions.'*

Albert Einstein

Based on the original input of anecdotal JV case studies of Blackman (2000), this chapter describes the classification results after applying the procedures outlined in Chapter V and VI. The chapter describes the identified domains, clusters and sub-clusters with their related problem attributes. In the classification process, the extracted problem attributes are clustered on different aggregated hierarchical levels. As a result, all of the problem attributes are consolidated into domains and different cluster structures. This description provides an understanding of the characteristics of each domain and its respective clusters along with some preliminary conclusions.

### Introduction of the Clustering Results

Based on the processes documented in the methodology and data examination chapters, the problem attributes stemming from the case studies are classified and brought into a cluster structure. Thus, the derived cluster structure represents all Sino-Western JV problems extracted from the data. Eight main domains emerge, each with numerous clusters and sub-clusters of problem attributes. The eight domains identified are listed below.

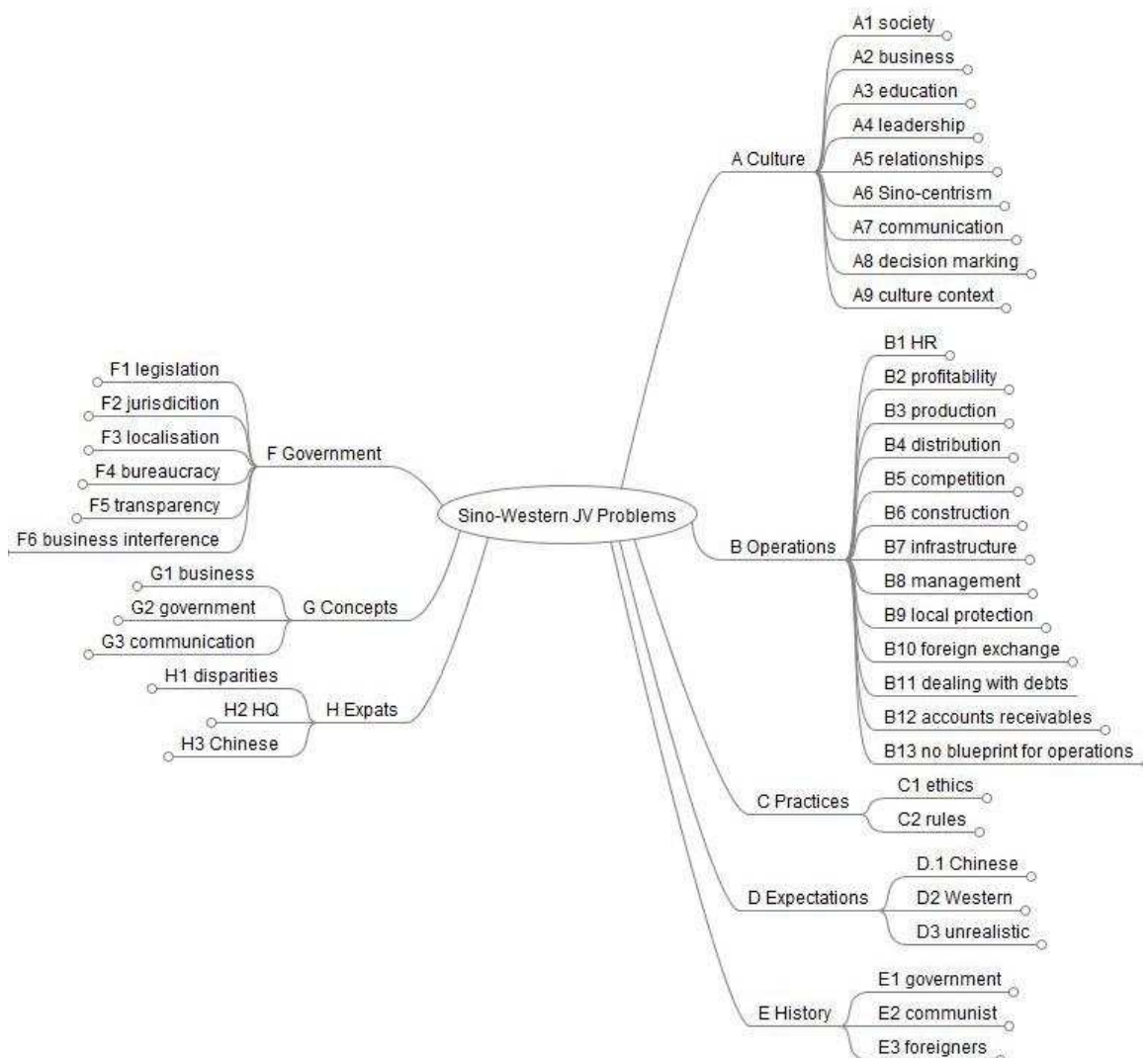
In this chapter a reference number is used to enable easier documentation of the domains and problem attribute clusters. The domains have a letter and their respective problem attribute clusters have numbers. Please note that neither the letters nor the numbers have a meaning or importance, they are only introduced for documentation purposes.

The domain names are given in bold and describe a typical theme among its respective problem clusters and their related attributes and thus share a domain:

- **A: Culture** - differences between China and the West
- **B: Operations** - of the JV
- **C: Business practices** - in China
- **D: Expectations** - of the parties
- **E: History** - of China
- **F: Government** - interaction and intervention
- **G: Expat** - issues relating to the Western managers
- **H: Concepts** - different concepts in China and the West

The figure below shows each domain (e.g. “A Culture”) as well as their associated level 1 clusters (e.g. “A1 society”, “A2 business”, “A3 education”, “A4 leadership” etc.).





**Figure 10 Cluster Structure Domains and Level 1**

The following figure shows all of the domains. The domain “operations” is shown with its associated level 1 and level 2 clusters. This example is given, as this chapter describes the problem attribute clusters up to level 2.

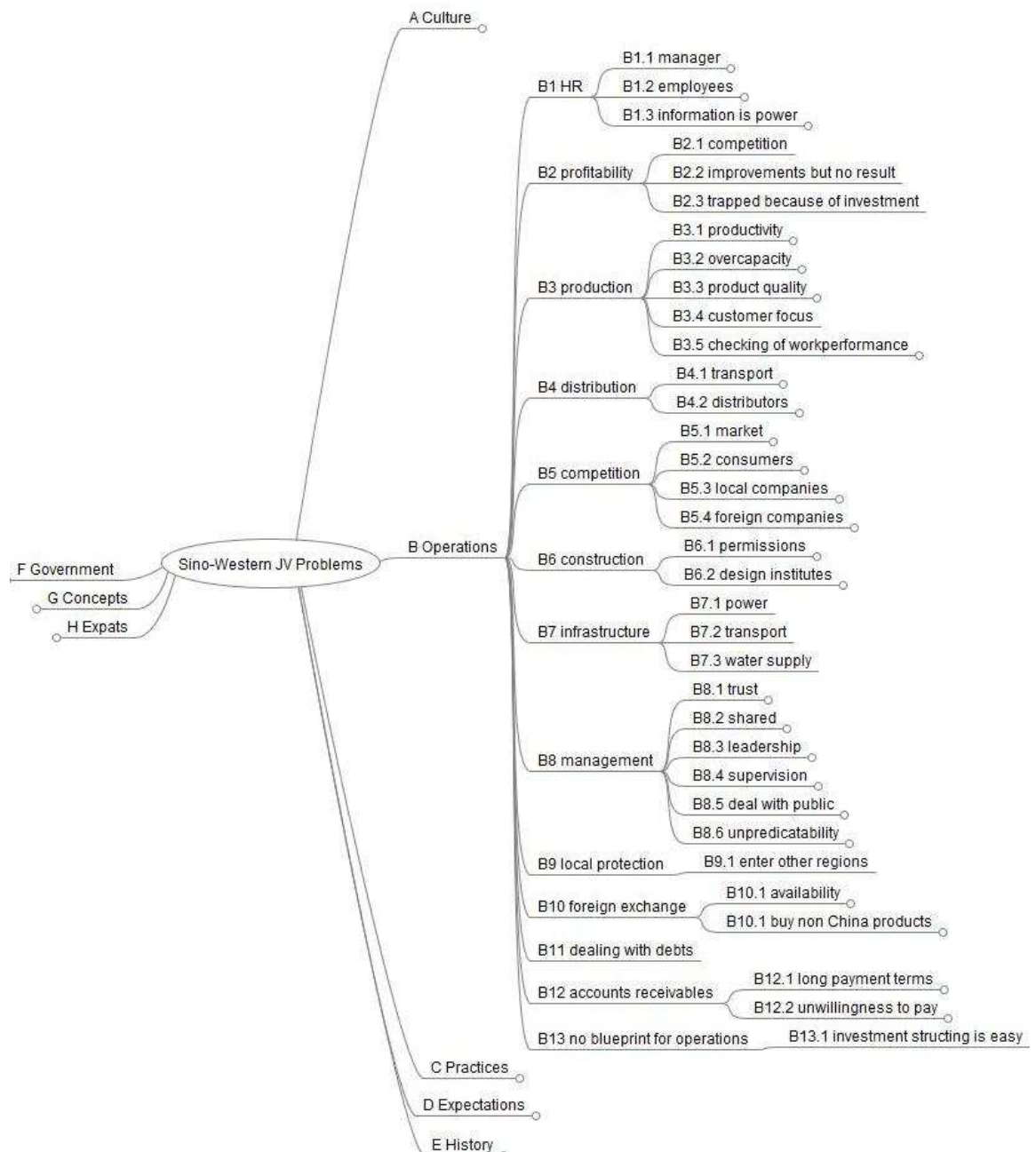


Figure 11 Cluster Structure, Operations example Level 1 and 2

Ascending up all the levels, more branches become visible and it becomes more difficult to view the figure as a whole. Due to its size it is difficult to show the whole structure with all its problem attributes clearly. Therefore, the structure is made available in electronic form in the back of the cover also to allow other researchers to work with the data if needed.

The entire unfolded cluster structure is shown in the next figure for demonstration purpose only. Thereafter, each of the eight cluster domains are shown in detail.

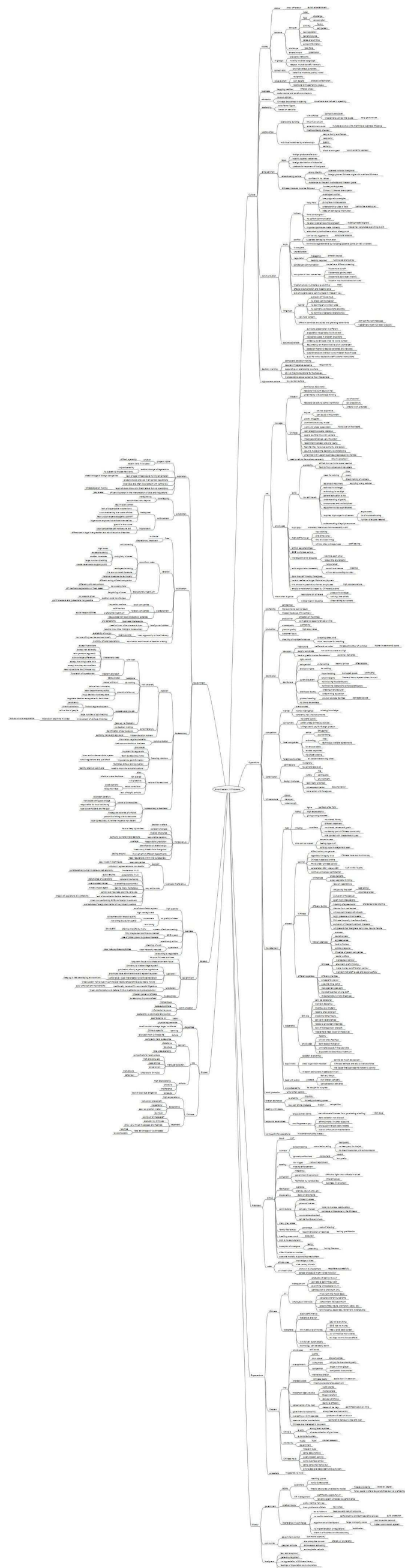


Figure 12 Entire Cluster Structure &lt;All Domains&gt;

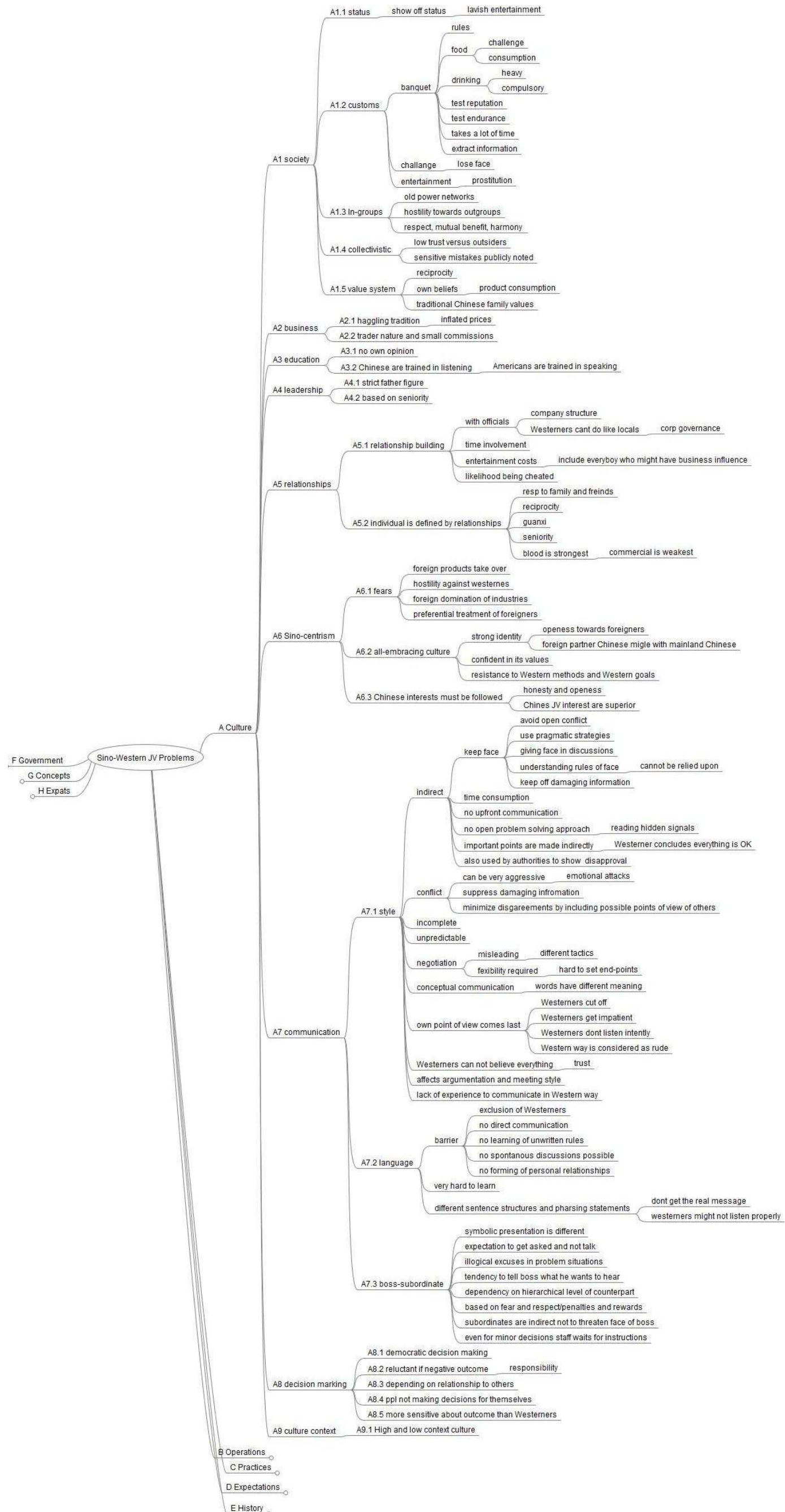


Figure 13 Entire Cluster Structure &lt;Domain Culture&gt;



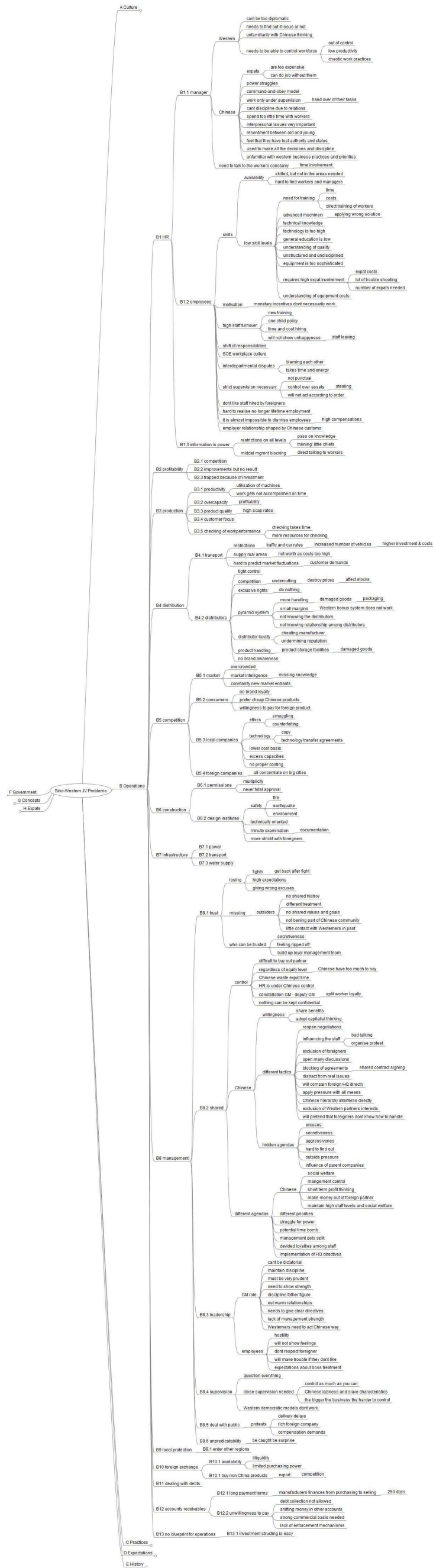


Figure 14 Entire Cluster Structure &lt;Domain Operations&gt;



Figure 15 Entire Cluster Structure &lt;Domain Practices&gt;

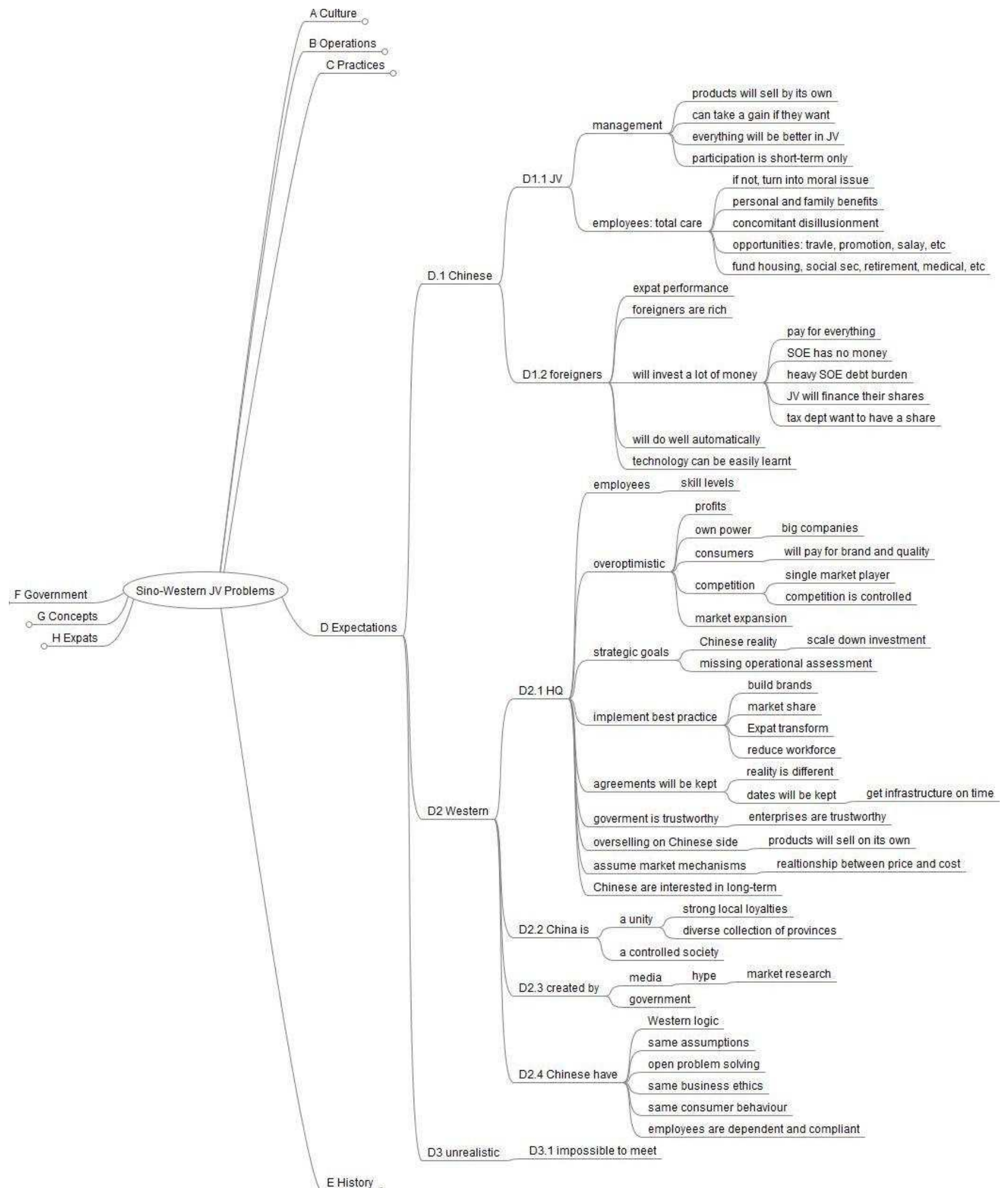


Figure 16 Entire Cluster Structure &lt;Domain Expectations&gt;



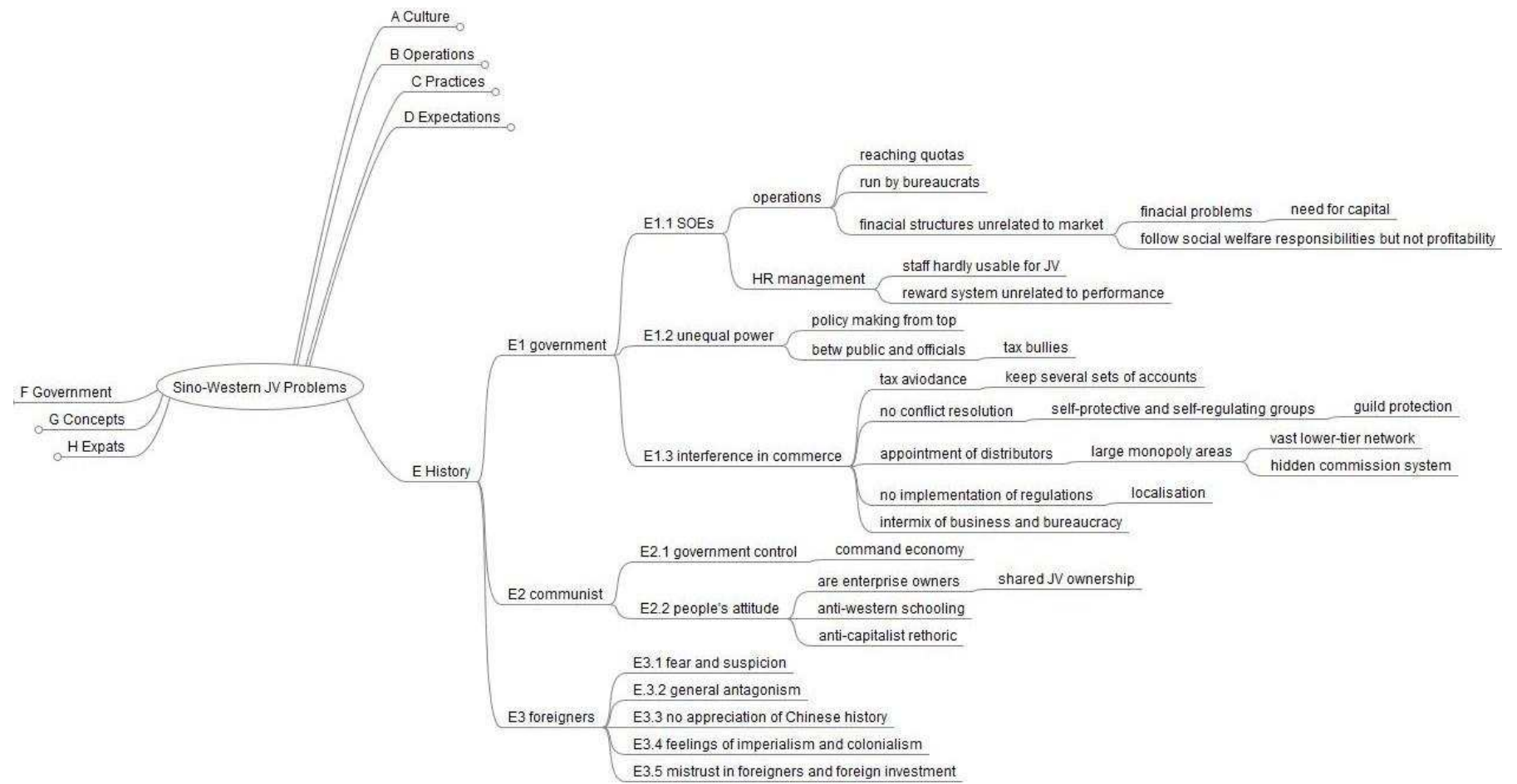


Figure 17 Entire Cluster Structure &lt;Domain History&gt;



**Figure 18 Entire Cluster Structure <Domain Government>**

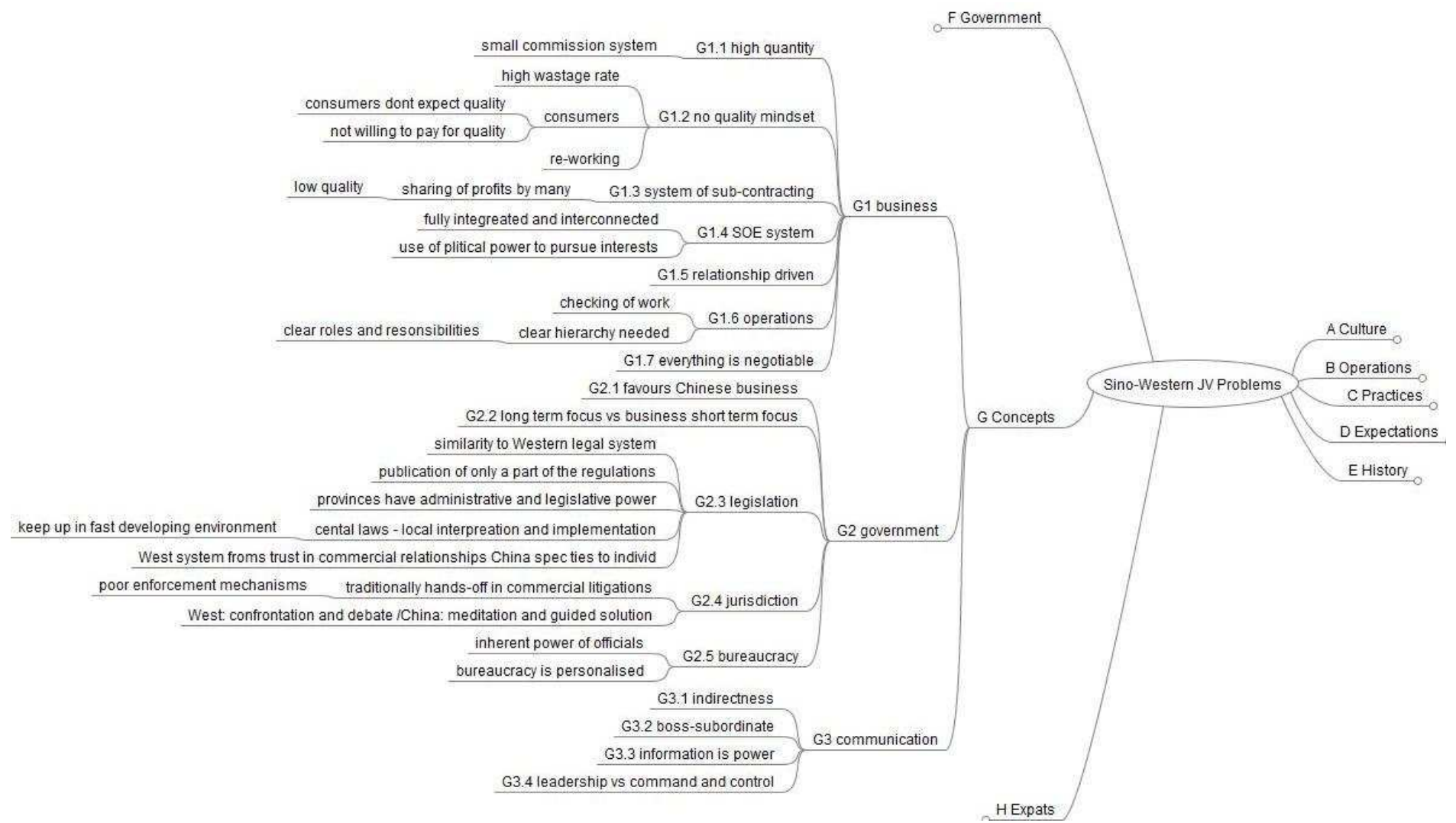


Figure 19 Entire Cluster Structure &lt;Domain Concepts&gt;

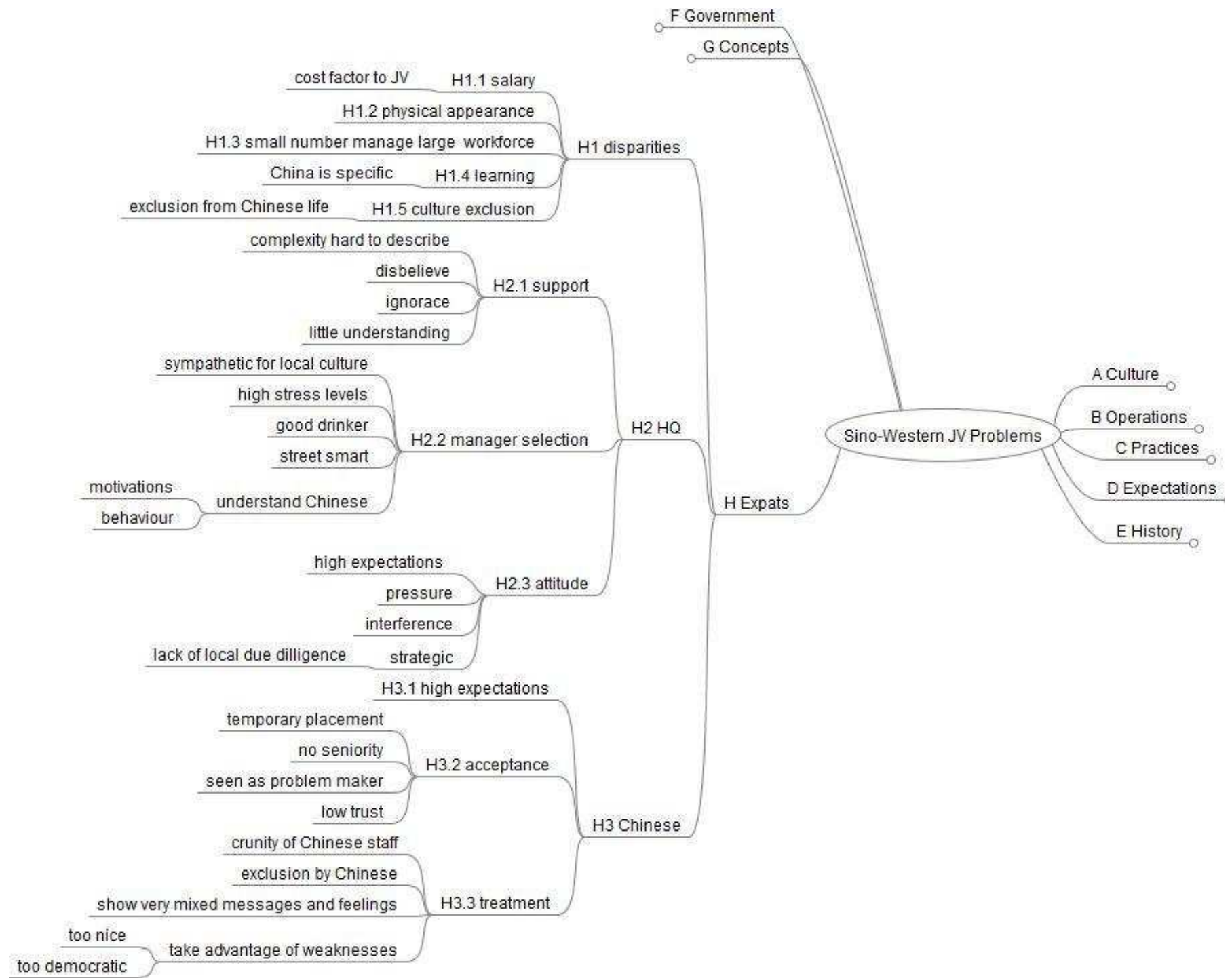


Figure 20 Entire Cluster Structure &lt;Domain Expatriates&gt;

The following description of the cluster structure gives an introduction of each of the identified domains (e.g. “culture”). Subsequently, all associated level 1 clusters (e.g. “society”) are described as well as all of the level 2 problem attributes. These are shown as bullet points on the left side (e.g. “status”) and are described in text form on the right side. Subsequent cluster levels (3 and higher) are not documented in detail. The reason is that it is not the aim of this chapter to paraphrase the original individual problems, but rather to provide an understanding of what constitutes a particular problem domain. Further to this, documenting all clusters in detail would involve documenting all of the more than 700 individual problem attributes.

The cluster explanations summarise the content within the clusters of problem attributes under the first two cluster levels. Where appropriate, original problem statements are included. Further background information, examples and literature sources are added to illustrate the different clusters and explain the specific problem settings.

**Domain:     A Culture - summary of differences between China and the West**

“Culture” is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. In order to put the problems encountered during the establishment of a Sino-Western JV into perspective, it is important to understand the notion of socio-cultural distance between China and the West. Sun (1999, p. 644) describes three groups of foreigners with different socio-cultural links to China. The first group is most closely related to China in terms of culture and geography: investors from Hong Kong and Taiwan. These Chinese share a very similar culture and language with the Chinese from the mainland and thus, often share the same objectives. This closeness allows them to easily enter the Chinese domestic market. As a result, this was the first group to invest in China



and also the group with the highest investment. The second group consists of neighbouring Asian countries with cultural ties to China, which also exhibit geographic proximity and historical links. These investors include countries such as Japan, Singapore, Malaysia and South Korea. These East Asian countries possess some advantages due to their socio-cultural linkages to China. The third group consists of investors from Western countries and represents the group with the greatest social-cultural distance and highest dependence on cooperation with local firms regarding management and market information. Based on this argument, JV establishment should be the preferred choice for entering China for this third group in order to bridge cultural differences. However, when forming and operating a JV, these cultural differences can become major obstacles for a successful partnership, as shown in the following section.

#### **Cluster Level 1: A1 Society - problems with respect to the Chinese society**

Society is strongly influenced by culture. Certain beliefs and cultural views influence aspects such as product perception and consumption, which may be of high relevance in certain industries (Tse, Belk and Zhou, 1989). Below, specific problem examples from level 3 under the cluster “society” are given:

#### **Cluster Level 2: A1 Problem examples for Culture - Society**

<ul style="list-style-type: none"> <li>• A1.1 Status</li> </ul>	Showing off personal wealth and status has a long tradition in China and includes lavish entertainment dinners. The newly rich in particular are the class which likes to show their wealth with Western symbols.
<ul style="list-style-type: none"> <li>• A1.2 Customs</li> </ul>	Diet and eating play a special role in the customs and lifestyle of the Chinese people. In business, banquets are very common and serve a number of purposes, such as establishing and enlarging the social circle or to extract information from someone about certain issues (Yang, 1994, pp. 6-14). For foreigners, banquets can be

	challenging as they follow certain rules and are usually time consuming. Sometimes the Chinese like to challenge the “face” of a westerner by testing their endurance and reputation with exotic foods and heavy drinking. Westerners may also be confronted with prostitution.
<ul style="list-style-type: none"> <li>• A1.3 Insider groups</li> </ul>	This attitude exists towards any kind of foreigner or stranger and also includes other Chinese. Established power networks are guided by respect for each other, mutual benefit and harmony within insider groups. There is a general hostility towards any kind of outside group.
<ul style="list-style-type: none"> <li>• A1.4 Collectivistic thinking</li> </ul>	In the Western-Chinese relationship, trust and reciprocity are not established. The result is that there is a chronic suspicion towards outsiders and foreigners.
<ul style="list-style-type: none"> <li>• A1.5 Value-system</li> </ul>	Chinese values are predominantly based on Confucian teachings, which recognise family values and specific duties within relationships highly. A central role is played by the notion of reciprocity (renqing) which represents an informal social obligation to give and take a favour in order to build or keep the relationship network (guanxi). When disrespecting the obligation of informal reciprocity, one jeopardises his or her guanxi or face (mianzi). Once guanxi is established, both parties will try their best to keep the relationship by reciprocating benefits. This value system plays a central role in Chinese private and business life. Foreigners usually come to China without relationships and hence, no established reciprocity. westerners are naturally excluded from the Chinese way of doing things until they have established relationship, reciprocity and face.

### **Cluster Level 1: A2 Business - problems related to different business cultures**

Contrary to the Confucian teachings and research results of Hofstede (2001), business in China also has a strong short-term orientation, especially in dealings with foreigners. The reason is found in economic reforms over the last decades. There appear to be different motivating factors between the Chinese ambition for “quick wins” and fast market penetration, versus the Western desire for orderly establishment and profitability. Hence, the traditional Chinese time orientation seems to not always hold in the case of business practices (Jagersma and van Gorp, 2003). In a JV, different time orientations between the parties may lead to different objectives and conflicts.

### **Cluster Level 2: A2 Problem examples for Culture - Business**

<ul style="list-style-type: none"> <li>A2.1 Haggling tradition</li> </ul>	<p>The Chinese have a long tradition of trading and haggling. Many aspects of business must be negotiated, which westerners are not accustomed to. For example, price agreements are difficult as prices are usually greatly inflated by the Chinese.</p>
<ul style="list-style-type: none"> <li>A2.2 Trader nature</li> </ul>	<p>The Chinese have a distinct system of high volumes and small commissions. This trader nature often leads to problems when a JV tries to determine its market prices, as westerners usually try to reach a compromise between margin and volume.</p>

### **Cluster Level 1: A3 Education - problems caused by different systems**

The traditional educational system in China is fundamentally different from educational systems in the West (Wang, 2003).



**Cluster Level 2: A3 Problem examples for Culture - Education**

<ul style="list-style-type: none"> <li>• A3.1 No own opinion</li> <li>• A3.2 Chinese are trained to listen</li> </ul>	Based on the teachings of Confucius, the relationship between teacher and student is based on clearly defined roles. Virtues include the careful listening of the teacher's lectures and copying of his teachings. On the contrary, the Anglo-Saxon educational system attaches importance to public speaking skills and students expressing their own thoughts and ideas.
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**Cluster Level 1: A4 Leadership - different understanding of leadership**

Confucianism reflects the concept of harmony in settling conflicts through compromise. An orderly hierarchy is established by the creation of roles: the student always obeys the teacher or the senior, the wife obeys the husband and the husband obeys the leader and the authority. In addition, the notion of business leadership is closely linked to the ideas and values of Confucianism. Without a good knowledge of these correlations, a westerner will face difficulties in management and being accepted as a leader (Gallo, 2011).

**Cluster Level 2: A4 Problem examples for Culture - Leadership**

<ul style="list-style-type: none"> <li>• A4.1 Strict father figure</li> <li>• A4.2 Seniority</li> </ul>	Individuals are not supposed to change their place by seeking acknowledgement based on individual achievement. Juniors are expected to exercise duties of reverence with respect to their seniors. Seniors exercise the duties of concern and benevolence with respect to their juniors. This theme is also manifested in the expectations of leadership. Therefore, one can expect different interpretations and expectations for leaders.
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### Cluster Level 1: A5 Relationship - different importance and understanding

Relationships are a very important concept including responsibility to family and friends, seniority and reciprocity. Blood relations, namely family, are usually considered as the closest and most important relationships (Lasserre and Schütte, 1999, pp. 126-127). In Chinese, the term relationship is defined by the construct of guanxi. Park and Luo (2001, p. 455) define guanxi as:

...a cultural characteristic that has strong implications for interpersonal and interorganisational dynamics in Chinese society. It refers to the concept of drawing on a web of connections to secure favours in personal and organizational relations.

From an economic point of view, the relevance of guanxi has changed over time. In times of socialism, guanxi were essential to broker structural gaps and to deal with institutional weaknesses. Today, guanxi are important to manage uncertainty and external dependence in the light of constant economic reform (Park and Luo, 2001, pp. 456-473).

### Cluster Level 2: A5 Problem examples for Culture - Relationship

<ul style="list-style-type: none"> <li>• A5.1 Relationship building</li> </ul>	<p>Main themes in Confucianism are the concepts of the establishment of harmony, the creation of an orderly hierarchy and the relationship between the individual and others. Confucianism is a social philosophy and not a religion. It is a scholarly tradition and way of life propagated by Confucius in the 5th–6th century BC. Confucianism has deeply influenced East Asian spiritual and political life.</p>
<ul style="list-style-type: none"> <li>• A5.2 Individual is defined by relationships</li> </ul>	<p>In business, relationships must be built among all parties and stakeholders in the business, including bureaucrats. Therefore, relationship building comes with considerable time involvement and entertainment costs. Often</p>

	relationship building is a grey area from a Western point of view and can raise corporate governance concerns.
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### Cluster Level 1: A6 Sino-centrism - cultural identity of the Chinese

“China” is called *Zhongguo* in Chinese, which, translated into Chinese characters is 中國 or 中国, meaning “Middle Kingdom”. This centric concept is not surprising, as China was the centre of civilisation for centuries. In fact, Chinese civilization is one of the world's oldest. Consequently, from an ethnocentric perspective, the Chinese consider their country and culture as central and unique relative to others. In ancient times, the Chinese even considered themselves as the only civilization in the world and all other foreign nations or ethnic groups as “outsiders”. The two Chinese symbols of “China” represent an ideographic meaning “centre” and “country”. Not surprisingly, traditional Chinese maps show China in the centre of the world. In ancient times through to the present day, China is considered by most of its neighbouring countries as the centre or middle kingdom (Li, 2009, pp. 252-256). Western companies should acknowledge this fact by paying attention to Chinese history and its influences in society and business when entering a Sino-Western JV.

### Cluster Level 2: A6 Problem examples for Culture - Sino-centrism

<ul style="list-style-type: none"> <li>A6.1 All embracing culture</li> </ul>	The Chinese are considered to have a strong cultural identity, regardless of whether the Chinese person comes from mainland China or another part of Asia. Also, they are considered to be confident in their values, which can lead to a general resistance to Western methods and goals.
<ul style="list-style-type: none"> <li>A6.2 Chinese interest must be followed</li> </ul>	Many Chinese people have the expectation that their interests generally come first and that Chinese interests are superior. This attitude often leads to problems in terms

	of honesty and openness towards foreigners.
<ul style="list-style-type: none"> <li>• A6.3 Fears</li> </ul>	The Chinese have a chronic suspicion towards outsiders. Suspicion is also fuelled by various fears, for example that foreign products may take over the Chinese market or that foreigners may dominate key industries or receive preferential treatment. Thus, there is a subliminal tendency of hostility toward westerners.

### **Cluster Level 1: A7 Communication - problems related to communication**

A very important aspect in Chinese communication is the concept of face (mianzi). To keep or to not lose face is an important element in Chinese society. Traditionally, the Chinese have compared this to losing a body part, such as a nose or eye, much like a physical mutilation. It is an intangible form of social currency and personal status. It is imperative to maintain or strengthen face value (Yeung and Tung, 1996). Mianzi can be used in two ways: to avoid losing face or to challenge another person to lose face. This usually consists of either bringing up or not bringing up embarrassing information in public.

### **Cluster Level 2: A7 Problem examples for Culture - Communication**

<ul style="list-style-type: none"> <li>• A7.1 Style</li> </ul>	<p>The concept of face presents a number of differences which arise when westerners communicate with the Chinese. Generally, the Chinese avoid open conflict and like to use pragmatic strategies in their negotiations. Even giving face to an opponent in discussions can be essential, such as withholding damaging information. As a consequence, quite often damaging information is suppressed. As foreigners may not know and follow the rules of face, Chinese generally feel that they cannot be relied upon.</p> <p>Also, important points are made indirectly by the Chinese.</p>
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	<p>Even authorities may show their disapproval indirectly, e.g. by not issuing a permit. Chinese also use conceptual communication with the effect that the same words have different meanings. The consequence is that westerners must learn to read the hidden signals, otherwise they will make incorrect conclusions or mistakenly think that everything is as it should be. Furthermore, they cannot expect upfront communication and an open problem solving approach.</p> <p>This indirect communication style also affects argumentation and meeting style. As Chinese people usually lack experience in the Western communication style, they use their traditional communication style where they present their own point at the very end of their argumentation. In order to minimise disagreements, Chinese people include all other potential points of view before they present their own argumentation. The implication is that often westerners do not listen intently or lose patience and cut their counterpart off. As a result, the most important part of the information gets lost and the westerner is considered as rude.</p> <p>Until relationship and trust are established, westerners cannot believe everything, firstly because they do not understand all the information they are provided with and second, because unpleasant information is withheld.</p> <p>Also, Chinese negotiation tactics can be considerably different compared with those in the West. To provide incomplete information or to mislead the negotiation partner is not perceived as unethical by the Chinese and the negotiations are not straightforward. The result is that westerners need to be extremely flexible in their</p>
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	<p>negotiations and must set vague end points.</p> <p>From the Western point of view, negotiations can also be unpredictable and abruptly become aggressive or involving emotional attacks.</p> <p>Considering these aspects, it becomes evident that communication in China is much more time consuming than in the West.</p>
<ul style="list-style-type: none"> <li>A7.2 Language</li> </ul>	<p>The Chinese written language consists of symbols which need to be interpreted and includes a number of implied meanings. Speech is often full of symbolic and metaphorical meanings. Therefore, understanding the full context of language in China, and not only the meaning of a single symbol or spoken word, is essential.</p> <p>Language problems include the difficulty of the Chinese language, including its different sentence structure and style of phrasing statements. This leads to westerners not listening properly and not getting the real message or drawing the wrong conclusions.</p> <p>Not speaking the Chinese language is a large barrier for westerners. This has a number of significant downsides, such as westerners being excluded from the social life of the Chinese and subsequently unable to form personal relationships. Also, no direct communication means no spontaneous discussions, leaving westerners unable to learn unwritten rules.</p>
<ul style="list-style-type: none"> <li>A7.3 Boss-subordinate</li> </ul>	<p>As highlighted in the sections “leadership” and “communication style”, the relationships between the superior and subordinate are fundamentally different in China when compared with the West.</p> <p>Communication has a strong dependency on the hierarchical level of the counterpart including the symbolic</p>

	<p>representations. Relationships are primarily based on fear and respect or on penalties and rewards.</p> <p>Subordinates are indirect to avoid threatening the face of the boss. Also they have the tendency to tell the boss what he wants to hear, potentially leading to illogical excuses. Another characteristic is that subordinates expect to be asked rather than speak out independently. Thus, even for minor decisions, the staff will wait for instructions from their superior.</p>
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### **Cluster Level 1: A8 Decision-making - different ways of making decisions**

The decision-making process can be fundamentally different between Chinese and westerners. Chinese view their decisions in terms of their relationships with others, whereas westerners follow a different, more rational decision-making process (Ahmed and Li, 1996).

### **Cluster Level 2: A8 Problem examples for Culture – Decision-making**

<ul style="list-style-type: none"> <li>• A8.1 Democratic decision-making</li> <li>• A8.2 Reluctant if negative outcome</li> <li>• A8.3 Depend on relationships</li> <li>• A8.4 People do not</li> </ul>	<p>If a decision has a potentially negative outcome for their counterpart, the Chinese may be very reluctant to take it. In this respect, the Chinese are more sensitive regarding the outcome of their decision compared to westerners.</p> <p>The Western complaint that the Chinese do not make decisions for themselves may arise from their assigned role within the relationship.</p> <p>Another area of misunderstanding is that westerners expect some form of democratic decision-making. The section on “boss-subordinate” relationships explains why westerners cannot expect this.</p>
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make decisions for themselves • A8.5 More sensitive about outcome	
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### Cluster Level 1: A9 Culture Context - different cultural context

The terminology of high and low context cultures was introduced by Edward T. Hall in 1977 and describes a way how a culture is embedded in its context.

### Cluster Level 2: A9 Problem examples for Culture - different Culture Context

• A9.1 High and low context cultures	A high context culture such as the Chinese culture has the tendency to centre itself around insiders who share similar experiences and expectations. Some of the key differences compared to low context (western) cultures are that they are relationship driven and less verbally explicit with a strong sense of tradition and history. This cultural difference leads to numerous problems and misunderstandings when westerners interact with the Chinese.
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### Culture: Preliminary Conclusions

Each distinct model of culture, and especially models of national culture, bears the risk of stereotyping. Further, it should be noted that this research builds on numerous statements made by westerners based on actual experiences. These statements, from which the problems have been derived, have a character of generalisation which should not be interpreted as a stereotyping of the Chinese culture.



A company establishing a foothold in China must, arguing from a cultural standpoint, regard its investment as a long-term investment. The employees on both sides must be committed to the venture and to China. Foreigners must develop the ability to understand this culture and context driven society in order to become successful. Based on China's culture, a Western JV partner cannot expect immediate results. Rather, a long-term orientation and the establishment of relationships and trust should be the main focus.

**Domain:     B Operations - running and managing the JV**

"Operations" is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. In this section, the domain "operations" is introduced, which focuses primarily on problems related to operating a JV in China. The term operations is here used in a wide sense. It ranges from setting up the JV, to dealing with internal JV issues, for example HR and production and also to external issues such as competition, local protection and infrastructure. With respect to infrastructure challenges Tian (2007, p. 158) states that '...the infrastructure is generally poor in China, though there are generally great differences in the level of infrastructure development across the regions.'

**Cluster Level 1: B1 Human Resources - issues related to personnel**

HR issues in Sino-Western JVs can be found on every organisational level. Issues arise due to cultural differences, but also due to the mindset created through decades of centralistic and anti-capitalistic thinking in the upbringing of staff and management.

**Cluster Level 2: B1 Problem examples for Operations - Human Resources**

<ul style="list-style-type: none"><li>• B1.1 Manager</li></ul>	<p>Western managers have a particularly difficult position in China. They are confronted with a strict hierarchical organisation where they cannot be too diplomatic and where there is a strong need to control the workforce. Without control, the JV is expected to encounter low productivity and chaotic work practices. At the same time, Western managers are unfamiliar with Chinese thinking and they must constantly determine whether the initial signs of a problem indicate a real issue or not.</p> <p>Chinese managers frequently have difficulty seeing the benefits of having expatriated managers working in their organisation. The common attitude is that they are too expensive and that the Chinese can do the work without them. At the same time, they are often unfamiliar with Western business practices and their priorities. Often Chinese managers feel that they have lost authority and status.</p> <p>Within the Chinese organisation, Chinese managers commonly face power struggles and strictly follow their “command and obey” model. In Chinese business practice, even middle management often requires supervision, as it is a common practice for middle managers to hand over their work to lower tier workers, resulting in poor quality. Furthermore, this group in particular has the tendency to spend insufficient time with workers. This is an important issue, as workers will not report problems or issues, but rather expect to be asked by their supervisors. Thus, direct supervision of workers and middle-management requires a large commitment from both the Chinese and the Western management. Disciplining staff is often difficult or not</p>
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	<p>possible due to relations among the management and staff. In general, interpersonal issues are very important among the workforce. In traditional Chinese companies, the superior makes all the decisions and disciplines the workers on the spot, fulfilling the Confucian type of strict father figure. Also, seniority is of importance in China, which usually leads to the resentment of older managers.</p>
<ul style="list-style-type: none"><li>• B1.2 Employees</li></ul>	<p>In general, skilled managers and workers are rare in China. Due to the low skill levels, there is a strong need for training, which requires much time and binds costs and resources. The low skill levels and the general low level of education bring up a number of issues. In many instances, there is a fundamental difference in the understanding of the term “quality” and workers usually have an unstructured and undisciplined approach to their tasks. As a result of the low level of technical knowledge, the applied technology is often too sophisticated. In addition, an understanding of equipment costs is lacking when using and maintaining advanced machinery. It is not unusual that initially inappropriate solutions are applied when attempting to repair advanced machinery, resulting in the expatriate to become involved. However, this represents added costs, particularly as more time is usually required for trouble shooting than initially planned.</p>
<ul style="list-style-type: none"><li>• B1.3 Information is power</li></ul>	<p>Information is restricted on all levels of an organisation in China. In this respect the middle management is particularly difficult as it blocks much information. As knowledge is treated as power, trained employees are very reluctant to pass on knowledge in general.</p>

**Cluster Level 1: B2 Profitability - difficulties in managing profitability**

Due to many unforeseen problems, most JVs in China suffer from a low profitability.

**Cluster Level 2: B2 Problem examples for Operations - Profitability**

<ul style="list-style-type: none"> <li>• B2.1 Difficult competition</li> <li>• B2.2 Marginal improvements</li> <li>• B2.3 Bound due to investment</li> </ul>	<p>The problem of low profitability can be explained as follows. Competition in the external environment is much more intense than originally anticipated by the Western partner, while all the internal operational issues eat up much of the remaining profits. Often Western management has the impression that even once operational improvements are achieved, a profit increase is not realised. Due to the heavy investment in the JV, the Western companies are frequently trapped as their costs are non-recoverable.</p>
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**Cluster Level 1: B3 Production - issues related to manufacturing**

Production issues are common in China. As the productivity is lower, work is often not accomplished on time and machine utilisation is lower relative to the West.

**Cluster Level 2: B3 Problem examples for Operations - Production**

<ul style="list-style-type: none"> <li>• B3.1 Productivity</li> <li>• B3.2 Product quality</li> <li>• B3.3 Overcapacity</li> <li>• B3.4 Customer focus</li> </ul>	<p>As most of the companies and JVs overestimate the markets, they have overcapacities which commonly destroy pricing structures and lead to a low profitability. Low profitability is also caused by low product quality and high scrap rates. Checking product quality requires time and resources. Typically, customers do not expect high quality.</p>
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<ul style="list-style-type: none"> <li>• B3.4 Checking performance</li> </ul>	
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### **Cluster Level 1: B4 Distribution - distribution system difficulties**

Product distribution is a complex topic in China on account of its immense size and diversity.

### **Cluster Level 2: B4 Problem examples for Operations - Distribution**

<ul style="list-style-type: none"> <li>• B4.1 Transport</li> </ul>	The use of vehicles in large cities is usually restricted, increasing delivery times and costs. Supplying to rural areas is most likely out of scope due to high transportation costs and low income levels. Controlling distribution is a challenge, as customer demands are difficult to predict and markets fluctuate strongly.
<ul style="list-style-type: none"> <li>• B4.2 Distributors</li> </ul>	Distributors need to be controlled tightly. Strong competition among them leads to an undercutting of prices which destroys prices and affects stock levels. Even the assignment of exclusive rights does not help, as this may result in distributors becoming inactive. Distributors are organised in a pyramid system where the contract holder subcontracts to other companies and so on. This business model requires more handling of goods, which leads to increases in damages, different packaging requirements and product storage facilities. Another effect is that the margins decrease and Western bonus systems do not work. In general, the distributors are not known to the manufacturer. This leads to poor distributor loyalty where cheating the manufacturer and undermining its reputation.

**Cluster Level 1: B5 Competition - issues with competitors**

Strong market competition is a difficult topic in China and its effects are multi-fold.

**Cluster Level 2: B5 Problem examples for Operations - Competition**

<ul style="list-style-type: none"> <li>• B5.1 Market</li> </ul>	Most of the time the markets are overcrowded and there is a constant influx of new entrants, some with little knowledge about the markets. Also, misleading market intelligence may be a problem.
<ul style="list-style-type: none"> <li>• B5.2 Consumers</li> </ul>	On the consumer side, the concept of brand awareness is often unknown and hence there is less willingness to pay for a foreign product. As consumers do not expect quality in the first place, they show no brand loyalty and prefer cheap Chinese products.
<ul style="list-style-type: none"> <li>• B5.3 Local companies</li> </ul>	In addition to the difficulties mentioned above, local companies present another difficult party to deal with. Usually they operate on a lower cost basis, have excess capacities and do not carry out proper costing. Technology is either sourced through copying or is incorporated through technology transfer agreements. Most of the time local firms' business ethics are questionable, including smuggling and the counterfeiting of products.
<ul style="list-style-type: none"> <li>• B5.4 Foreign companies</li> </ul>	Competitors from other Western countries concentrate on China's large cities, which intensifies the competition even more.

**Cluster Level 1: B6 Construction - problems related to new constructions**

In order to construct a factory in China, many bureaucratic hurdles need to be overcome.

**Cluster Level 2: B6 Problem examples for Operations - Construction**

<ul style="list-style-type: none"> <li>• B6.1 Permissions</li> </ul>	First of all, several permissions are needed. Even when permits are received, the JV may still not be allowed to operate. Therefore, these ventures run the risk that an institution may pose problems or create delays.
<ul style="list-style-type: none"> <li>• B6.2 Design Institutes</li> </ul>	There is a specific group of approval authorities to check constructions, the so-called design institutes. These are responsible for safety measures for example, fire, earthquake and environmental protection and are technically oriented. They perform detailed examinations, which leads to the need to document everything in detail. They are also known to be stricter with foreigners than with local companies.

**Cluster Level 1: B7 Infrastructure - problems with inadequate infrastructure**

Many manufacturing JVs are located in remote and rural areas. The main reasons for this are the existing locations of the Chinese partner, low labour costs and tax incentives. However, the lack of basic infrastructure requirements can become a crucial issue in these areas.

**Cluster Level 2: B7 Problem examples for Operations - Infrastructure**

<ul style="list-style-type: none"> <li>• B7.1 Power</li> <li>• B7.2 Transport</li> <li>• B7.3 Water supply</li> </ul>	A constant water and power supply are frequently absent, along with basic transport infrastructure such as roads. Another issue is the political power local authorities apply when it comes to the approval of these fundamental infrastructure requirements. Often the decision to push, delay or approve applications is based on either the interests of the local power holder or the interests of the public.
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**Cluster Level 1: B8 Management - general management issues in China**

The JV management is crucial for overcoming internal and external issues. However, the management of a JV is particularly difficult, as it is a shared endeavour in which the two sides have different cultural backgrounds and where institutional environments often represent the interests of the parent organisation.

**Cluster Level 2: B8 Problem examples for Operations - Management**

<ul style="list-style-type: none"> <li>• B8.1 Trust</li> </ul>	<p>Trust is crucial in a mixed management team. Arguments among management may result in the loss of trust and make resolution even more difficult. The expectations are high on both sides and dishonesty may be an issue, such as the offering of false excuses. A westerner will not be fully trusted from the start, as foreigners are seen as outsiders with no shared history and no shared values or goals. Not being part of the Chinese community will lead to westerners, a group China previously had little contact with, being treated differently. This in turn may lead to an organisation of distrust and secretiveness where employees do not know who can be trusted. As a result, the Western and Chinese sides may try to build up loyal management teams to split the loyalty among the staff.</p>
<ul style="list-style-type: none"> <li>• B8.2 Shared</li> </ul>	<p>Shared management is a particularly tricky issue found in all JVs around the world. Western companies frequently complain that the Chinese side assumes control regardless of its equity stake and that it is too vocal, wasting the time of the expatriates. As the HR department is usually under Chinese control, influence is exercised over the workers so that loyalty resides with the Chinese management.</p> <p>At this point, it may become very difficult to buy out the partner to gain more control over the company.</p>



	<p>Westerners also complain that nothing can be kept confidential in a Chinese JV. Also, the Chinese lack of willingness to share profits and to adopt capitalistic thinking is criticised. Westerners find themselves confronted with different negotiation tactics than they are accustomed to. The Chinese have the tendency to reopen closed negotiations for a number of reasons, such as: to directly influence staff for example by means of defamation or protest organisation, to exclude foreigners, to start many discussions at the same time to distract from real issues or to complain to the foreign HQ directly. This subsequently applies pressure using all means (also refer to the description of the domain “culture”, cluster “communication”).</p> <p>Another Western attitude is that the Chinese use their power when signing contracts by refusing to sign and block agreements which are essential for the company. Also, Chinese upper management may directly interfere in JV matters, disregarding official reporting lines or decision structures. The result is that the Western partner feels deceived and excluded.</p> <p>Due to outside pressure and influence exercised by the parent companies, attempts to implement directives from the HQ may be confronted with excuses, aggressiveness and secretiveness. Basically, the agendas are different. Often the Chinese side is more interested in social welfare and in maintaining a high staff income level rather than in making profits. In general, westerners feel that their counterparts are much more interested in short-term profits and in making money through the foreign partner.</p> <p>In order to keep the management control, the Chinese</p>
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	often suggest that foreigners do not know how to handle things. This constellation of shared management with different agenda priorities presents a power struggle and a potential time bomb.
<ul style="list-style-type: none"><li>• B8.3 Leadership</li></ul>	The role of the general managers is a very particular one. On the one hand they cannot be dictatorial, but on the other hand they need to maintain discipline. They must be very prudent, show strength and represent the disciplining father figure. In this role, they must establish relationships among the workforce and needs to give clear directives. They will not be taken seriously if they shows a lack of management strength. Hence, westerners need to act in a Chinese way and must be prepared to encounter employee hostility without showing emotion. Also, the Chinese will regularly show that they do not respect the foreigners and may make trouble (also refer to the description of the domain “culture”, cluster “society”).
<ul style="list-style-type: none"><li>• B8.4 Supervision</li></ul>	In a supervisory role in China one needs to question everything. In general, operations need to be closely supervised and controlled as much as possible. The bigger the business, the closer the control needed. Westerners must be aware that democratic models do not work in this environment.
<ul style="list-style-type: none"><li>• B8.5 Dealing with the public</li></ul>	It may happen that the public will want to have a share of the perceived wealth of the foreign company. This attitude is reflected in numerous compensation demands against the JV factory. This frequently leads to protests causing delivery delays and other operational problems.

<ul style="list-style-type: none"> <li>• B8.6 Unpredictability</li> </ul>	As westerners are not used to dealing with Chinese negotiation tactics, they repeatedly feel caught by surprise.
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### **Cluster Level 1: B9 Local Protection - challenges due to preference treatments**

Local protection is a very typical occurrence. Therefore, entering other regions of China can be a difficult endeavour.

### **Cluster Level 2: B9 Problem examples for Operations - Local Protection**

<ul style="list-style-type: none"> <li>• B9.1 Entering other regions</li> </ul>	Most of the time the representatives of the region will expect some kind of share if they allow the intruder enter their territory.
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### **Cluster Level 1: B10 Foreign Exchange<sup>1</sup> - currency related issues**

The availability of foreign exchange is often crucial in the operation of a JV.

### **Cluster Level 2: B10 Problem examples for Operations - Foreign Exchange**

<ul style="list-style-type: none"> <li>• B10.1 Availability</li> </ul>	If supplies cannot be purchased locally within China, it will lead to downtime and worsen the threat of illiquidity.
<ul style="list-style-type: none"> <li>• B10.2 Exporting products</li> </ul>	Limited purchasing power forces many companies to export their products to world markets. This can lead to an oversupply and cause competition within the own company group.

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<sup>1</sup> The evolving nature of the JV problems in China will be noted. Today, foreign exchange and debt related problems are not as common as they were 15 years ago.

**Cluster Level 1: B11 Dealing with debts - management of debts**

Dealing with debts is a difficult issue in China. As debt collection is not allowed and enforcement mechanisms are lacking, business partners need a very strong commercial basis for partnering. Chinese companies have a tradition of shifting money into other accounts to conceal their finances from outsiders.

**Cluster Level 1: B12 Accounts receivables – problems with long payment terms**

In general, payment terms are very long, as manufacturers need to finance the whole chain from purchasing to selling.

**Cluster Level 2: B12 Problem examples for Operations – Accounts receivables**

<ul style="list-style-type: none"> <li>• B12.1 Long payment terms</li> <li>• B12.2 Willingness to pay</li> </ul>	<p>The long payment terms lead to the challenge to manage the cash flow. Each business partner tries to maximise the payment terms and wait with the payment of open invoices as long as possible. Consequently, all businesses involved tend to wait for incoming cash in order to be able to pay their own invoices.</p>
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**Cluster Level 1: B13 No blueprint - missing guidance in operations management**

A main difficulty in operating a JV in China is that there is no blueprint. Additionally, there is a lack of enduring successful examples upon which a new JV can model itself.

**Cluster Level 2: B13 Problem examples for Operations - No blueprint**

<ul style="list-style-type: none"> <li>• B13.1</li> </ul>	<p>The structuring of the JV investment is easy, but all the</p>
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Investment structuring	hurdles and traps are impossible to foresee.
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**Operations: Preliminary Conclusions**

When one hears the topic of “JV problems”, it is expected that the establishment and operation of a JV are the central challenges for Western managers. However, this research clearly shows that problems found in the area of “operations” are symptomatic of other issues and are not the main source of these problems. This is because various kinds of problems are presented over the JV life cycle and arise at different points in time. Therefore, a Sino-Western JV is a setting in which a range of problems are showcased. It is here that the Chinese and Western institutional and business environments clash, as well as the expectations of the mother companies.

**Domain: C Practices - issues related to different business practices**

“Practices” is the name of one of the eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. The domain practices includes the clusters titled ethics and rules, documented below. Some of these questionable work practices have their origin in the long history of China and date back centuries. Still today, in the field of modern marketing management, Tian (2007, pp. 177-200) highlights that the business practices in China can be fundamentally different compared with Western standards.

**Cluster Level 1: C1 Ethics - different understanding of business ethics**

Ethics is a central aspect of philosophy. It is significantly broader than simply the perception of what is considered be “right” or “wrong”. Ethics also encompasses the conduct of the individual and society. This cluster deals with work ethics in

China from a Western point of view, which is a difficult and subjective aspect. Many affairs that seem to be immoral or unethical from the Western point of view may in fact be considered as perfectly acceptable from a Chinese point of view. Consequently Tian (2007, p. 274) highlights that: '[our company's] need to conduct internal audits with their China affiliates on a regular basis to enforce the code of accounting and business ethics.'

### Cluster Level 2: C1 Problem examples for Practices - Ethics

• C1.1 Fraud	VAT fraud is a common problem. Many companies try to avoid VAT by refusing to issue official receipts.
• C1.2 Contract	In China the practice of one party subcontracting to another party is common. Usually the contract holder will receive the largest share while the margin becomes smaller as the work is further passed along. This system of taking commissions may lead to poor quality where the work is finally done by the least expensive and not necessarily the best company. The contracting body has no direct interaction with the subcontractor, resulting in specifications being ignored or cutting corners which results in poor quality and the need for reworking.
• C1.3 Stealing	Stealing in the workplace is still quite common and unofficially tolerated through limited enforcement. One reason is the low wages, especially relative to the value of the equipment. Thus, equipment or parts of equipment are frequently stolen which leads to numerous problems in replacing and financing them.
• C1.4 Corruption	Most foreigners coming to China are astonished by the amount of corruption in China. Bureaucracy also facilitates corruption through the system of inherent power and direct government involvement in business affairs.

	Government officials involved in corruption make it even more difficult to deal with and to fight.
<ul style="list-style-type: none"><li>• C1.5 Falsification</li></ul>	Statistics and stamp documents are often falsified. One of the reasons is that documents require numerous approvals, each of which can stop or delay the matter. However, westerners must be aware that even if their counterparts present documents, they still require verification by a third party.
<ul style="list-style-type: none"><li>• C1.6 Blackmailing</li></ul>	The unequal power of bureaucrats and individuals may lead to direct or indirect blackmailing. For example, a shipment may only be released after a certain payment has been made.
<ul style="list-style-type: none"><li>• C1.7 Commissions</li></ul>	The subcontracting and commission taking system leads to inflated invoices. This can be found in all areas of business. In general, the Chinese side will insist on managing the relationships and contracts with all parties outside of the company. They will do this to secure their influence and to later take advantage when it comes to assigning third parties.
<ul style="list-style-type: none"><li>• C1.8 Grey areas</li></ul>	The legal system in China leaves a lot of room for interpretation. The central government issues general directives which are interpreted by the provinces and local authorities. Even in the case of clear directives, these will not necessarily be followed by local authorities. Generally they will be at liberty to adapt central laws to their local needs. This leaves many grey areas in the legal system where foreign companies face the risk of being accused of wrongdoing.
<ul style="list-style-type: none"><li>• C1.9 Family first ethics</li></ul>	A blood relationship has the highest status and level of trust of all relationships in China. It is expected that one

	family member supports the other. Nepotism is perceived as being related to the Chinese value of “sharing”. Therefore, it is not surprising that relatives will hire each other for positions in a company even though they are unqualified.
<ul style="list-style-type: none"> <li>• C1.10 Breaking one's word</li> </ul>	To break one's word or rather to twist it later on is not uncommon in China and is an accepted habit.
<ul style="list-style-type: none"> <li>• C1.11 Notion of truth</li> </ul>	Westerners must be aware that the notions of truth and untruth are absolute terms which have a Christian origin, whereas most of the time, right and wrong are not absolute terms for the Chinese.
<ul style="list-style-type: none"> <li>• C1.12 Deception of strangers</li> </ul>	Lying and the deception of strangers have a long tradition in China and are not necessarily seen as bad. Hence, in business the Chinese may deceive foreigners, such as pretending to have certain licences.
<ul style="list-style-type: none"> <li>• C.13 Insider</li> </ul>	Chinese always differentiate between dealings with an insider or an outsider. This applies to their own people and especially for westerners.
<ul style="list-style-type: none"> <li>• C1.14 Personal morality</li> </ul>	Unlike in the West where ethics stem in part from the Christian religion, in China the controlling mechanism of ethics is the personal morality of the individual.

### **Cluster Level 1: C2 Rules - issues related to institutional regulations**

The moment a company considers investing in China, it also needs to consider China's rules and regulations. Most foreigners from Western countries encounter the greatest difficulties in differentiating between which rules are enforced and which ones are not. Certain rules are official and others are informal, certain rules are known and others are not published and certain rules can be bent while



others cannot. This situation can be found in almost all parts of the Chinese society and its institutions. For example, Zhong (2003, p. 105) states that: 'There are stipulated formal regulations and guidelines and unspoken unofficial rules and practices, with regards to cadre appointment and promotion.'

### **Cluster Level 2: C2 Problem examples for Practices - Rules**

<ul style="list-style-type: none"><li>• C2.1 Official rules</li></ul>	Rules are very widespread in China, but often abused. Certain rules might not be adhered to, as they may not be published and people are unaware that they exist.
<ul style="list-style-type: none"><li>• C2.2 Unwritten rules</li></ul>	Unwritten rules are of equal to the official rules in China. Westerners need to know these in order to be able to negotiate successfully.

### **Practices: Preliminary Conclusions**

According to the statements by westerners, dubious business practices in China generate a lot of issues, especially for corporate companies following Good Corporate Governance practices, internal compliance and ethics guidelines. Chinese companies not only have a different business morality in many respects, but also the understanding of the individuals involved differs. From a Western point of view, questionable practices are carried out by the Chinese in good conscience. Reasons may be found in the commercial history of China as well as a different understanding of values, as further outlined in this chapter. Also, the constellation of a joint company between a Western and a Chinese party contributes to additional complexity and may invite opportunism. Ott (2003, p. 1-2) summarises: 'The nature of an IJV generates not only benefits for both parties involved but also conflicts of interest, which could result in deception, fraud and low effort level'.

**Domain: D Expectations - clashing of unrealistic expectations**

“Expectations” is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. There are a number of players involved in a JV and all have certain expectations. At least two different headquarters have expectations, in addition to the respective Chinese and Western management, the workers and other stakeholders. This section will show that non-aligned expectations lead to numerous problems already early in the JV establishment. Burke (2010, p. 173) summarises ‘Managing differing expectations is another key to success in a Sino-foreign JV. Differing expectations can create tensions in the JV’s relationship (also refer to Chapter “operations”, cluster “management”).

**Cluster Level 1: D1 Chinese - issues related to misconceptions**

This section outlines problems due to common false expectations or misconceptions on the part of the Chinese management regarding a JV with a Western company.

**Cluster Level 2: D1 Problem examples for Expectations - Chinese**

<ul style="list-style-type: none"> <li>D1.1 JV</li> </ul>	<p>Chinese expectations of the JV are that the product will sell easily, the Chinese will have easy access to profits, that all problems will be solved through the JV and that the partner’s participation is short-term only.</p> <p>Chinese employees expect the company to take total care of them and do not see this as a moral issue. They expect personal and family benefits, opportunities to travel, promotions, funded housing, social security, retirement funds and health care support.</p>
<ul style="list-style-type: none"> <li>D1.2 Foreigners</li> </ul>	<p>The Chinese tend to have a number of expectations regarding the foreigners coming to China. Firstly, they</p>

	<p>have the impression that all foreigners are rich and expect foreigners to invest a lot of money in the venture and pay for everything, as the SOE has limited funds and is pressed by the burden of heavy debt. They may even expect the JV to finance their shares which are expected to do well. They often imagine that the imported technology will be easily learnt and that the work contributed by the expatriates is not necessary.</p>
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### **Cluster Level 1: D2 Western - issues related Western misconceptions**

There are also many misconceptions on the side of the westerners regarding their expectations in a JV with a Chinese company which present issues.

### **Cluster Level 2: D2 Problem examples for Expectations - Western**

<ul style="list-style-type: none"> <li>• D2.1 HQ expectations</li> </ul>	<p>Usually Western headquarters have an overly optimistic profit expectation and overestimate their own power. Large companies in particular have a tendency to do this. They assume that competition is controlled and that they will be a single market player. On the market side, there is a false assumption that basic market mechanisms, such as the relationship between price and cost, are the same as in the West. They expect consumers to pay for brand and quality and expect a speedy market expansion over China. Not surprisingly, Western companies try to implement best practices while anticipating an appropriate skill level of the local employees. Also, there are high expectations with regard to the capabilities of their expatriates in their ability to increase market share and reduce the workforce. These unrealistic expectations finally result in strategic goals not being met. Other expectations and assumptions are that</p>
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	the Chinese are interested in a long-term relationship and that the government and enterprises are trustworthy. It is expected that agreements will be upheld and that dates according to contracts will be maintained, such as for infrastructure completion.
<ul style="list-style-type: none"> <li>• D2.2 Expectations regarding China</li> </ul>	Many westerners have the false impression that China is a unified country and not a diverse collection of provinces with strong local loyalties. Another erroneous belief is that China has a controlled society due to its communist history.
<ul style="list-style-type: none"> <li>• D2.3 Creation of expectations</li> </ul>	Many misconceptions and false impressions in the minds of the management are created through media hype about the rising Chinese economy compounded by insufficient market research.
<ul style="list-style-type: none"> <li>• D2.4 Expectations of the Chinese</li> </ul>	Fundamental problems arise as westerners have the mistaken belief that the Chinese are just like them in terms of logic, assumptions, problem solving approach, business ethics and consumer behaviour. Furthermore, they think that Chinese employees are compliant and dependent on the company.

### **Cluster Level 1: D3 Unrealistic - issues related to unrealistic expectations**

JVs between Chinese and Western companies are affected by unrealistic expectations on both sides.

**Cluster Level 2: D3 Problem examples for Expectations - Unrealistic**

<ul style="list-style-type: none"> <li>• D3.1 Impossible to meet</li> </ul>	<p>As outlined above, there are countless misconceptions and unrealistic expectations on both sides. Most of the time, the expectations in a JV are very different in their nature. Thus, it is questionable whether it is possible to find a JV where these expectations are aligned.</p>
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**Expectations: Preliminary Conclusions**

Expectations underline the essential objectives and assumptions of both parties when they form a JV. This section clearly shows the importance of this issue. Often a misalignment in expectations results in major problems and leads to the failure of a JV: 'Many joint ventures fail in the early stages due to poor understanding of expectations and differences in the approach of each partner to the relationship' (Ahmed and Li, 1996, p. 279).

However, apart from the seemingly obvious different expectations between the Chinese and the westerners, there are also more stakeholders with expectations in the venture. Wong (2003, p. 2), summarises the situation:

Meeting expectations. In addition to all the challenges inherent to operating in China, business leaders increasingly talk about the challenge of meeting aggressive expectations for market growth, cost savings and, ultimately, profitability. If anything, those expectations are intensifying. For many companies, China has become the panacea for profitability problems in low-growth, high-cost home markets. Pressure from management at the center is often reinforced by investment analysts' increased scrutiny of a company's China investments.

**Domain: E History - problems linked to the history of China**

“History” is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. The fact that one separate cluster has been established specifically for problems related to the more recent and older history of China shows that this area needs to be seriously addressed. Potentially, this may also be an area which is underestimated by many managers. Child (1994, p. 244) describes the difficult history between Chinese and foreigners as follows:

In China, culture, history and ideology, make the control of foreign investment a particular sensitive issue. Historically, the cultural isolation of the Chinese and their remarkable artistic, organizational and technical advances up to the fifteenth century bred a reluctance to admit any relevance or value in foreign ways. When the foreign powers forced open China's economy in the last century, the shock was made the more bitter by the exploitation which accompanied the inward investment and control over economic transactions. Following the 1949 revolution, there was a strong ideological aversion to Western Influence.

**Cluster Level 1: E1 Government - issues related to bureaucratic structures**

During the imperial part of the Qin Dynasty, the concept of a centralised government was introduced. Successive dynasties developed bureaucratic structures which allowed the central government to rule over an immense territory. To this day, China's strong centralised government has a great deal of control.

**Cluster Level 2: E1 Problem examples for History - Government**

<ul style="list-style-type: none"> <li>E1.1 SOEs</li> </ul>	SOE companies are run entirely differently compared with private companies. These differences cause many problems when it comes to JV formation between a
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	<p>company with a SOE heritage and a privately run Western company.</p> <p>Main differences are that SOE companies are run primarily by bureaucrats with the objective to reach their allotted quotas and that their financial structures are not related to the market. Following the key business objective of social welfare and not profitability causes financial problems with a constant need for fresh capital. Also, the reward system in SOEs is unrelated to performance, making it difficult to employ the personnel of the SOE in the JVs.</p>
<ul style="list-style-type: none"> <li>E1.2 Unequal power</li> </ul>	<p>Unequal power distribution can be found all over China. Due to China's central structures, policies have always been made on a central level, from which they were passed on to the provincial and municipal levels. Also, there is a historic gap between officials with special rights and the public. Until the early 1900's, the bureaucrats were considered to be above farmers, soldiers, merchants and artisans. Today, most cities are ruled by local power holders as representatives of the Communist party and govern millions of people.</p>
<ul style="list-style-type: none"> <li>E1.3 Commerce interference</li> </ul>	<p>In China there has always been an ambiguous relationship between the state and commerce. Yet, the state has always been hands-off when it came to commercial disputes, which lead to self-protective and self-regulating groups like the guilds. Also, the interpretation and implementation of commercial regulations are always done on a local level. At the same time, a mingling of business and bureaucracy can be found everywhere due to the state economy. Often the state has a monopoly regarding the appointment of distributors, not taking qualifications into consideration. As a result, there are large monopoly</p>

	<p>areas where monopolists pass on jobs to a vast lower tier network with a hidden commission system. The direct interference of the government in commercial affairs has lead to a timidity and secretiveness of many businesses towards the state. As a consequence, Chinese businesses have traditionally kept two sets of accounts and confided business matters to only a very close circle of trusted people.</p>
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### **Cluster Level 1: E2 Communism - issues related to communist history**

In 1949, Mao Zedong and the Communist Party took over the control of Mainland China and established the People's Republic of China. A number of power struggles within the Communist Party followed, including the 'Great Proletarian Cultural Revolution' in 1966. Today, China is still a one-party state under the leadership of the Chinese Communist Party.

### **Cluster Level 2: E2 Problem examples for History - Communism**

<ul style="list-style-type: none"> <li>• E2.1 Government control</li> <li>• E2.2 People's attitude</li> </ul>	<p>China's communist legacy can be found in many aspects of life. Some say that due to this history, many Chinese people are uncritical of conformist and authoritarian thinking. Also, today many workers expect a command economy where they do not need to be proactive and show initiative. Further to this, workers tend to have an anti-western, anti-capitalistic mindset and the general attitude that they are the real enterprise owners.</p>
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### **Cluster Level 1: E3 Foreigners - Chinese mistrust versus foreigners**

The core of trust lies within the family and extends in circles to relatives, classmates, friends, colleagues and the community. In business terms, trust must



first be established before serious business transactions can take place (China Window, 2004). Trust is important to reduce the opportunistic behaviour of the parties involved, as people cannot rely on established property rights, contracts and a legal system (Williamson, 1985).

### Cluster Level 2: E3 Problem examples for History - Foreigners

<ul style="list-style-type: none"> <li>• E3.1 Fear and suspicion</li> <li>• E3.2 General antagonism</li> <li>• E3.3 No appreciation of Chinese history</li> <li>• E3.4 Mistrust in foreign investment</li> <li>• E3.5 Reminders of colonialism</li> </ul>	<p>Mistrust in foreign investment has a long history and most likely started when China opened up to foreign trade and missionary activity. This led to the two opium wars with the United Kingdom from 1839 to 1842 and 1856 to 1860. China's defeat in both wars weakened the Emperor's control.</p> <p>In its history, China never actively pursued a war outside of its territory. Today, many Chinese feel that westerners do not appreciate Chinese history. There is a general antagonism against foreigners and also mistrust in foreign investment. The Chinese are reminded of imperialism and colonialism due to China's long history of foreign occupation, especially when foreigners show arrogance.</p>
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### History: Preliminary Conclusions

China's history has a strong influence on the way business is conducted. While it is obvious that its recent history, including the onset of communism, plays an instrumental role in the Chinese economy, it is remarkable that other important influences date back to long before the founding of the Republic of China. As the Chinese are very proud of their history, it is advisable that Western managers familiarise themselves with China's recent and older history. As a result, aspects such as the unequal distribution of power, government interference in business and mistrust against foreigners can be more easily understood.

**Domain: F Government - issues caused by interaction and intervention**

“Government” is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. In China there is a high level of government involvement in daily business. Sung and Lee (1991) emphasise that, especially in China, the government is known to combine political policies with economic decisions. Researchers have analysed the role of the government from several angles. Tse, Pan and Au (1997) examine how a firm’s foreign market entry strategy is affected by location and the level of local government. For example, companies are not free to choose their location because of government development plans. Addressing government involvement from a positive side, Zhan (1993) suggests that the higher the government’s involvement in a country, the lower the investment risk becomes due to clear rules.

**Cluster Level 1: F1 Legislation - problems related to the Chinese legislation**

Chinese legislation poses a number of problems for Western companies. Often laws are only a general guideline and implementation is according to the discretion of the respective province, local government and bureaucrat, who interpret them according to their understanding.

**Cluster Level 2: F1 Problem examples for Government - Legislation**

<ul style="list-style-type: none"> <li>• F1.1 Property rights</li> </ul>	Unclear property rights make it difficult to operate a manufacturing company in China. In the Western system, property rights are a central pillar of the economy. Insecurity about property rights in Chinese legislation and jurisdiction can lead to numerous problems for Western companies. For example, land owned by a company but not used can be reclaimed by the government within a certain timeframe.
<ul style="list-style-type: none"> <li>• F1.2</li> </ul>	The accelerating economy and social changes in China

Change of legislation	have led to a number of sudden changes in legislation. For example, laws are often put into effect without announcement. This kind of unpredictability causes insecurity for Western companies. Another problem is that, in most cases, there is no system to properly impose the new laws.
<ul style="list-style-type: none"> <li>• F1.3 Lack of legal infrastructure</li> </ul>	A lacking legal infrastructure creates a number of disadvantages for foreign companies. Western companies are used to operating within a clear legal framework which builds the foundation for commercial transactions.
<ul style="list-style-type: none"> <li>• F1.4 Allowance of exceptions</li> </ul>	As laws are written by the central government and then applied throughout China, one can find exemptions within all central government regulations. This makes the laws unclear and difficult to understand.
<ul style="list-style-type: none"> <li>• F1.5 Inconsistency</li> </ul>	Due to the central creation of laws but local interpretation and implementation, most laws are inconsistent with respect to their original guideline and also among the provinces.
<ul style="list-style-type: none"> <li>• F1.6 Legal advisors</li> </ul>	Legal advice is difficult to obtain in China. Lawyers are only able to explain the black letter laws, but often lack the knowledge to interpret them. This puts foreign companies in the position of needing to liaise with local governments and bureaucrats, who will generally follow their own agenda.
<ul style="list-style-type: none"> <li>• F1.7 Officer's discretion</li> </ul>	Due to the many grey areas in the interpretation and implementation of central laws and regulations, foreign companies must depend on the goodwill and discretion of individual bureaucrats.

**Cluster Level 1: F2 Jurisdiction - problems related to the jurisdiction**

Even if a company has a good understanding of applicable laws and their interpretation, the jurisdiction of these laws may be different.

**Cluster Level 2: F2 Problem examples for Government - Jurisdiction**

<ul style="list-style-type: none"><li>• F2.1 Overlapping</li></ul>	The area of responsibility for different government departments is not transparent and there is defensiveness among them. This makes it even more difficult for foreign companies to identify the appropriate department and officer.
<ul style="list-style-type: none"><li>• F2.2 Enforcement</li></ul>	The enforcement of jurisdiction is in most cases inadequate and undependable, particularly on a local level. Therefore, threatening court action is a waste of time. Also there are heavy court expenses for the plaintiff. The result is that litigants are expected to enforce the jurisdiction themselves. A proper enforcement is also hindered by guanxi in the courts, allowing local companies to manoeuvre around the law.

**Cluster Level 1: F3 Localisation - problems related local protection**

According to Corne (1997, pp. 51-90) there are many complaints from foreigners with regards to China's administrative legal structure. For example, it is common that there are differences in the legal interpretation of guidelines and their administrative directives.

**Cluster Level 2: F3 Problem Examples: Government - Localisation**

<ul style="list-style-type: none"><li>• F3.1 Fines</li></ul>	Foreign companies complain that there is a multitude of fines which are invoked at the discretion of the local government.
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<ul style="list-style-type: none"><li>• F3.2 Taxation</li></ul>	<p>There are no uniform rules for the handling of taxes. One can find forms of ad hoc taxing, retrospective taxing, sudden increases, sudden extra charges without reasons and an unclear multiplicity of taxes. It is common that local companies are taxed considerably lower compared with foreign companies. The result is that foreign companies complain that the taxes are excessive.</p> <p>JVs are not taxed in the same way as the national taxes are levied and there is biased tax treatment. There are different tax exemptions which are usually based on different profit calculations and different methods to depreciate fixed assets. Companies need to bargain over the tax burden with the local authorities. The result is that Western companies, due to the unpredictable tax situation, are barely able to provide reliable financial forecasts. The main reason for the Western companies' higher tax burden is an attempt by authorities to create revenue to support the public.</p>
<ul style="list-style-type: none"><li>• F3.3 Protectionism</li></ul>	<p>There is a great deal of local protectionism in China. For example, inspection stations may be established to hinder the transport of goods from one province to another. Local governments also protect their foreign companies by keeping competition away through tariff barriers or preferential treatment. Also, it is expected that the company takes on social responsibilities for the public.</p>
<ul style="list-style-type: none"><li>• F3.4 Local power holders</li></ul>	<p>The goodwill of local power holders is extremely important for the smooth operation of a JV. Otherwise, they may create problems and operations may become unpredictable. Hence, foreign companies need to know these power holders, what is important to them and their link to the bureaucracy.</p>

<ul style="list-style-type: none"> <li>• F3.5 Local industry</li> </ul>	Local governments try to provide their local industry with maximum opportunity. As non-local products and expertise are discouraged, local governments push JVs to initiate business with local companies. This leads to the situation that a JV is not free to select the best and cheapest supplier. The situation may become very difficult if goods or products cannot be sourced locally or must be imported from outside of China.
<ul style="list-style-type: none"> <li>• F3.6 Administrative decision-making</li> </ul>	Foreign companies must accept local domination in administrative decision-making. Local authorities issue a multiplicity of local regulations which foreign companies must be aware of.

### **Cluster Level 1: F4 Bureaucracy - problems due to bureaucratic structures**

In China, bureaucracy and business are interwoven. Bureaucracy functions as another player in business relationships. According to Lasserre and Schütte (1999, p. 127) ‘...the practice of allowing senior bureaucrats to leave the civil service and take on top positions in companies’ is common in Asia.

### **Cluster Level 2: F4 Problem Examples: Government - Bureaucracy**

<ul style="list-style-type: none"> <li>• F4.1 Decision</li> </ul>	<p>Bureaucrats in China tend to go strictly by the book. This attitude must be respected by the westerners. They must be willing to accept frustrations, to acknowledge differences, to accept that things can take time and accept that they are outsiders. A personal approach is necessary where things are to be done in the Chinese way. A demanding Western approach usually leads to frustrations on the side of the bureaucrats as well as on the side of the westerner.</p> <p>Due to the risk adversity of the bureaucrats, it is common</p>
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	<p>that decisions are postponed and the status of the application is not communicated, leading to project delays. Therefore, a proactive but careful follow-up is necessary where the aim is to relieve the bureaucrats of a decision. To achieve this, one needs to learn the department specifics, which decisions have already been taken and to negotiate decisions that are acceptable for both sides. Further, one needs to find out the approval system with a persistency and endurance by speaking to as many people as possible. Due to the lack of transparency and the large number of bureaucrats checking applications, this procedure takes considerable time, but is necessary for things to proceed. Typically applications involve various ministries and tracking down the responsible department and person is crucial and must first be done. When in doubt, bureaucrats will take no decision and will follow their strict hierarchy by passing up applications. Therefore, the identification of key persons and hidden decision makers is often essential in getting an approval.</p>
<ul style="list-style-type: none"><li>• F4.2 Communication</li></ul>	<p>Communication between bureaucracy and business is poor. Commonly, information means power and is only shared when benefits are received in return.</p>
<ul style="list-style-type: none"><li>• F4.3 Fostering relations</li></ul>	<p>Due to the close relation between bureaucracy and business, but also due to the many grey areas, fostering relations with bureaucracy is important for approval. Through close relationships, outsiders get to know the system, the actual situation, the chain of command and bureaucracy rules. Another issue is that not all regulations are published. However, this system also facilitates bribery and corruption.</p>

<ul style="list-style-type: none"> <li>• F4.4 Nature of bureaucrats</li> </ul>	When dealing with bureaucrats, westerners must be aware of their nature which they characterise as slow, not proactive, unhelpful, risk adverse and lacking in willingness with regards to decision-making. Bureaucrats are status conscious and keeping face is important to them.
<ul style="list-style-type: none"> <li>• F4.5 Bureaucracy is business</li> </ul>	<p>For example, local bureaucrats implement the mandates of the central government, making decisions affecting millions of people.</p> <p>Local bureaucracy is neither impartial nor distant, but due to the inadequate salaries of the officials, individuals may take advantage of their powerful position. Also one can find a close link between individual bureaucrats and companies.</p>

### **Cluster Level 1: F5 Transparency - issues related to lack of transparency**

A lack of transparency and unclear rules are common in China. Strict hierarchy and the retention of information at all levels make transparency a real issue in governmental structures.

### **Cluster Level 2: F5 Problem examples for Government - Transparency**

<ul style="list-style-type: none"> <li>• F5.1 Decision makers</li> </ul>	It is not transparent who the decision makers are within governmental structures.
<ul style="list-style-type: none"> <li>• F5.2 Constant changes</li> </ul>	Constant changes in municipal, local and central governments make it difficult for companies to remain up to date.
<ul style="list-style-type: none"> <li>• F5.3 Illogical structures</li> </ul>	Government bodies and ministries do not follow a logical structure. It can be very difficult to determine the roles and responsibilities and how the government bodies and



	ministries are connected.
<ul style="list-style-type: none"> <li>• F5.4 Responsible persons</li> </ul>	It is necessary to determine who has the authority to interpret the guidelines, rules and regulations within the ministries and government bodies.
<ul style="list-style-type: none"> <li>• F5.5 Responsible jurisdiction</li> </ul>	There is much overlap within the ministries. Hence, it is not clear who has the jurisdiction over which area. Ministries may even compete with one another, not accepting the verdict of the other ministry.
<ul style="list-style-type: none"> <li>• F5.6 Identification of relationships</li> </ul>	In China it is important to discover the relationships between the people one deals with. As the patronage of family and friends is common, it is difficult for an outsider to find out who collaborates with whom.
<ul style="list-style-type: none"> <li>• F5.7 Hidden bureaucracy</li> </ul>	Bureaucracy is kept hidden from foreigners. The true extent and the difficulties of bureaucracy only become evident over time.
<ul style="list-style-type: none"> <li>• F5.8 Involvement of different departments</li> </ul>	Most of the time applications require the involvement of different departments. Company representatives need to inquire which department is responsible for what.
<ul style="list-style-type: none"> <li>• F5.9 Keep regulations within bureaucracy</li> </ul>	In order to hold an information monopoly, government bodies have the tendency to retain the regulations in the ministries and not make them known to the public.

### **Cluster Level 1: F6 Business Interference - issues caused by the government**

Government interference in business matters occurs daily. The central government issues directives which need to be transformed by the local governments. The local governments have power over the SOEs and therefore

play a significant role when a Western company forms a JV with a former SOE.

## Cluster Level 2: F6 Problem examples for Government - Business

### Interference

<ul style="list-style-type: none"> <li>• F6.1 Support</li> </ul>	<p>Government bodies have the tendency to favour local companies. For example, often they have an interest that Western technology and techniques are passed on to other SOEs of the conglomerate. Naturally they support their companies when foreign companies complain about infringements.</p>
<ul style="list-style-type: none"> <li>• F6.2 Very active role</li> </ul>	<p>Government bodies take a very active role in interfering with JV matters. They consider this as legitimate, as they are used to this in SOEs. However, this constant intervention can disrupt JV operations. In order to attract foreign companies, government bodies have the tendency to over-promote the opportunities, as most of the time the markets are already overcrowded. They also try to direct non-performing SOEs to foreign investment in order to help get them out of debt and make them profitable through foreign investment. In general, they also tend to overestimate the capabilities of the foreign investors and expect they will produce quick returns and taxes.</p> <p>Even the government is highly interested in foreign investment. However, in cases where there is a concern of a foreign domination of key industries, a connection with the military can be found. As government has the control over licences, permits and land, it can be very troublesome to receive approvals if the government is against it. Also, the lack of consultation before decisions are taken impacts the operations and profit of the JV.</p>

**Government: Preliminary Conclusions**

This section highlights problems which are caused by the strong involvement of the Chinese government in commercial affairs. However, Eliteman (1990) points out that one main reason why JVs are a major investment form in China is because the government requires it. He further highlights that China has revised a significant number of rules and regulations in order to make the country more attractive for foreign investment. This shows that the role of the government may hinder business, but may also support it.

**Domain: G Concepts - opposing concepts of the West and China**

“Concepts” is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. This domain includes all problems in which Chinese and Western concepts are found to be systematically opposed to one another. Sun (2010, pp. 63-74) conducted an assessment of Chinese and Western beliefs which play a crucial role in the areas of business decisions, relationships to organisational structure and design. The data confirms that the Chinese and Western beliefs are predominantly conflicting. Sun (2010, p. 70) concludes that: ‘Especially when considering Western and Chinese business practices, these beliefs may cause significant conflict if both sides are not aware of the different positions held by each other.’

**Cluster Level 1: G1 Business – issues due to different business concepts**

In the general area of business, a number of opposing concepts can be found in the Western and Chinese systems. A number of these stem from before communist times.

**Cluster Level 2: G1 Problem examples for Concepts - Business**

<ul style="list-style-type: none"> <li>• G1.1 High quantity</li> </ul>	<p>The Chinese sales system is typically based on having a high turnover and strong market penetration, with small margins due to low prices. If the critical mass is not reached or the margin shrinks by a small margin, the profitability of the company is at risk. In the West, companies usually try to strike a balance between profit margin and turnover and companies try to differentiate their products with quality, product attributes, marketing and branding.</p>
<ul style="list-style-type: none"> <li>• G1.2 Quality mindset</li> </ul>	<p>State owned enterprises in particular have high wastage rates and much re-working needs to be done. These companies take a high scrap rate into account and produce cheap, low quality products. Western companies, on the other hand, usually try to produce products with a higher quality, but also with a higher price. The result is that Western companies are faced with the difficulty that not long ago, Chinese consumers did not expect and were not used to quality. As higher quality, but more expensive products became available, they were not willing to pay for them.</p>
<ul style="list-style-type: none"> <li>• G1.3 Subcontracting system</li> </ul>	<p>In China, many companies usually share the profit, leading to a smaller profit margin for each of the parties. The reason is that sub and sub-sub contracting are very common. One company gets the contract and takes a share, then passes on the assignment to another company and so on. This system of sub-contracting leads to low quality, as through this process much of the original contract requirements are lost. Further, caused by the very low margin for the last company who actually carries out the work, poor quality is delivered by cutting corners and</p>

	not maintaining the original specifications.
<ul style="list-style-type: none"><li>• G1.4 SOE system</li></ul>	The system of running state owned enterprises is very different from how Western companies are run. As the government is the company owner, the SOEs are fully integrated and interconnected to each other and do not work as profit centres. They use political power to pursue interests rather than market or financial power. They are also run with different objectives, such as employing as many people as possible, while Western companies are usually run with the objective of maximising profit.
<ul style="list-style-type: none"><li>• G1.5 Relationship driven</li></ul>	SOEs are predominantly driven by relationships. Western companies usually try to find the best person for the job and select personnel according to qualifications. In the Chinese world, hiring practices and business ties are often based on relationships.
<ul style="list-style-type: none"><li>• G1.6 Operations</li></ul>	Surveillance of the quality of work is required in Chinese companies. Usually a very clear hierarchy and clear roles and responsibilities are needed to do so, whereas, Western companies generally provide employees with objectives and feedback and allow a greater degree of self-leadership.
<ul style="list-style-type: none"><li>• G1.7 Everything is negotiable</li></ul>	Traditionally everything is negotiable in China. The Chinese have a long tradition in trading and haggling. Western companies, on the other hand, try to negotiate within clear limits. They also try to convince their counterpart by giving rational arguments and following a clear negotiation line.

**Cluster Level 1: G2 Government - different concepts of involvement**

The Chinese government plays a key role in the commercial world by issuing binding directives and guidelines which the companies must abide by. The government determines the industry sectors to be developed and selects potential Chinese companies which are to enter JVs with Western companies. In case of the automotive industry, Child (1994, p. 72) concludes: 'The authorities have made it quite clear that they only intend to offer preferential treatment for foreign investors who suit its industrial policies and can contribute to its development need.'

**Cluster Level 2: G2 Problem examples for Concepts - Government**

<ul style="list-style-type: none"> <li>• G2.1 Favouring Chinese businesses</li> </ul>	In general, the Chinese government favours Chinese companies and tries to help put them in a better position to compete with Western companies. Typical examples are the different standards in environmental protection and intellectual property protection matters.
<ul style="list-style-type: none"> <li>• G2.2 Long-term focus</li> </ul>	Influenced by the teachings of Confucius, the Chinese believe business should have a long-term focus. Often they accuse Western companies of having a short-term focus which centres on making profits. However, due to the strong economic growth of China and the gold rush attitude in recent years, Chinese business seems to follow a much shorter time horizon in its business models and business relationships.
<ul style="list-style-type: none"> <li>• G2.3 Legislation</li> </ul>	The Chinese legal system has certain similarities with the Western legal system, but these are somewhat superficial. For example, government bodies may publicise only certain parts of regulations to retain an information monopoly and be in a better negotiation position. Provinces have administrative but also legislative power. The reason is that the central government releases central

	<p>laws and guidelines which require interpretation and implementation by the provinces. As the business environment is very dynamic, it is hard for Western companies to keep up with the respective guidelines which also often lack transparency.</p> <p>In the West, trust in commercial affairs is based on the transparency and binding character of legislation, while in China trust is established by specific ties to individuals.</p>
<ul style="list-style-type: none"> <li>• G2.4</li> <li>• Jurisdiction</li> </ul>	<p>In China, jurisdiction is traditionally hands-off in commercial litigations, but also has poor enforcement mechanisms. As the Chinese courts traditionally favour Chinese companies, pursuing commercial law suits in China is difficult for Western companies. While in the West conflicts are solved by confrontation and debate, in the East the means of meditation and guided solutions are sought.</p>
<ul style="list-style-type: none"> <li>• G2.5</li> <li>Bureaucracy</li> </ul>	<p>Chinese officials have inherent power due to their role to actively follow and implement the interests of the government. Also, bureaucracy is personalised in China. Therefore, companies do not deal with the bureaucracy or guidelines as such, but with individuals which have a certain role to fulfil, guidelines to interpret and hierarchical structures to follow.</p>

### Cluster Level 1: G3 Communication - different concepts in communication

As already described in the culture section, the Chinese communication style is quite different compared to that of the West. This sub-cluster also appears here under the domain “concepts”, as some problems relate to the systematic or conceptual difference in communication.

**Cluster Level 2: G3 Problem examples for Concepts - Communication**

<ul style="list-style-type: none"><li>• G3.1 Indirectness</li></ul>	In China, issues are usually addressed indirectly. In the Chinese communication style, the crucial issues are addressed only after long argumentation which first weighs all pros and cons.
<ul style="list-style-type: none"><li>• G3.2 Boss-subordinate</li></ul>	Workplace relationships are marked by a clear hierarchy where the boss takes on the role of a strict father figure, while the subordinate is expected to show respect and obedience.
<ul style="list-style-type: none"><li>• G3.3 Information is power</li></ul>	In general, information is perceived as a means of power to give individuals advantages. Information is only shared with trusted persons who in exchange also share information, goodwill or favour.
<ul style="list-style-type: none"><li>• G3.4 Leadership style</li></ul>	Traditional Chinese companies are managed with a command and control style. Clear orders are given and must be strictly followed without interpretation of the subordinate. In contrast, the Western understanding of leadership involves issuing objectives and guidelines and empowering employees.

**Concepts: Preliminary Conclusions**

This section shows that many Chinese and Western concepts are directly opposed to one another. These differences can be found on cultural, social, governmental and business levels. Westerners who conduct business in China must be aware that these differences exist. Most of these differences may be considered to be intrinsic aspects of the social and political dimensions of each country and are not expected to be greatly influenced. However, by developing a greater understanding, it may possible for these be reduced.



**Domain: H Expatriates - issues related to the role of expatriate managers**

“Expatriates” is the name of one of the identified eight domains. The following section describes the general domain and problem clusters on level 1 and examples of its level 2 sub-clusters. Expatriates have a difficult role in China, as they must deal with a number of different interests. Firstly, they are guided by the headquarters directive requiring them to achieve certain goals in China. Often, the objective to run a successful and modern JV conflicts with the interest of the headquarters. In addition, they have to deal with the Chinese senior management, which has different objectives, such as the interests of the workers, the interests of the local government, their own interests and the interest to run the company in a particular way. Lastly, the expatriates themselves have their own personal interests, such as their family and career. This combination of potentially conflicting interests is set in a very difficult cultural context with complex social structures and a demanding business environment. Therefore, the Western company must choose its staff to be delegated to China carefully. Next to a constant alignment of interests, the Western personnel must be culturally sensitive and properly prepared before leaving for China. Lee (2006, p. 91) claims that 70% of the reasons for JV failures in China are related to intercultural problems.

**Cluster Level 1: H1 Disparities - issues between westerners and Chinese**

There are numerous disparities between the expatriates and the Chinese. These can be found on cultural, social and other levels and often lead to problems.

**Cluster Level 2: H1 Problem examples for Expatriates - Disparities**

<ul style="list-style-type: none"> <li>H1.1 Salaries</li> </ul>	<p>Expatriates are an expensive cost factor for the JV. Sometimes these personnel costs are directly billed to the JV which leads to jealousy and disfavour among the Chinese employees due to the high income disparities.</p>
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	<p>This issue becomes an even greater problem when the JV is not profitable. Being far away from their home country, the expatriates usually receive allowances and extra compensation for “hardship conditions”. In most cases, a Western HQ will also pay for things such as the relocation costs for the family and international schools, which also additionally increases the costs.</p>
<ul style="list-style-type: none"> <li>• H1.2 Physical appearance</li> </ul>	<p>Naturally the physical appearance of Western managers is different from the Chinese. This can be a disadvantage, as the westerners appearance is linked with the foreign partner. This can become very difficult if the Chinese management or the workers believe things are not going well due to the JV partner.</p>
<ul style="list-style-type: none"> <li>• H1.3 Small number manage large workforce</li> </ul>	<p>The fact that very few Western managers manage a large Chinese workforce leads to numerous problems. Due to the poor education of the workers, difficulties in operations and bureaucracy, problems take much longer to resolve compared with their home country. The result is that expatriates spend much more time resolving operational problems and trouble-shooting than taking care of management issues. Another aspect is that the Chinese workers can build up antagonism as they feel dominated by a minority group.</p>
<ul style="list-style-type: none"> <li>• H1.4 Learning</li> </ul>	<p>There is a huge disparity between expatriates and the Chinese in the form of educational background, exposure and culture. Western models, concepts and beliefs often do not apply in the Chinese business environment. Therefore, expatriates must learn through experience what is specifically required in China.</p>
<ul style="list-style-type: none"> <li>• H1.5</li> </ul>	<p>As described in the previous section, there is a general</p>

Culture Exclusion	antagonism, fear and suspicion against foreigners. These feelings of mistrust paired with the westerners' lack of Chinese language skills and disparities in income and education often lead to an exclusion of the expatriates from the social life of the Chinese.
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### **Cluster Level 1: H2 Headquarters - issues related to Western HQ interaction**

Headquarters play an important role in the life of a JV. The expectations of top managers in the headquarters are often difficult to fulfil and deal with (also refer to domain “operations”, cluster “management”).

### **Cluster Level 2: H2 Problem examples for Expatriates - Headquarters**

<ul style="list-style-type: none"> <li>• H2.1 Support</li> </ul>	The lack of support of the Western headquarters in assisting the expatriate manager is a typical problem. The complexity of the problems and circumstances in China are hard for the expatriate to describe. Often the Western manager finds himself confronted with disbelief, ignorance and little understanding.
<ul style="list-style-type: none"> <li>• H2.2 Manager selection</li> </ul>	The careful selection of Western managers to be sent to China is crucial for the success of a JV. Most often it is very hard to find the right person. Ideally, the individual should have an understanding of the local culture, be able to withstand high stress levels, be street smart, drink alcohol and also be able to understand Chinese motivations and behaviour.
<ul style="list-style-type: none"> <li>• H2.3 Attitude</li> </ul>	The attitude of the Western and Chinese headquarters can also lead to problems. High expectations in the venture usually create intense pressure on the split top management. On the one side, the Chinese HQ has the

	tendency to create constant interference in the daily business operations of the JV. This shows that there is little understanding that the JV is a separate entity where both partners have a proportionate say. On the other side, the Western HQ lacks strategic and local due diligence before establishing the JV. The result is that they encounter numerous unforeseen problems.
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### **Cluster Level 1: H3 Chinese - expectations with respect to expatriates**

Chinese people - both workers and management - have certain expectations and attitudes regarding expatriates who come to China for several years.

### **Cluster Level 2: H3 Problem examples for Expatriates - Chinese**

<ul style="list-style-type: none"> <li>• H3.1 High expectations</li> </ul>	Due to their assumptions and the disparities in income and education, Chinese have the tendency to expect too much from the expatriates. This can lead to frustrations and anger when these high and unrealistic expectations are not fulfilled.
<ul style="list-style-type: none"> <li>• H3.2 Acceptance</li> </ul>	Most of the time the Chinese do not accept the Western expatriates. The fact that their posting is only for a limited time is seen as a reason to not accept and trust them. Due to the differences in culture and business approaches, the expatriates are seen as trouble makers. Another reason for the Chinese to not accept young Western managers is the belief that they lack seniority and experience.
<ul style="list-style-type: none"> <li>• H3.3 Treatment</li> </ul>	Western managers often suffer from the scrutiny of Chinese staff and are excluded by the Chinese. As the expatriate managers tend to be too democratic, too nice

	and too compromising, the Chinese are inclined to take advantage of them.
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### **Expatriates: Preliminary Conclusions**

The Chinese management, workers and social environment treat the expatriate managers very differently from their own people. Often they are not seen as partners who bring in investment and transfer knowledge, but rather as trouble makers. Differences in income, education, physical appearance and culture create widespread problems and the expatriates are excluded from Chinese social life. The result is that it is hard for the expatriates to build relationships with Chinese work colleagues, to deal with bureaucracy and to learn the unwritten rules. Further, the attitude and lack of support of their parent company and JV leadership can make their life in China difficult.

### **Discussion of Cluster Structure Description**

This chapter illustrates how the problem attributes from the case study data relate to different aspects and represent a very wide range of issues, from problems related to the history of China to hands-on operational difficulties. The wide range of problem attributes under study are categorised into eight domains. The documentation indicates that problems in China are often connected and related to one another. Through the classification process, a number of insights are made with respect to the foreign investor perspective.

Initially, the eight domains contain mainly problem clusters which are not obvious for outsiders. For example, the Chinese communication style, such as indirectness and information sharing, or how the Chinese interact in interpersonal relationships, for example boss-subordinate, reciprocity and leadership may not be obvious to the foreigner. Furthermore, different values and understandings of business ethics, namely corruption and nepotism are not easily visible for outsiders. Further, the

actual involvement of the government, such as unwritten rules and law enforcement are difficult to comprehend for westerners. Other clusters, such as problems relating to different expectations with regard to market development, partners, products, capabilities and headquarters are hidden and not visible for the either side. The differences between the Western and Chinese cultures, for example, with respect to power distance conflict resolution, as well as the long history of China and its communist past, relations to foreigners in general and the role of the government, lead to numerous issues. Lastly, the two partners possess different kinds of knowledge. Typically, the westerners possess technological and management knowledge, while the Chinese possess market and knowledge of tactics.

These problems are not visible to a foreigner at first sight. Most likely, a foreigner will never understand all issues entirely. In reviewing the problem data, it is estimated that most problems are less obvious to the westerner. This means that it is more difficult for Western companies to analyse such “hidden” problems and to take the appropriate measures to counteract them. This large proportion of less obvious problems may explain why so many companies have problems in successfully operating a JV in China. Blackman (2000, p. 215) highlights that ‘western managers have to know about the local, unwritten rules if they are to negotiate outcomes for their corporate policies and goals’.

Second, the problem investigation shows that many Western and Chinese concepts, values and business practices are fundamentally different from one another. This creates tremendous difficulties for each JV party to understand and deal with the other in business and daily life. This aspect is so fundamental that a cluster entitled “concepts” (encompassing systematic differences in the socio-cultural concepts between China and the Western world) is created.

These China-West opposites may explain the high degree of dissatisfaction in Sino-foreign JVs. For example, the aspect of “shared management” in a JV is a

typical and crucial problem field for JVs all over the world. However, particularly in China, shared management is a very complex matter. For example, some Chinese managers refuse to adopt “capitalist thinking” (Blackman, 2000, p. 217), preferring to focus on worker benefits rather than profitability. In addition, a Chinese partner may harbour a hidden agenda (Blackman, 2000, p. 134) of which the foreigner is unaware, for example with respect to government expectations and intervention.

The third insight from the data clustering is that problems depend very much on the perspective. This work investigates problems from the Western perspective. However, often these problems are not considered to be problems from the Chinese perspective. For example, patronage and nepotism are seen as problems by westerners, whereas the Chinese do not necessarily see these practices as unethical, as they relate to the Chinese value of sharing.

Fourth, due to the strong Chinese culture, recurring cultural aspects may be found in many business-related problems. Thus, culture problems are also a common theme among several of the problem attribute clusters. For example, Confucianism embosses Chinese society as a whole and can be found in different areas, such as its educational system and belief in hierarchy. This underlines the importance of considering cultural aspects in Sino-Western JVs.

Lastly, a majority of the problems analysed do not relate to JV constellations specifically, but rather to any form of business interaction in China. Thus, a good understanding of these problems and potential resolution measures may assist in various areas of conducting business in China (refer to Chapter II, Internationalisation and Joint Ventures).

In the following chapter, the classification of problem attributes developed and documented relating to the domain “government” is compared with one identified through an expert interview. This is done in order to verify both the types of problem attributes and the resulting cluster structure for one domain.

## CHAPTER VIII: Cluster Structure Comparison

*‘There are three methods to gaining wisdom. The first is reflection, which is the highest. The second is limitation, which is the easiest. The third is experience, which is the bitterest.’*

Confucius

The following part of this research compares the cluster structure of the problem domain “government” previously developed based on cases from the literature with the cluster structure derived through an interview with an expert. The applied methodology is the same as that introduced Chapter V, Methodology. First, the expert interview is documented, from which the problem attributes are gathered. Thereafter, the results of the interview and the two cluster structures of problem attributes are compared. Finally, the expert provides advice regarding how Western companies may avoid problems related to government dealings.

### Expert Interview

An interview was carried out with Wolfgang Kohl, an independent expert (his profile can be found in Appendix A). The aim was to compare the problem attributes and cluster structures developed for one domain based on cases in the literature with those resulting from an interview. The goal of this exercise is to compare the results with the problem attribute identification and clustering process of the classification previously carried out. As Mr. Kohl has been General Manager & President of Gruner + Jahr (Beijing) for many years, an affiliate of Gruner + Jahr AG Co KG, Europe’s largest publishing house, the topic of media JVs in China was discussed. In the interview, problems arising in media JVs are identified and later their attributes are clustered. The domain “government” was selected, as Mr. Kohl (referred to as “the expert” in the following text) is responsible for a number of print



media JVs in China. The media industry is still under close supervision of the government and only JVs with Chinese companies are permitted in this field. Following the interview, conducted in November 2007, the cluster structures derived based on the problem attributes from the research database and the ones based on the interview are compared to identify similarities and differences. Ideally, the results shall confirm the types of problem attributes encountered and the general applicability of the research approach to arrive at similar results. Also, the interview provides the opportunity to reflect on key classification results for this domain.

Below, the course and findings from the expert interview are provided. An open interview is conducted to shed light on the specifics of JV government interaction. The aim is to discuss first-hand JV experiences, challenges and problems encountered with government bodies.

Initially, the general research topic is introduced and the scope of the interview is given by the researcher. Afterwards, an open interview is conducted to identify challenges in JV government interaction in China. Then, the results are summarised, problem attributes classified and a hierarchical classification structure is developed together with the expert. Next, this cluster structure is compared with the structure derived based on the problem attributes from the research database. At the end of the interview, conclusions are formulated in the form of additional advice as to what one may expect and how best to deal with government bodies in China.

The issues listed below arose during the interview and are discussed to some extent. The discussion of issues focuses on three main areas: ministry dealings, trends in the ministries and the nature of bureaucrats.

Issues discussed related to ministry dealings:

- Sudden changes in the government also lead the Chinese partner to change the JV strategy.
- JVs have difficulty acquiring media licences.
- Many issues are political grey zones.
- Foreigners must play by local rules; otherwise they encounter major problems with the ministries.
- The Chinese government plans to conduct media business outside of China in the long run and therefore aims to acquire media know-how through the JV.
- By changing the ministry responsible for their JV, suddenly the foreign company was suddenly only allowed to hold a maximum of 49% of the shares.
- A differentiation needs to be made between bureaucracy caused by the people's party and that by the ministries.
- There is less transparency regarding ministry requirements than a few years ago.
- Coordination issues arise, since the JV partner is the ministry itself, which reports to the "super ministry" responsible for all the print media, content and partly digital media.
- The collaboration between the ministries does not function very well.
- Each member of a ministry may have a different opinion, making it very time consuming for the foreigner to sound out the collective opinion by speaking to several people in the ministries.
- For the expert's work, it is of utmost importance that people work as a team. The problem is that teamwork and team spirit are fairly unknown concepts in China, where work is carried out in hierarchal structures. Additional government interference makes teamwork very difficult.

Trends in the ministries:

- Due to many cases of government power abuse and bribery, the ministries nowadays audit one another, but also work together and internal rules have become stricter.
- Due to the threat of corruption, there is a constant rotation in the personnel of senior ministry positions. As a result, new ideas and strategies are frequently (every one to two years) introduced in the ministries.
- Localisation of bureaucracy and legislation still pervades. The central government announced that the influence of the provinces and municipalities will be reduced. However, there are signs that the plans will be very difficult, if not impossible, to realise.
- Discrepancies exist between the government and bureaucracies in major cities and coastal regions compared with the provinces in Central and West China. Often, rural bureaucracies in particular are swamped and overstrained, as they do not have sufficient personnel, education and commercial understanding. Concurrently, there is time pressure to develop these areas specifically.
- The government has decided to provide investment incentives for Central and West China in order to decrease economic disparities. Simultaneously, there are currently no further investment incentives in the coastal regions.

The nature of bureaucrats:

- Nature of bureaucrats: they give a general impression of superiority and decide upon what the foreigner can and cannot do. If the foreigner knows the history of China and has a good knowledge of Chinese culture he will either become an accepted foreigner, which will lead to a kind of friendship, or he will be refused.
- The classical bureaucrat stereotype still exists such as risk adversity and withholding of information, but the younger bureaucrats in particular have a broader education and think more in economic terms and less in socialist ideological terms.

## Cluster Structure Comparison

Together with the expert, a hierarchical cluster structure of the problem attributes from the interview is developed by applying the same process as described in Chapter V. This structure is compared with that previously developed based on the research database. The two cluster structures are shown below.

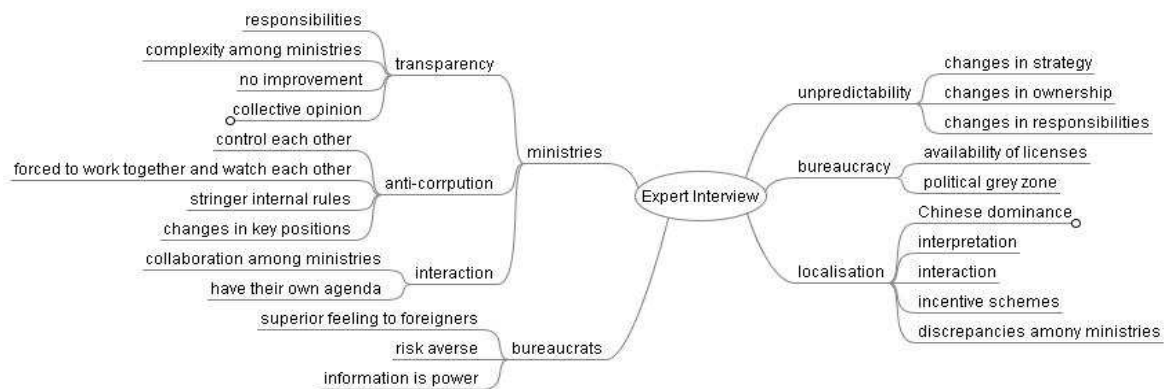


Figure 21 Government Issues from Expert Interview

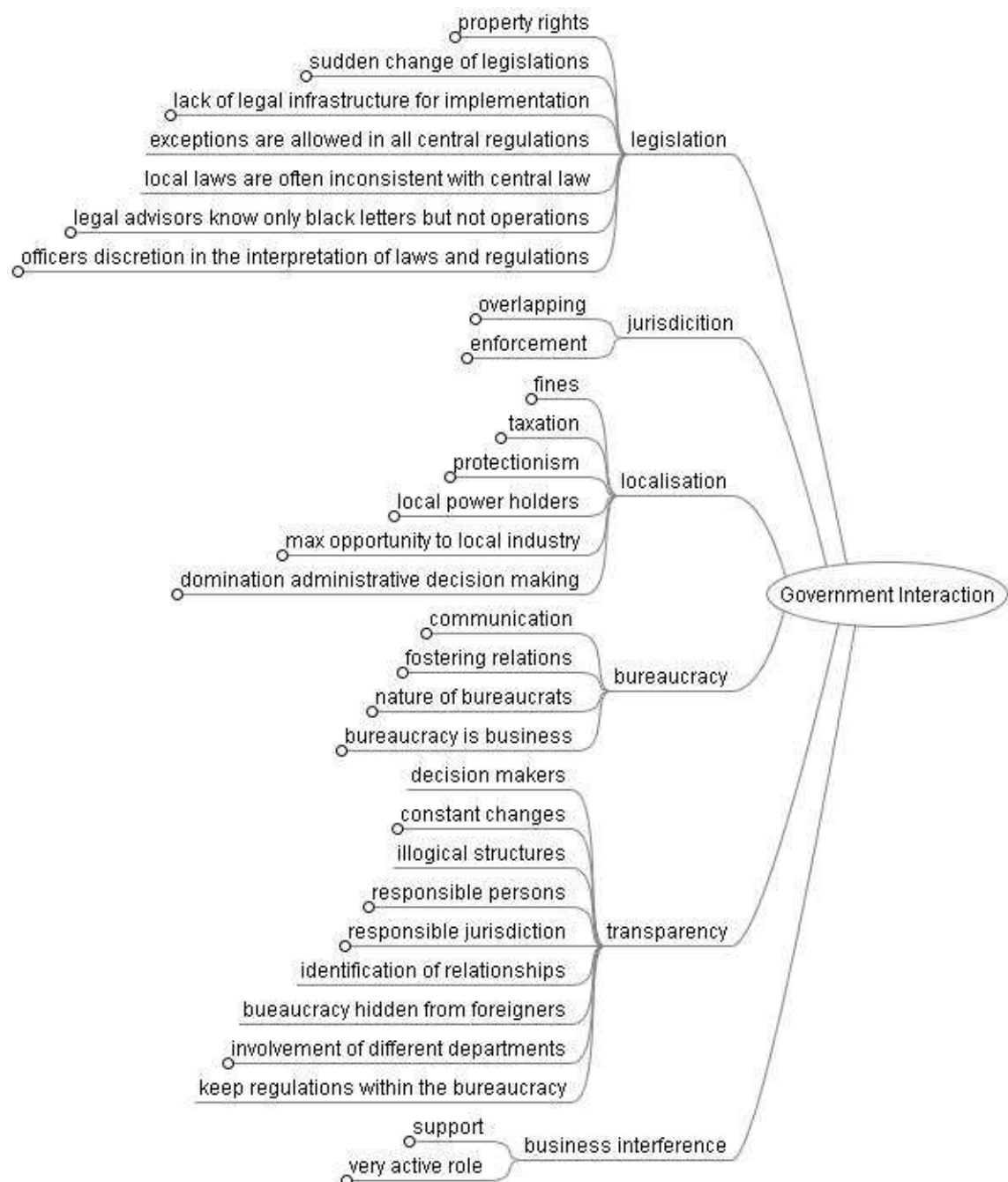


Figure 22 Government Issues from Case Studies

During this exercise, some points are discussed in greater depth. While comparing the two structures, a number of similarities between the two are identified. Some of the level 1 clusters are the same: localisation, bureaucracy and transparency.

A new cluster, anti-corruption, is also identified. The measures taken by the government in an attempt to fight corruption lead, effectively, to a number of problems. The reason why this cluster is not found in the cluster structure developed based on the research database is that the measures were only introduced in recent years (refer to Introduction, Scope and Limitations). In addition, the cluster “unpredictability” is not found in the structure developed based on the database. Again, this may be due to a greater degree of change occurring in China as it becomes more developed, particularly in relation to the media. This example demonstrates clearly that JV problems in China evolve over time. Consequently, the cluster methodology applied in this work caters a flexible approach in order to be able to include new, or exclude outdated problem areas where and when needed. This underlines Lang’s statement (1980, p. 5) who claims that a classification can never be complete and that its value is measured based on its adaptability and flexibility.

Certainly, the cluster structure from one interview cannot be as comprehensive as that based on numerous case studies, which summarise many interviews. Additionally, fewer issues were raised in the interview, as the issues stem from only one particular company. Overall, the aim to compare the problem attributes and cluster structures based on the expert interview with the one based on the research database was achieved. The classification process according to the Methodology could be carried out by the expert and the results were found to be similar in terms of attributes and identified similarities among attributes to identify clusters. Further, the methodology clearly allows more recent problem attributes to be identified among the cluster.

**Excursion: Expert Advice on Government Dealings**

During the last part of the interview, lessons learned through the expert's experiences are identified which may help foreign companies to avoid problems relating to the Chinese government. This part provides a summary of the issues. The primary aim is to brainstorm and acquire a flavour for potential resolution methods and how to avoid inherent conflicts related to governmental issues.

According to the expert, when dealing with the Chinese government, Western companies must be prepared to go the "Chinese way". This entails that at some point Western companies may have no choice but to follow the directions and general strategy of the Chinese government. Even once all administrative paperwork and red tape have been completed, the Western company must expect constant governmental involvement. They must be prepared to invest part of their time in central, provincial and local government affairs. Companies may even need to include government bodies in ways they never would in their home countries. Since key persons change more frequently in the government, companies need to invest even more time in such affairs. Along this line, Western companies must be willing to understand the mindset of bureaucrats. Ideally, issues must be actively researched before meeting the key people. This goes so far that a company may even want to first find out which ministry and unit are actually responsible for their case. Companies may consider gathering information regarding the government's opinion about their case, understanding the rules and finding proactive ways of how to resolve issues. Therefore, things should not be left in the hands of the bureaucracy, but rather a proactive (but also time-consuming) approach must be taken.

As China is a rapidly developing country, ongoing change must be expected, including government procedures and guidelines. From a strategic point of view, the government is setting different priorities to attract particular industries and develop certain geographical regions in China. Incentive schemes are being

remodelled accordingly. Hence, a Western company cannot rely on the current status and must expect such incentives and other government support schemes to change over time.

Due to the complexity of establishing and operating a JV in a culturally, economically and historically complex country such as China, both the local expatriate management and headquarters need to be prepared for unforeseen issues. Ideally, Western companies should even establish a financial and time threshold in their plans. If Western companies are too ambitious in their planning and their expectations are too high, even minor unforeseen events may become political issues. Further, the Chinese side may take advantage of these situations in negotiations, even if not originally intended.

Therefore, even if prepared, Western companies operating in China must learn how to live with uncertainties. This does not only apply to market and operational uncertainties, but also to interactions with the government. Due to the Chinese legal system, it will generally not be possible to secure legal issues through contracts, such as in the West. To that end, there will always be uncertainties on the legal and contractual side. In the area of jurisdiction, legal issues can be interpreted differently depending on the reviewers. Furthermore, Western companies should not assume that their dealings with government bodies are always approved. As a result, foreign companies should be prepared to check and question even very basic aspects of government dealings.

It is important that Western companies ensure that expatriates are knowledgeable in Chinese culture and history. Expatriates need to come to China with a realistic understanding of the local situation and their position. Ideally, expatriates should also have basic language skills before moving to China. Companies should proactively formulate strategies and plans in case their original plans are altered. Even more, companies should have a good understanding of clearly defined exit



points in case they have the feeling that things have not gone according to their expectations.

### **Discussion of Cluster Structure Comparison**

An expert interview is carried out in order to gain first-hand information on JV problems related to dealings with the Chinese government and to compare the analysis of the results with the analysis carried out based on the case studies from the literature. The results show many clusters of problem attributes to be similar to those previously developed for the “government” domain.

The advice provided by the expert is based on particular views and experiences of the expert and thus subjective. If the quality of this advice cannot be assessed, it may not be applicable to other circumstances, such as another industry, it may relate to a specific problem only or be too general.

Following the interview, advice regarding how Western companies can prepare themselves with respect to dealings with the government is collected. In general, government interaction in China is a new aspect for most companies and comes in addition to all the other complexities associated with a JV. “The government” is not a clearly defined institution, but rather a conglomerate of ministries and institutions. This institutional conglomerate is for most Western companies, in essence, a third player in their JV alliance.

**CHAPTER IX: Cluster Structure Resolution**

*'Most people spend more time and energy going around problems than in trying to solve them.'*

Henry Ford

This chapter demonstrates how the usefulness of clustering JV problem attributes may be evaluated. In the course of further cluster structure analysis, this chapter is an exploration of how to derive recommendations with which to potentially resolve elements of problem clusters (refer to Appendix G: Communication Assessment Worksheets). The result is that practical managerial resolution measures which address identified problem attribute clusters are suggested. In the wider perspective, the effectiveness of the resolution measures is also considered in order to be able to apply them purposefully. To that end, this work assists Western companies to better recognise and understand difficult situations and to anticipate issues in their planned or existing JVs in China. Altogether, this chapter takes a pragmatic approach by adopting an advisory perspective. The overall approach is less concerned with the issues of knowledge relating to relevancy, ideology and the validity. The results of this chapter are based on the interpretation of the researcher and thus may be analysed and interpreted differently and may be disputed. However, three independent experts have confirmed the applicability of the suggested resolution measures, which strengthens the validity of the research results.

Based on the data analysis of Chapter VI and the descriptions of the problem attribute classification structure in Chapter VII, problem areas and recurring problem patterns have been identified. Firstly, this chapter reviews the purpose and criteria of measures which might help to resolve the cluster structure. Secondly, potential resolution measures are presented and thirdly, they are theoretically applied to the problem attribute cluster structure in order to

understand their potential effectiveness. Fourth, the chapter highlights areas in which companies should consider to invest energy to address problems they are likely to encounter.

### **Identification of Resolution Measures**

It is difficult to find a starting point within the hierarchical problem attribute cluster structure from which to begin to evaluate measures which might be suitable to resolve parts of the structure. For example, within a particular problem cluster, detailed problems would require more specific resolution measures, which may not apply to other problems in the cluster. Therefore, measures are best identified which are more general in nature and which can potentially positively influence a range of problems. Consequently, in order to test the developed problem attribute cluster structure and to identify potential theoretical and practical managerial resolution measures for Western companies, certain criteria are applied. These are described in detail in Chapter V, Methodology.

In essence, the basic requirements for resolution measures are defined as follows: the Western party should implement the potential measures, the effort and resources allotted to implement the measures should be reasonable, they should lead to desirable resolutions, have a preventative character, should apply to any company and industry type, be applicable to a wide range of problems and ideally prevent reoccurrence of the same or similar problems.

Based on a reflection of previous research (Chapter III, Literature Review and in part Chapter IV, Theoretical Framework), two common denominators are identified in this work in combination with the findings of this research (Chapter VI, Data Examination and Chapter VII, Cluster Structure Description). These are considered to be communication capabilities and cultural awareness of the Western company as crucial elements for the success of a JV in China.

For any kind of undertaking, communication and the exchange of information are required and are a cornerstone of any kind of business transaction (refer to Chapter III). For Sino-Western JVs, these elements are even more important in consideration of the strong differences between the cultures. Furthermore, unlike aspects such as history, communication can be proactively influenced through measures.

As outlined in Chapter VII, Cluster Structure Description, especially the Chinese have a particular communication style which differs from the Western style in many ways (e.g. Lee, 2006; Sun, 2010). These differences tend to lead to numerous problems in the establishment and operation of Sino-Western JVs. Thus, a successful business partnership depends on bridging these communication differences (Ying, 1996). Especially in a JV in which two or more parties speak different languages and have different cultural backgrounds, a seamless and clear communication is vital. Additionally, the following will show that measures proposed to resolve communication issues fulfil the requirements of measures defined earlier.

Similarly fundamental, most of the problems reviewed seem to originate from the westerners' lack of cultural awareness about China and inability to understand the local circumstances, which is also supported by other research (Connerley and Pedersen, 2005). However, the question arises whether a problem can be considered as a real problem when a company does not perceive it as such. As discussed in earlier chapters, for the purpose of this research, only problems of which the company is aware are taken into account, as the problems are cited from Western managers<sup>1</sup>.

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<sup>1</sup> Bloom's taxonomy (Bloom et al., 1956) could be applied as a systematic step by step approach to learn and evaluate the Chinese environment. It suggests a hierarchy of six cognitive-learning levels: knowledge, comprehension, application, analysis, synthesis, and evaluation. Companies to sharpen their awareness regarding China might also use this learning taxonomy.

Based on the reports of the case studies, numerous problems may be addressed differently when managers have an accurate perception of the situation. In other words, insufficient or a lack of awareness may lead to problems, which is also supported by other research (Green, 1998). For example, problems may arise due to missed opportunities, suboptimal performance or simply because things develop differently than expected. Due to the very wide nature of the problems investigated, companies must have a comprehensive understanding of the Chinese environment. In this respect, cultural awareness is regarded as a means through which companies can prepare themselves.

The description of the problem structure in Chapter VII shows that communication is a main source of JV problems and can be found in the domains of “culture”, “concepts” and “bureaucracy”. This is in line with Lasserre and Schütte (1999, pp. 205-209), who highlight the role of communication in Asian JV relationships. They argue that communication is an essential element for JV success and that it plays an important role during the entire life cycle of a JV, starting from the early negotiations to the regular high-level meetings between the top management. Similar to issues related to cultural awareness, elements related to communication can be found in almost all of the identified problem domains. Therefore, it is recommended that companies put measures related to both awareness and communication into place. However, a detailed differentiation of communication capabilities and cultural awareness measures is not vital or possible.

## **Resolution Measures Poposal**

In the following, potential measures related to communication capabilities and cultural awareness are suggested which fulfil the criteria proposed in Chapter V, Methodology. Details of how potential resolutions are developed are given in Appendix G: Communication Assessment Worksheets.

### **Communication Capabilities**

The identified resolutions and suggested actions to address communication problems consist of three measures. First, language issues need to be dealt with as well as possible. Expatriates should come to China with a sufficient knowledge of the Chinese language to enable them to participate in simple conversations. Also, westerners need to understand the Chinese communication style, such as understanding the way the Chinese phrase their statements and structure their sentences in order to follow a conversation. A special focus of the westerners' preparation should be put on the concept of "losing" or "keeping" face. Even if the concept may be clear, fully understanding the use and implications of this concept requires special training. One reason for the indirectness of the Chinese communication style is that individuals try to keep face and preserve harmony (Gao, Ting-Toomey, Godykunst, 1996). Lastly, communication includes non-verbal forms, such as understanding the hierarchical and organisational structures of Chinese companies. Bjökman and Lu (1999, p. 308) highlight that in Sino-Western JVs '...it may be extremely difficult for Western expatriates to detect nonverbal communication clues and to second-guess local subordinates'. However, such preparation will help Western managers in negotiations and also in daily operations.

With respect to this work, the "communication" sub-cluster level 1, a part of the domain "culture", consists of issues which fall under the following level 2 sub-clusters (refer to the figures of Appendix C: Illustrative Diagrams):

- "style": problems caused by different communication styles

- “language”: problems caused by different languages
- “boss-subordinate”: problems caused by a different understanding of the boss-subordinate relationship

Based upon this finding, the following four main recommended measures are proposed to address the communication issues:

1. “Language skills”: overcoming the language barrier

Disadvantages of not speaking the local language are clear. Westerners cannot communicate with a large part of the workforce directly, have tremendous problems understanding the real issues and are excluded from social life. The only solution is that an expatriate comes to China with some prior language proficiency. The support of translators can only be an interim solution, as some of the information is lost through translation and translators may include their own interpretation without the knowledge of the westerner (Baker, 1998).

2. “Style”: comprehending communication style

The Chinese communication style is different compared to what westerners are accustomed to. Difficulties seem to arise in particular due to the Chinese negotiation style and indirectness in their statements and expressions. As a measure, Western companies should hire a trainer who is able to explain these differences in detail and who can conduct role playing in order to train the Western staff on how to best work and negotiate with the Chinese.

3. “Rules of Face”: understanding and following the rules of face

The concept of “face” has already been described in Chapter VII. Losing or keeping face is of such importance that it may be found in almost every form of Chinese communication. This concept can be found in boss-subordinate relationships as well as in the Chinese communication style in general. As understanding the “rules of face” is very important, this topic is addressed here as a separate measure. Westerners should receive intercultural training in order to be

sensitised with respect to this important communication aspect and to learn how to deal with it.

4. “Hierarchy/Organisation”: understanding hierarchical and organisational structures

Hierarchical structures are part of every kind of business relationship. This is especially important in China, where, the boss-subordinate relationship plays a central role. Not knowing or understanding these structures and behaving and communicating inappropriately as a result may lead to a wide range of problems and misunderstandings. Westerners coming to China must be made aware of this aspect. Thus, it is advisable that westerners are properly prepared regarding the position, role, function and rank of their counterparts as well as their own role and the expected form of communication that accompanies these roles.

The effectiveness of these measures aiming to increase the communication capabilities depends very much on the particular context framing the problem setting. However, the measures are aimed at improving key aspects which are important for JV relations in general.

### **Cultural Awareness**

There are endless situations where foreigners can make incorrect assumptions or can be misled. Therefore, westerners face problems and feel taken by surprise (Ahmed and Li, 1996). Unfortunately, due to the complexity of the concept of cultural awareness, it is not possible to pinpoint one specific field a company should focus on when addressing awareness issues. Cultural awareness, like communication capabilities, affects all aspects of business and is a holistic concept which may relate to any area, such as awareness of business conduct or bureaucracy.



With respect to this work, cultural awareness is defined as a westerner's preparedness for situations they will encounter when conducting business in China. Cultural awareness equips the westerner to anticipate potential JV problems. Increased cultural awareness is, in general, a positive measure in business and daily life. Despite the obvious positive effects of this measure, cultural awareness does not receive the necessary attention from Western companies entering JVs in China. Thus, this aspect is considered as a vital measure given its power in addressing numerous potential problems.

The results of Chapter VII suggest that cultural awareness measures should address a number of different areas. One focus should lie in the awareness of Chinese history and society. These aspects build the foundation in preparing managers for daily life in China. Building on this, the second area should concentrate on creating cultural awareness with regard to business conduct in China and how operations are run. This prepares managers for negotiations, tactics and daily management issues they will face. Having put these two building blocks into place, westerners will be equipped with a kind of mental toolkit to help them recognise and understand situations more quickly and enable them to *avoid* or *solve* problems. As more aware and confident managers, they will have a superior ability to deal with daily encounters with the Chinese.

Following this reasoning, the development of resolutions to problems may proceed in three successive steps:

- awareness of local circumstances, to allow
- recognition to facilitate self-awareness<sup>1</sup>, leading to
- understanding to gain insights

These steps may enable managers to take the appropriate measures.

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<sup>1</sup>The concept of recognition is also the basis for the philosopher Georg Wilhelm Friedrich Hegel (\*1770) as a means to produce self-awareness. Hegel (1807) attributes to the process of recognition and self-awareness primarily the importance of having the consciousness that one exists as an individual.

Measures proposed to create cultural awareness in the Western JV partner should concentrate primarily on two areas:

1. the Chinese culture, history and society<sup>1</sup>
2. the Chinese approach to business and operations management

A first important step is for the Western JV partner to be alerted of the importance of cultural awareness and to proactively initiate measures. Measures aimed at increasing cultural awareness should already be implemented during the search and initial stages of JV establishment. In determining specific measures, companies must evaluate their particular situation and available resources.

Suggested cultural awareness measures may include:

- Develop a greater awareness of Chinese culture, history and society in order to better understand and interact with the Chinese. This may involve courses in cross-cultural awareness or informal Western-Chinese discussions. Furthermore, there are also web-based platforms (e.g. [www.culturalnavigator.com](http://www.culturalnavigator.com)) which teach cultural preferences and help to identify cultural challenges and strategies how to deal with them. Often, they also provide an exchange platform with a network of practitioners and experts.
- Develop a better understanding of potential problems through a review of related literature. This may include the documentation of JV issues raised in this work or other literature sources.
- Gain knowledge through external sources such as legal agencies or consultancies. Operational and tactic knowledge may be acquired through engaging specialised consulting companies with knowledge in establishing and managing JVs. Also, a JV may develop specific knowledge based on their particular type of operation. For example, a manufacturing company may seek advice regarding liabilities involved when producing in China, whereas

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<sup>1</sup>The importance of this aspect was also highlighted in the expert interview, please refer to chapter VI. Awareness programs should aim at developing a good understanding of the bureaucratic aspects of business life, current status of legislation and latest reviews about jurisdiction in China.

companies with a high ratio of intangible assets should acquire awareness regarding IPR aspects in China.

- Incorporate existing external knowledge into the JV. For example, Western companies may increase their cultural awareness by employing Chinese or experienced westerners. Such people could act in key corporate functions or as mediators between the cultures and companies or help in dealings with third parties. Hence, they should have work experience and language skills in both cultural environments.

The importance of the last point and the need to incorporate foreign skills is shown by the trend of large corporations to recruit Chinese employees from abroad (such as students from the U.S.) for positions at foreign enterprises in China (so called “returnees”). These recruiting activities may be found in universities, where companies search for talented Chinese guest students, but also in the recruitment of experienced staff with an ethnic Chinese background through global HR departments. In addition to returnees, Taiwanese educated in the West have been a popular source of recruits to bridge this awareness gap. The assumption made by the Western JV partner is that these people can raise cultural awareness and can bridge cultural and language differences.

Furthermore, cultural awareness should not only generated among the local team, but also at headquarters. Without an understanding of local circumstances, the overseas parent company is unlikely to support the JV and it will be difficult to realise the goals of the JV.

Three experts were consulted regarding the research approach and findings, their profiles can be found in Appendix A. All three experts confirm that communication capabilities and cultural awareness are crucial for the success of a Sino-Western JV. Additionally, the suggested measures are considered to not only to be reasonable and important. In this respect, Wolfgang Kohl states:

Before entering into any negotiations or even first contacts with a potential Chinese partner, I recommend to undergo a comprehensive cultural training. Trainings must focus to develop a deep cultural awareness including a good understanding of the Chinese history. Furthermore, the communication style in China is very different, even it might appear to be Western these days. I find the suggested resolution measures of Mr. Päßler to address potential or actual problems within the context of a Joint Venture to be very suitable and comprehensive.

### **Implementing Recommended Resolution Measures**

The course of the further analysis and interpretation of the problem attribute cluster structure allowed themes of common problem areas to be identified. Based on these themes, resolution measures related to communication capabilities and cultural awareness are proposed. Chapter IV, Theoretical Framework, suggests that socio-cultural aspects influence the perception of problems, the problem solving approach and actions. Therefore, it is not only important to understand which possible measures are required to resolve or avoid problems, but also how such measures can be implemented so that they are successful. As such, four steps are suggested regarding how the Western JV partner can align the two parties in order to ensure the problem resolution process is successful. In order to follow these steps, sufficient skills related to communication capabilities and cultural awareness must be present, as the westerner and his Chinese counterpart need to follow these steps as a team. Thus, these steps build upon the recommended measures.

- **Step I: challenge/problem**

The westerner should identify whether the Chinese have the same understanding of the problem.

- **Step II: consequence**

The westerner should query if both parties agree on the consequences and impact if the problem persists.

- **Step III: problem solving approach**

The westerner should ensure a common understanding exists regarding how the problem should be approached.

- **Step IV: actions**

Both parties should agree on actions and their priority in order to resolve the problem.

For a successful implementation of these steps and the resolution of problems, it is necessary that the objectives of both sides are aligned (refer to Chapter II, Joint Venture Parties and their Objectives) and neither side misuses the problem for tactical purposes.

### **Evaluation of Resolution Measures**

As indicated earlier, it is the aim of this chapter to test how the classification results can be used to gain new insights in identifying possible resolution measures and their potential effectiveness. Accordingly, this part of the work is an attempt to explore in advance, the effectiveness of the resolution measures, as outlined in Chapter V, Methodology. Some problem attributes seem to be *influenceable* while others seem to be very difficult or almost impossible to be solved. The potential to solve a particular problem attribute varies for each context and situation. Consequently, the significance and impact of the measure will vary for each problem. Therefore, this section builds on generalisation and does not differentiate between simple and complex problems. Eventually, rather 'simple problems' are considered to be *solvable*, while 'complex problems' are considered to be positively *influenceable*. Overall, the extent to which each problem attribute may be addressed by the potential communication and awareness measures is determined. The result is a categorization of all problem attributes according to the expected influence of the two types of measures as: *unsolvable* problem attributes and *influenceable* problem attributes (subdivided into *solvable* and *reducible*).

The evaluation of the effectiveness of the measures is conducted in a stepwise manner. First, the suggested resolution measures which address communication capabilities are considered. Also, the evaluation first focuses on the cluster “communication” within the domain “culture”. One advantage in the selection of the cluster “communication” as a first step in analysing the clusters is that many of its problem attributes can be addressed and potentially solved through the recommended communication measures. Following the evaluation of the effectiveness of communication measures for the culture/communication cluster, the question arises whether these measures may also address problems in other clusters. A review of the other clusters shows that some of the problems may be positively influenced by the measures, while others are not. In order to document how effective the measures are expected to be, all problem attributes over all problem clusters are reviewed. The result is a classification of all problem attributes as *unsolvable* or *influenceable (solvable/reducible)*, as shown below (additional related mind maps can be found in Appendix C, Illustrative Diagrams).

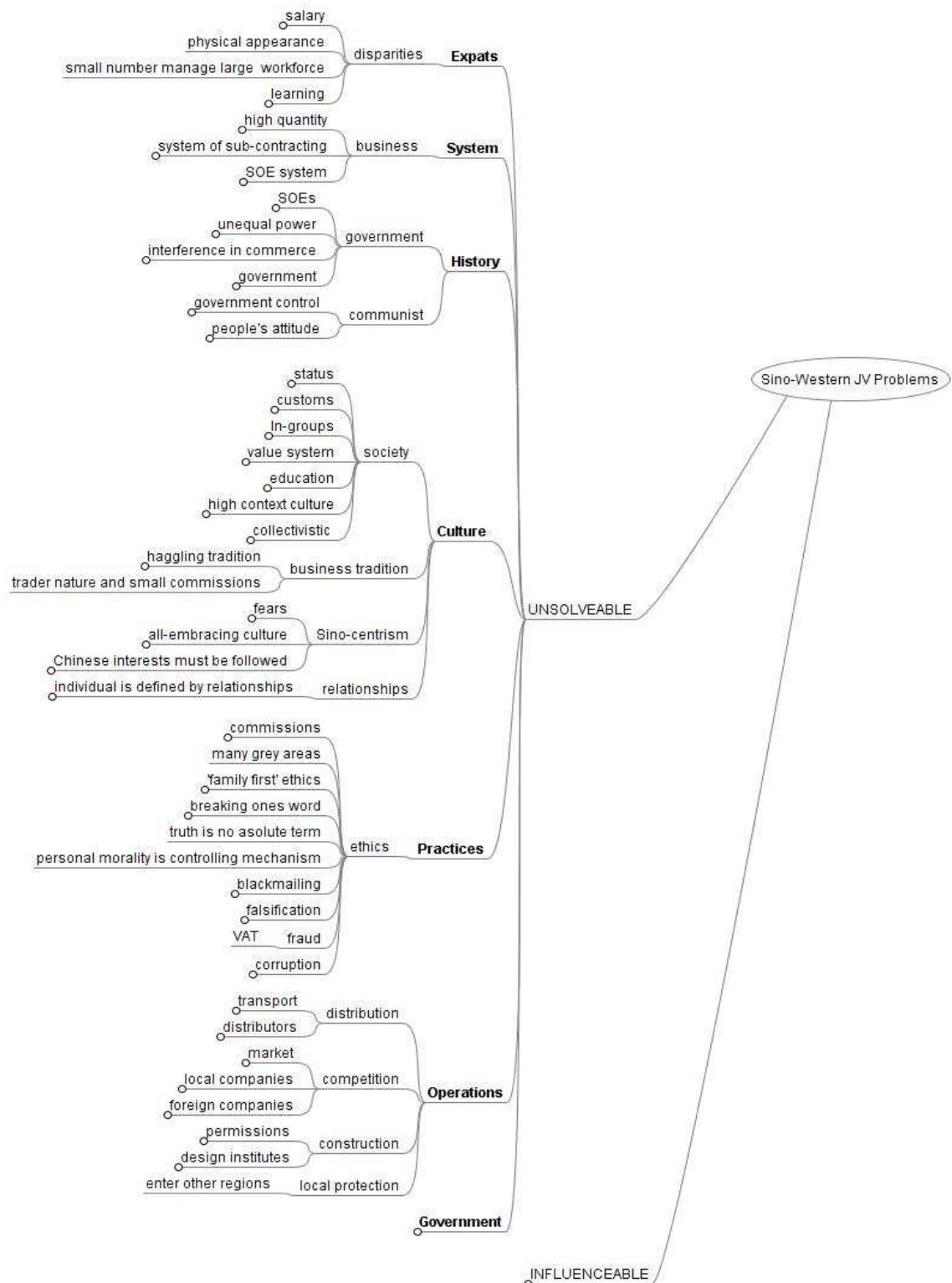


Figure 23 Unsolvable Problems based on Communication Measures

However, the capability of westerners to communicate addresses only one part of the identified resolution measures. Another very important area identified through the analysis of the problem data is that many problems could be related to the issue of “cultural awareness”. Therefore, following the evaluation of communication measures, the same process is repeated for resolution measures to increase cultural awareness and the cluster structure is rearranged accordingly.

The research recommends that both communication and awareness measures are implemented. Therefore, both types of measures are applied in this evaluation to determine whether a problem cluster is *unsolvable* or *influenceable* (*solvable/reducible*). As described in Chapter V, Methodology, the problems are categorized as *unsolvable* or *influenceable* (*solvable/reducible*) based on the greatest positive influence of applying both suggested measures together.

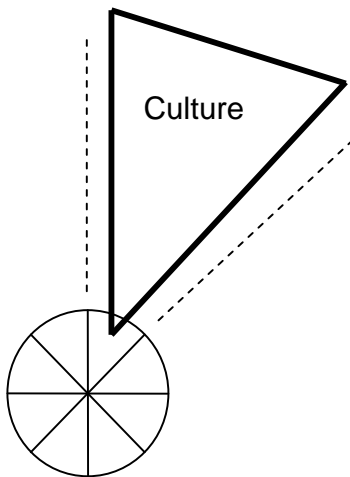
The above process was carried out on a problem attribute level. Therefore, a particular problem cluster may be categorized as both *unsolvable* and *influenceable* if it contains both *unsolvable* and *influenceable* problem attributes. Appendix G shows in tabular form the process of evaluating problem attributes of the communication cluster, in line with suggested resolution measures.

In the beginning, the effectiveness of communication and awareness measures per problem attribute are documented. Later, in order to more easily review and compare the results, the *solvable* communication and the *solvable* awareness clusters are merged. Thereafter, the *influenceable* communication and the *influenceable* awareness clusters are merged.



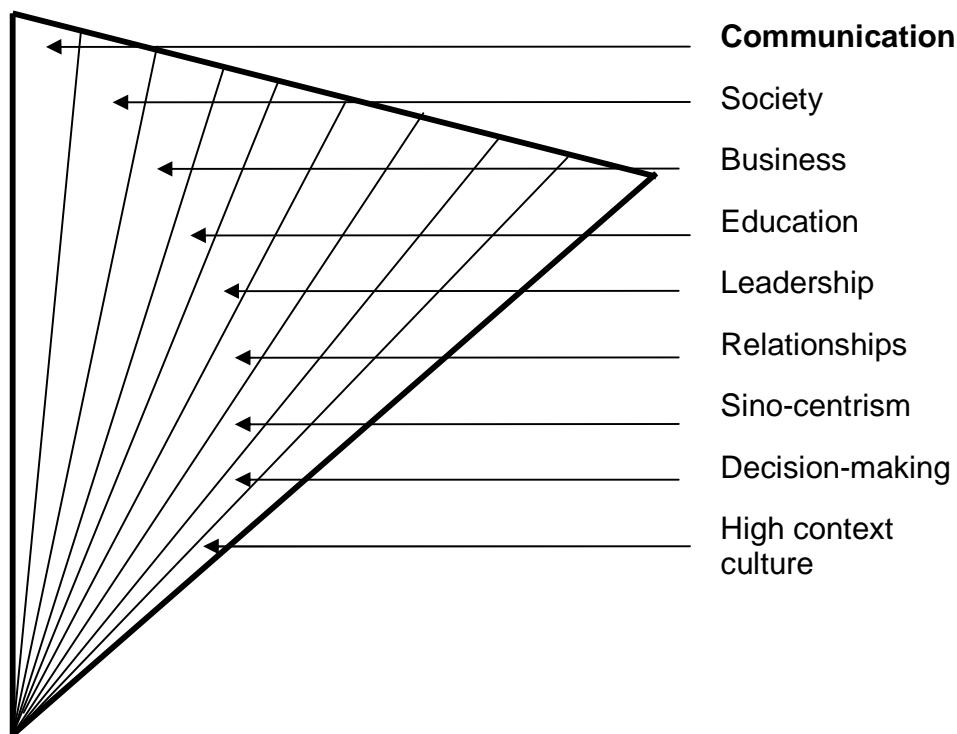
Finally, the *solvable* cluster and the *influenceable* problem cluster are merged. This rearrangement allows a direct comparison of the two remaining clusters: one containing problems which cannot be solved and one containing problems which can be positively influenced by the company. The remainder of this section demonstrates the applied process with the help of a number of figures in pie chart form.

The following figure illustrates the first step in addressing problem attributes related to communication. As described, there are eight domains identified (symbolised with the segmented circle), out of which the domain “culture” is one.



**Figure 24 Culture Review**

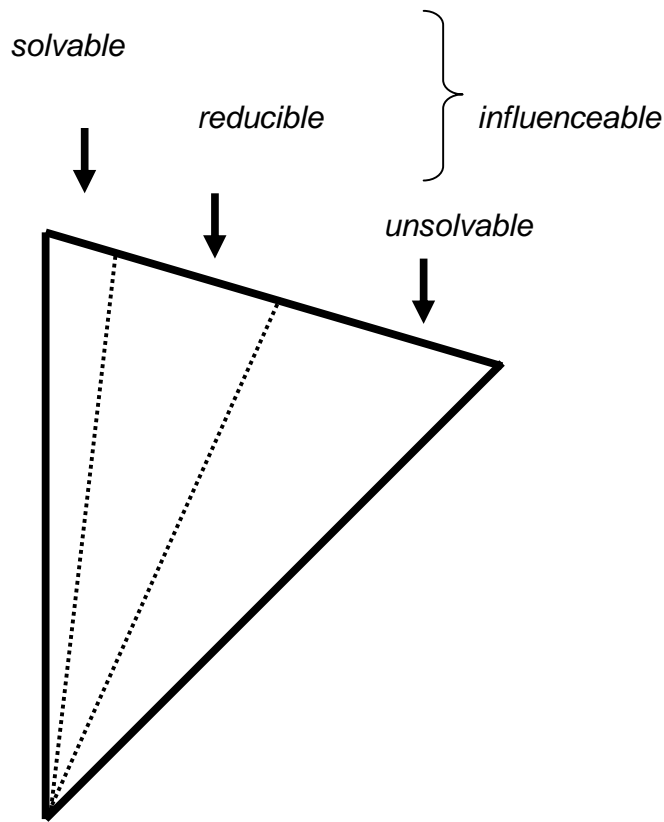
The breakdown of the domain “culture” (which groups all problem attribute clusters related to cultural differences) into nine sub-clusters, of which “communication” is one, is shown in the following figure.



**Figure 25 Culture Sub-Clusters Level 2: Communication**

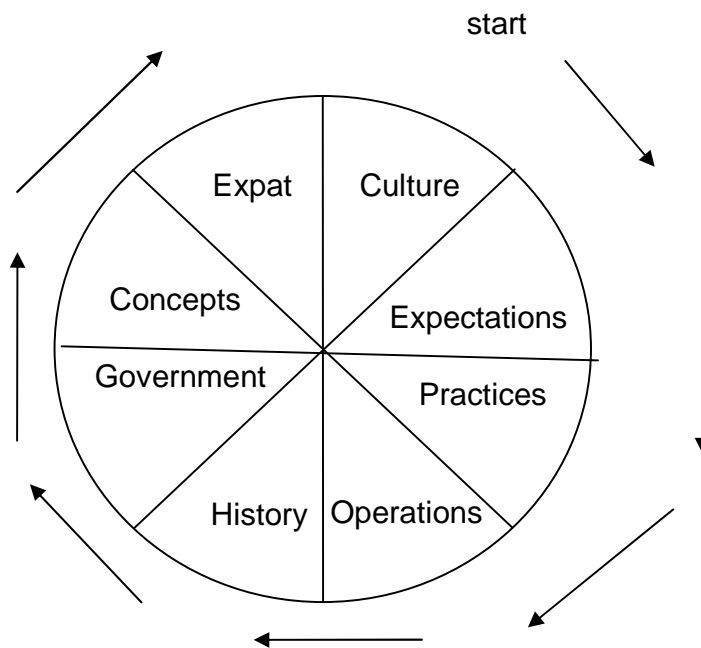
One advantage in the selection of the cluster “communication” as a first step in analysing the clusters, is that its problems can be addressed and potentially solved through various actions. Next, it was determined whether the proposed measures to improve the communication capabilities can also solve problems in other sub-clusters in the “culture” cluster. It became evident that many problems cannot be solved through these measures, but rather reduced, while others cannot be influenced at all. Hence, the *solvable* and *reducible* problems share the characteristic that they are *influenceable*.

As a consequence, the next step consists of splitting the whole structure into the three categories of *solvable*, *reducible* and *unsolvable* with respect to the effectiveness of the measures related to communication capabilities, as illustrated in the following figure:



**Figure 26** Tripartition of Clusters

The result is that through the application of the measures related to communication capabilities, the problem structure is divided into two main parts: problems which a company may influence and problems which a company is unable to influence. Further, within the group of *influenceable* problems, some may actually be solved through the suggested measure, whereas other problems may only be reduced. As illustrated below, the measures improving communication capabilities are first applied to the rest of the “culture” cluster and then, one by one, to all remaining domains. The premise is that these resolution measures will help resolve problems in other categories.



**Figure 27 Application of Measures related to Communication Capabilities**

Evaluating the effectiveness of these communication measures on problems in other clusters demonstrates their ability to positively influence many problems. However, the capability to communicate addresses only one part of the puzzle. Another very important area identified through the analysis of the problem data is that many problems could be related to the issue of “cultural awareness”. Thus, measures related to increasing the cultural awareness in addition to building up communication capabilities are proposed to address JV problems in China.

In the following procedure, as was carried out for the communication capability measures, every problem attribute is reviewed according to whether it can be *solved* or *influenced* by the suggested cultural awareness measures. Resolution measures related to communication capabilities and cultural awareness are intentionally separated to be able to understand their effectiveness and to be traced back to their original categorisation and ultimately to its original source.

The steps involved in reviewing all problems with respect to the recommended resolution measures related to communication capabilities and cultural awareness are summarised in the following flow chart. The chart shows the categorisation process for problems into the *solvable*, *unsolvable* and *reducible* categories with respect to the two measures. The original cluster levels of the problems are retained to ensure traceability of the original problem structure.

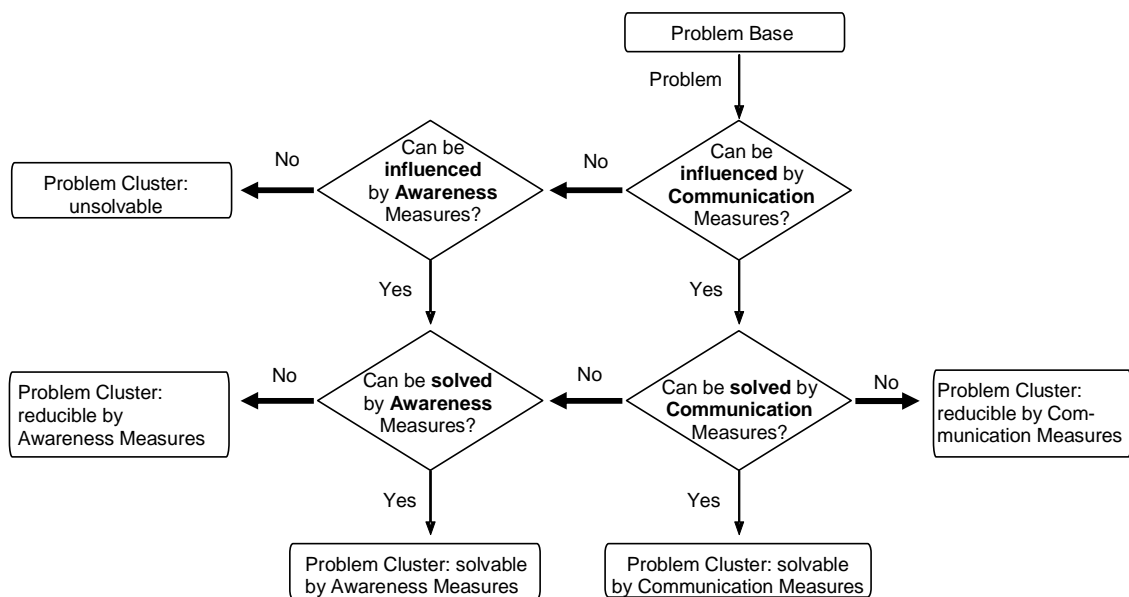


Figure 28 Problem Sorting Flow Chart

### Merging the Clusters

The results from the tripartitioning are merged through two steps. In the first step, problems categorised as *solvable* or *reducible* are merged from the communication and awareness clusters. One reason is to be able to compare *solvable* and *reducible* problems more easily. However, in practice it is not advisable to invest in either communication capabilities or cultural awareness measures; a company should always address both areas.

Measures to address communication problems may seem relatively obvious and straightforward to implement compared with measures addressing cultural awareness problems. Even if measures improving the communication capabilities are successfully employed, there is no guarantee that improved understanding is achieved. The procedures are illustrated schematically below.

The second and last merging step consists of a consolidation of the clusters of *solvable* and *reducible* problems in the influenceable cluster. These are merged, as problems in both of these categories may be positively addressed by the company and have an influenceable character. The result is that only *influenceable* and its *unsolvable* problems remain as two clusters. By separating the problem attributes into *influenceable* and *unsolvable*, companies may be made aware of which areas they should focus on in their preparation for Sino-Western JVs and which they are not likely to influence through reasonable means.

Further mind map diagrams of the process of categorizing and merging the problem clusters are illustrated in Appendix C.

### **Effectiveness of Resolution Measures**

The investigation of the effectiveness of the suggested resolution measures will help to highlight where a company should direct its resources. As outlined earlier, it is not advisable to direct resources to problem areas which are classified as *unsolvable*.

Reviewing the results, it is not surprising that more problems are considered to be *reducible* than *solvable*. This may also be a result of the requirements of the measures: preventative character, generalisability and applicability. The applied approach shall help to understand which problem attribute clusters can potentially be *solved* and which ones can only be *reduced*. However, as the whole exercise

aims to explore the theoretical effectiveness of the identified resolution measures, there is no clear practical benefit to differentiate between *reducible* and *solvable* problems. Much depends on the respective circumstances. The differentiation is rather an indication for the resolvability of the problem attributes. Therefore, the review of the results focuses on a comparison between the *unsolvable* and *influenceable* problem clusters.

The summary table below shows that problems belonging to each domain are believed to have *unsolvable* and *influenceable* attributes. The cluster “expectations” is an exemption, as it is believed that all problems attributes of this cluster can theoretically be positively influenced and thus believed to be either *solvable* or *reducible*. The reason is that theoretically the expectations of all parties may be aligned through measures related to communication capabilities or cultural awareness.

According to previous work (Yan and Gray, 1994; Zhang and Rajagopalan, 2002), the strategic objectives in the JV are particularly fundamental for the pay-off in the alliance. Expectations and objectives should be carefully examined before the JV is formed, as these are a rich source for conflict and problems (Ahmed and Li, 1996; refer to Chapter II, Joint Venture Parties and their Objectives). However, the JV partners may potentially be able to work these out. Furthermore, in this category the problems are not as much related to other external influences such as dependencies on third parties.

The table below summarises that problems under the domains “expats”, “concepts”, “history”, “culture”, “practices” and “operations” are found under both *unsolvable* and *influenceable* categories. “Government” related problems, however, such as shortcomings in the jurisdiction, are found only in the *unsolvable* category.

Domain/ Level 1	<i>Unsolvable</i>	<i>Influenceable (solve / reduce)</i>	<i>Both (unsolvable or influenceable)</i>
<b>Expectations</b>	---	western	---
		Chinese	
		Unrealistic	
<b>Culture</b>	Society	Decision-making	Relationships
	Business Tradition	Leadership	
	Sino-centrism	Communication	
<b>Expats</b>	Disparities	Manager selection	---
		HQ	
		Chinese	
<b>Concepts</b>	Government	Communication	Business
<b>Operations</b>	Construction	HR	Distribution
	Local protection	Management	Competition
		Foreign Exchange	
		Infrastructure	
		Production	
		A/R	
		No blueprint	
		Profitability	
<b>Practices</b>	---	Rules	Ethics
<b>History</b>	Government	Foreigners	---
	Communist		
<b>Government</b>	Legislation	---	Bureaucracy
	Jurisdiction		Transparency
	Localisation		Business Interference

Table 15 Comparison of Merged Problem Clusters



There are many explicit examples of *unsolvable* problem attributes. For example, it is not within the power of a company to significantly balance the income disparity between expatriates and locals. In this case, it is also not in the interest of the Western company to do so, as lower salaries are most likely one reason a company chooses to manufacture in China. Other obvious examples of *unsolvable* issues are the differences in the physical appearance of the expatriates or the fact that only a few expatriates are responsible for a large local workforce. For more details of the process and examples, refer to the figures of Appendix C: Illustrative Diagrams.

As outlined in the beginning of this chapter, the review of the effectiveness of the suggested resolution measures is based on the interpretation of the researcher. However, the aim is also to explore potential practical and managerial resolution measures and their purposeful application. From a management consulting perspective, Paul Vega and Wolfgang Kohl both confirm that especially in the context of China it is important to consider which problems can actually be solved or positively influenced and which ones should rather not be addressed in order to save resources. Furthermore, both confirm that the result of the review of the effectiveness of the suggested resolution measures is a good and valuable indication for Western companies.

## Concluding Remarks

Based on an improved understanding of Sino-Western JV problem attribute clusters, this chapter ventures into further analysis. It serves as a test bed for the meaningfulness of the developed problem clusters. The wider interpretation of the analysis suggests resolution measures which focus on strengthening communication capabilities and cultural awareness with the aim of increasing the success rate of Sino-Western Joint Ventures. It is recommended that Western companies concentrate on problem attribute clusters which are considered to be potentially solvable or reducible rather than those related to intrinsic differences in order to have the greatest effectiveness. The effectiveness of the resolution measures is evaluated for the entire problem structure. In this way, the different potential impacts of the suggested resolution measures related to communication capabilities and cultural awareness are shown. As a result, the overall effectiveness of the potential measures is illustrated by categorizing the problem attributes as either *unsolvable* or *influenceable*.

The recommended resolution measures presented are based on ideal circumstances. They provide only a simplified approach to address issues and to evaluate their effectiveness. For example, it is assumed that the right expatriate candidate can be found or that the Western company can implement and follow all of the measures as described. Furthermore, the question remains as to what extent the results can be generalised, since the 700 problems represent a fraction of all existing JV problems. However, taking these aspects into account, this review suggests that both communication capabilities and cultural awareness play vital roles in the success of a JV in China. In order to ensure the successful implementation of the recommended measures, four steps are suggested regarding how the Western partner may implement the measures.

The identified resolution measures are considered to adequately address all problem domains identified. Especially the need to align the expectations and the

objectives of both parties in the JV from the beginning is an important aspect which may be addressed through the resolution measures in order to avoid many subsequent problems. The approach and the results of evaluating the effectiveness of the suggested resolution measures cannot be completely validated.

However, the expert reviews suggest that the suggested resolution measures are relevant and comprehensive. They further acknowledge that it is important to analyse their effectiveness and that the produced results offer a valuable indication for Western companies. Notably, even though the chapter successfully shows how one could potentially analyse and interpret clustering results, the identified measures are not new and rather obvious. If the recommendations hold true, one wonders why companies do not sufficiently address these before entering into a Sino-Western JV. One could speculate that rather soft areas such as awareness and communication tend to be underestimated by Western companies.

## CHAPTER X: Discussion and Findings

*'Never bring the problem solving stage into the decision-making stage.  
Otherwise, you surrender yourself to the problem rather than the solution.'*

Robert H. Schuller

This chapter reviews the research in two parts. First, the general problems surrounding Sino-Western JVs in China are outlined, followed by a discussion of the research approach with respect to its advantages and disadvantages. Measures to minimise these disadvantages and to validate the approach are outlined as well. Second, the suitability of the research approach is highlighted and major findings and contributions of this work are presented.

### Discussion and Quality Considerations

Hennart (1988; 1991) highlights the important role JVs play in the internationalisation strategy of companies. The main reasons of forming a JV in China are to share risks among partners and to complement the strengths of two or more companies (Kogut, 1988; Lu and Beamish, 2001). Dunning (1993) and others emphasise that through this vehicle, a market entry can be ventured while having a lack of resources. Following this rationale, JVs are an ideal means to enter foreign markets.

However, despite the convincing arguments to form a JV, their success rate is rather low, particularly in China (Beamish, 1993), due to a very wide range of problems encountered (refer to Appendix E). Consequently, Western companies face a considerable risk in the form of non-recoverable sunk costs when investing in a JV (White and Liu, 2002; Zhang and Rajagopalan, 2002). This work shows that the problems may be found in various aspects of society, such as business,

sociology, law, culture and language. This may be one reason why researchers tend to focus on specific JV aspects and problems and do not investigate the topic in a holistic way. As a result, investigators offer only limited recommendations and solutions regarding how to anticipate and deal with the complex and interwoven problems encountered in JVs.

Much research has already been conducted to investigate why JVs are not as successful as predicated or fail completely (Kogut, 1989, Beamish, 1993). The results of this research are multifaceted and often provide explanatory elements which relate to cultural differences, for example: the mechanisms in developing countries are different compared with developed countries (Hitt *et al.*, 2000; Saxton, 1997; Lane and Beamish, 1990), intercultural distance between partners (Gupta, Hanges and Dorfman, 2002), the decision-making process of Chinese is fundamental different (Ahmed and Li, 1996), Chinese have different communication, conflict resolution and management styles (Berrell, Wrathall and Wright, 2001). However, previous work does not investigate the topic in wider contexts, taking continuative elements into account such as the role of the government, history, bureaucracy and expectations.

Despite the economic importance and the upsurge of research projects in China (Ying, 1996) there is no systematic investigation in Sino-Western JV problems. One reason may be that the complexity of human social behaviour makes it impossible to make direct conclusions when analysing human interactions (Funke, 2003; De Vaus, 2004). The unpredictability of human interactions and the fact that the problems have occurred in the past make a predictive approach based on causality among the JV problems unsuitable to address the research objective.

This work addresses the need for a systematic and holistic investigation of Sino-Western JV problems. This research establishes a classification of these problems in order to consider the wider influencing factors of these problems in a methodological way. This approach has been selected, since classifications are

powerful descriptive instruments which help to reduce the complexity of large populations. They allow for the recognition of similarities and differences among elements which can be empirical cases (Bailey, 1994). Doty and Glick (1994, p. 244) highlight that the greatest advantage of typologies is that they permit access beyond traditional linear or interaction theories and that they do not assume a consistent relationship between independent and dependent variables.

Funke (2003) highlights that problems arise as humans try to achieve goals. Therefore, a situation does not create a problem, but rather a problem is created through a setting in conjunction with an objective. The problems collected from the case studies in this work are in the form of qualitative statements. These statements are, in a broader sense, problems described by westerners for whom there is an unmet objective in a JV in China. Consequently, knowledge is constructed through the clustering of these unmet objectives and a classificatory framework is built.

As problems are often multilayered and complex (Hussy, 1984), this approach concentrates on isolated key problem statements. These are problem attributes which are derived from empirical case studies. Consequently, the problem attribute becomes a data element, while the original problem setting is of lesser importance. This condensation allows a hierarchical clustering according to the similarities among approximately seven hundred problem attributes to be carried out. This facilitates an identification of common JV problem attribute clusters. The process of clustering allows to creatively draw relationship diagrams showing how data fits together while highlighting the most overarching principles (Marshall and Rossman, 2011). As a result, this classification condenses the initial problem statements by clustering their problem attributes. The description of the cluster structure summarises the key problem areas. The result alone allows new insights and a consolidated new perspective by identifying the main problem areas Western companies will most likely encounter.

Another key advantage of this approach is that it lays the basis for further analysis and interpretation of the problem areas in order to identify common and underlying themes. Consequently, resolution measures are proposed for resolvable problem attribute clusters rather than individual problems. Through this, the power of the identified measures to effectively address numerous problems is increased. However, this approach to consolidate the problems gathered from empirical case studies in the literature (Blackman, 2000) also has a disadvantage. As aspects such as the importance and the quality of the problems are not considered, it is also difficult to assess the quality and relevance of the identified resolution measures.

Disadvantages of conventional classification systems are that they are not dynamic (Bailey, 1994) and that they mature quickly, creating the need to continually modify them according to new developments (Lang, 1980). With respect to this work, there is an unknown number of Sino-Western JV problems, which might make further additions to the established classification necessary. Even more, Chapter II has shown that JV problems in China evolve over time. Therefore, the chosen classification process provides flexibility and allows additional problem attributes to be added (or obsolete ones to be removed), as needed. Developing a flexible classification system is in line with Lang (1980), who states that a classification can never be complete and it is important to keep it adaptable and flexible.

The classification of problems can be a rich source of new insights (Terpstra and Olson, 1993). Hence, the general approach to evaluate and classify problems has also been applied by other researchers. For example, Terpstra and Olson (1993) attempt to systematically develop a comprehensive classification scheme for the types of problems encountered by emerging entrepreneurial firms. Mahayuddin and Tjahjono (2010) collect typical problems and their characteristics for manufacturing systems in order to reduce the lead time of simulation studies. Keenan et al. (1999) classify four hundred interactive software usability problems collected from development projects to build a 'Usability Problem Taxonomy'. In

general, all of these studies pre-sort the problems based on their nature and frequency in order to form problem groups. A similar approach is applied in this work in order to facilitate the problem classification process. Likewise, other researchers also analyse a large number of problems in order to derive new solutions or to improve existing approaches.

However, there is no common approach in business research with respect to the classification criteria of problems (Dearborn and Simon, 1958; Walsh, 1988; Terpstra and Olson, 1993). In any case, a classification demands a clear purpose (Hjørland and Pedersen, 2005) and there is typically no ideal way of classifying a certain set of objects (Jones, 1970). Consequently, the classification approach of this work is specifically developed in order to meet the research objective and can be considered as unique.

The key principle of classifying elements in this work is based on allocation. In line with Rötzer (2003), allocation in this investigation is established through the subject-related synthetic linking of similar problem attributes. According to Bailey (1973), 'as the principle of the greatest similarity is applied, a polythetic, rather ambiguous, classification is developed'. This process is carried out analytically by forming empirical clusters. In general, a classification should rely on a hierarchy as a structuring principle which orients itself based on the characteristics of the objects which form the relationship (Gödert, 1987; Muralt, 1991). In line with Gnoli, Bosch and Mazzocchi (2007), this study expresses hierarchical relationships from general to more and more specific. The linkage is formed in a monohierarchy, as each problem attribute is linked to only one clear cluster above it.

In line with Nohr (1996), who highlights that classifications serve predominantly as a means of communication, this classification provides a basis for further discussion in order to better understand and deal with Sino-Western JV problems.



### **Quality of the Findings**

As highlighted in Chapter V, Methodology, standards for the quality of conclusions and findings are heavily debated. However, in line with the so called systematic qualitative research approaches, this research gains credibility in terms of its findings by employing the described methods of data collection and analysis. Marshall and Rossman (2011, pp. 142-143) highlight two domains when establishing a qualitative research design: firstly, introduction of criteria which are applied to establish soundness of the work and secondly, demonstrating that the initial research questions and the conceptual framework of the research are in line. Likewise, a number of generally recognised quality criteria have been evaluated and techniques applied in this work (refer to Chapter V, Application of Quality Criteria). This presentation is important in order to be able to meaningfully critique the results (Whittemore, Chase and Mandle, 2001). In order to demonstrate that the conceptual framework is able to address the research questions, this research reflects and considers potential shortcomings and puts measures in place to limit potential bias as summarised below.

When establishing a new classificatory framework, the development process comes with subjective elements (Jain, Murty and Flynn, 1999). This subjectivity is inevitably embedded in many ways: the chosen classification criteria, the domain-specific knowledge and the theoretical background (Hjørland and Pedersen, 2005) as well as the socio-cultural background of the researcher (Rötzer, 2003).

Accordingly, the role of the researcher in terms of personal involvement and potential bias needs to be clearly documented (Locke et al.; 2000; White, 2000; Creswell, 2003), which applied in this work is demonstrated through the following:

- Problem extraction: many instances mentioned in the case studies are not explicitly described as problems. The author identifies these as problems based on personal experience and includes a definition of what a problem is considered in this work (refer to Chapter IV, Theoretical framework).

- Problem attribute classification: linkage of subject-related similarity of problem attributes involves the domain knowledge of the researcher.
- Further interpretation of the developed cluster structure identifying common patterns in order to explore potential resolution measures.
- Effectiveness of the potential resolution measures: the determination of whether a problem is considered to be *unsolvable*, *solvable* or *reducible* requires judgement.

Therefore, measures have been put into place with the aim of limiting the degree of personal interpretation and potential bias of the researcher:

- The research draws from an extensive literature review in order to provide academic support for the decision-making process in this work. This review covers many relevant different points of view, such as internationalisation theory, JVs in developing countries, JVs in China, the definition of problems, problem solving approaches, causality, classification and culture.
- The research process and approach are clearly documented to ensure transparency. Additionally, all problems are referenced and may be traced back to their original source in the case studies throughout the research. This includes an exhaustive documentation of all the identified problems.
- All problems taken from the literature case studies stem from Blackman (2000) to provide the database for this work. However, this selection comes with the drawback that the data is more than 10 years old. Potentially, some problem areas of Sino-Western JVs have since shifted in terms of their relevancy or representation. Furthermore, data collection is inevitably a selective process and it is not possible to collect all data possible (Miles and Huberman, 1994, p. 55).

As outlined in Chapter I, Scope and Limitations, the aspect of culture is an inherent limitation of the work. Strohschneider's (2007) research shows that the socio-cultural environment has a significant influence on thinking patterns and problem solving approaches. Notably, westerners and Chinese perceive situations

differently, which is reflected in their actions and problem solving approaches. With respect to this research, cultural differences are considered to be a significant contributor to the challenges faced in successfully establishing and operating a Sino-Western JV. Due to the different perception of problems, a blending of Western and Chinese problems might jeopardize the meaningfulness of the results. Consequently, this work concentrates on the analysis of problems from only the Western side and does not consider problems from the Chinese perspective.

The socio-cultural background and the domain specific knowledge of the researcher inevitably influence the classification approach and as a result, also the developed cluster structure and identified resolution measures. In order to limit potential bias, the methodology and the related procedural steps of building this classification are described in detail. The classification is not tested based on existing theories. However, as demonstrated in Chapter VIII, Cluster Structure Comparison, the whole procedure can be replicated. Consequently, the developed classification approach is a replicable method, open for other researchers and interested parties to be applied. Testing is done from a practitioner's point of view in two ways: through the identification of potential resolution measures based on the developed classification and also through expert reviews.

The approach and the results are reviewed and validated by three independent experts: Paul Vega, Wolfgang Kohl and Max von Zedtwitz. The profiles of the experts and the researcher can be found in Appendix A. All three experts confirm that the identified problems are typical Sino-Western JV problems which provide a complete and comprehensive picture. They consider the procedure to extract problem attribute and cluster these through a classificatory framework to be an appropriate research approach. In this respect, Paul Vega states:

I find your hierarchical clustering structure intuitive and easy to follow. The naming of the clusters is appropriate, but remains open for discussion. The breakdown of case study insights into individual problem sets and your identification of overarching themes to develop the clusters is also consistent.

From a practitioner's point of view, Wolfgang Kohl and Paul Vega confirm that in their experience, the problem domains and problem clusters are sensible and appear to include all elements which they have experienced. Paul Vega concludes '...your holistic investigation of JV problems and your classification approach to JV problems contributes to the existing body of knowledge and will appeal both to academic researchers as well as practitioners.'

Furthermore, the experts consider the suggested resolution measures as vital for the success of a JV in China. This is further supported by the literature, in which communication capabilities (Ying, 1996; Lee, 2006, Sun, 2010) and cultural awareness (Green, 1998; Connerley and Pedersen, 2005; Keller and Kronstedt, 2005) are specifically cited. The evaluation of the effectiveness of measures is an important indication for Western executives to approach JV problems purposefully (Drucker, 1967). However, the evaluation takes a rather pragmatic approach by adopting an advisory perspective and is less concerned with relevancy, ideology and validity.

### **Summary of key characteristics of the approach**

- The work focuses on the perspective of the Western JV partner, concentrating on their problems in China and identifying measures which they may take.
- The approach enables new insights and solutions to previously documented problems to be generated.
- The quality of the problems is not assessed.
- A difficulty in the data clustering process is that many problems are highly interconnected, as one issue may be related to another. This is addressed by

building a classification and defining parameters to extract the data in the form of individual problem attributes.

- The uniqueness of the approach lies in the classification of JV problem attributes leading to the identification of hierarchical structures among the problems. It was possible to establish problem hierarchies within the set of problem data. The clustering approach links problems which share key similarities to numerous sub-levels of related problem attributes.
- Based on the classification, it is possible to identify common problem patterns and consequently potential measures which can be recommended to companies to *solve* or *reduce* JV problems they may encounter in China. The identified resolution measures stem from an interpretation of how the consolidated problem data may be resolved.
- As the measures address problems on an aggregated level, the problem solving power of a measure is increased.
- The results of the problem analysis provide a picture of problem areas which can either be solved, reduced or practically not solved at all. Companies may identify areas in which they will have little or no influence, but which are likely to pose problems.
- This work shows that multifaceted, heterogeneous and complex constructs such as JV problems may be classified in order to reduce complexity and to identify similarities and differences among the elements.
- This approach may potentially also be applied to other research questions.

## **Findings and Key Contributions**

This work clearly demonstrates that JV problems can be found in various aspects of society, such as business, sociology, law and culture. Additionally, empirical case study reports can be ambiguous and diffuse. This research shows that a JV is generally established with very tangible goals, but is also accompanied by a very intangible collection of somehow similar and related problems. These may be reasons why it seems to be particularly difficult for researchers to pinpoint specific causes and to come up with comprehensive academic explanations. Likewise, practitioners have difficulties making JVs more successful despite experiences from a vast number of JVs since the 1980's and the resulting endless number of business 'best practice' guidebooks.

For these reasons, this research investigates the topic from a different perspective by employing a holistic approach. Anecdotal problems in the form of case studies are considered to be a rich source for the investigation of similarities and differences among such problems and a significant source of new insights. Other researchers also see value in analysing a larger number of problems and subsequently classifying them. However, existing frameworks to group or classify problems are not helpful in this context, as their frameworks can either not be applied or their categorisations would be too abstract to find new solutions. The chosen research approach attempts to take one step back, stripping off all background information and concentrates on isolated individual JV problems only, assigning these according to a classification scheme. Consequently, this approach also does not consider the wider original setting. As a result, the data source for this work is an extensive collection of actual problems, reduced to their key attributes, while the wider setting of the problem and the respective case study are not considered.

An advantage of this approach is that polythetic clusters can be formed by assigning attributes with their subject-related greatest similarities together.

Although, there is no common feature among all problem attributes of a certain cluster. In line with Bailey's Three-Level Model (1984; 1986), this empirical clustering of problem attributes does not only allow for the establishment of a hierarchical structure, but it also enables the creation of conceptual labels for the various attribute clusters. This forms an operational classification from 'bottom-up' in a monohierarchy. The result is an deductive and polythetic classification of JV attributes.

Through the successful classification of subject-oriented problem attributes, problem domains and interrelated hierarchical problem clusters are identified. Although patterns and interrelationships among the problem attributes are shown to exist, a causality approach is considered unsuitable for this work, due to the unpredictability of human actions. Instead, the chosen approach enables better recognition and understanding of difficult situations as well as anticipation of JV issues. It also meets the need to cater for potential future changes of a flexible classification of Sino-Western JV problem attributes due to the rapidly evolving Chinese economy and institutional environment.

However, there is a certain tension between the developed methodology of pursuing an analytic, reproducible research approach and the interpretive process of extracting and modelling the data. In principle, the different characteristics and perceptions of JV problems vary so much that they may appear to not be easily analysed as a group. The consequence is that this research provides limited, broader reviews rather than concentrating on specific problems or defined problem sets. In this work, these two elements are combined, as a certain degree of subjectivity is embedded in this work and represents a clear limitation. However, arguing from a qualitative researchers point of view, the process of individual judgement is necessary. The reason is that the core of the data gathering and analysis is an interactive process extracting the problem statements and allocating the individual problem attributes, and therefore, an inherent part of the research approach.

**Key contributions**

In summary, this work is a comprehensive analysis of Sino-Western JV problems. To achieve this, the general approach of this work builds predominantly on the key advantages of forming classifications. The original anecdotal problem descriptions (Blackman, 2000) serve as the raw data basis for the classification of problem attribute clusters. This classification is further explored and interpreted to evaluate whether problem patterns can be revealed. Based on the patterns, potential resolution measures are identified which aim to effectively address the whole of the problem attribute clusters, rather than individual problem attributes.

A key advantage of producing classifications is to reduce the complexity of a large population of elements. In the case of this work, the complexity of a large number of diverse and multi-layered JV problems is reduced. Through the process of problem statement selection, problem attribute extraction and clustering, the attributes are resembled and condensed. This reduces the complexity by identifying specific problem domains with their problem attribute clusters.

The result is that problems which previously seemed extremely complex and difficult, become more manageable, as they are broken down into smaller elements. Through this, many such problems are reduced in their complexity. In a broader sense, the classification of JV problem attributes makes the original mass of ill-structured and complex JV problems well-structured and simpler. This allows the identification of recurring themes and patterns among the problem attributes. The analysis and interpretation of the patterns allow new insights and new resolution approaches to be derived. From the point of view of the author, this novel classification is a suitable approach for further investigations in social phenomena in order to develop improved understanding. Furthermore, it comes with a powerful problem solving capability.

As outlined in Chapter I, Introduction, the envisioned knowledge contribution of this work is threefold. First, it is the formation and documentation of a classification of



Sino-Western JV problem attributes. The developed classification generates knowledge from an academic point of view as well as from a practical practitioner perspective. The academic value of the classification is that a special classification of JV problem attributes is created which had not previously existed. More specifically, it was possible to classify the original JV problems despite of the evolving nature of problems based on human interactions. This makes an important contribution to the classification literature as well as to comparative social studies. Given the advantages of classifications to potentially support further research progress, this work suggests that classifications are underleveraged and underrepresented in social sciences.

This work also contributes to JV theory. JVs are considered as a group of problems rather than, for example, a group of resources. Consequently, the perspectives of each JV partner and their problems are considered to be the boundary conditions of the JV, and not only the legal construct or resources. Within these boundary conditions, problems exist which may be considered to fall into three categories. The first category of problems is considered as solvable, the second is considered to be reducible and the third category is considered as unsolvable. Furthermore, it is suggested that the solvability of problems is dynamic and may change over time, particularly due to changing boundary conditions. For example, the nature of the business environment in China is evolving and overcoming cultural differences.

Furthermore, through the insights gathered by the classification itself, a contribution is made to Sino-Western literature on types of problems and ways to resolve them, for both the Sino-Western context specifically as well as the JV literature in general.

From a practitioner point of view, the classification helps companies to recognise and understand difficult situations and to anticipate issues they might encounter in their JVs in China. The classification brings the original mass of ill-defined and multilayered JV problems into a more structured and better understandable form.

With the help of problem domains, their documentation and interpretation, managers are better able to prepare for these problems and potentially take preventative measures to avoid them.

Second, based on wider interpretation, the classification allows an exploration of potential resolution measures in order to address typical problem areas. Knowledge is produced as a procedural insight and as well as an end result insight. From an academic point of view, the procedural insight is more relevant. The fact that the developed classification allows an interpretation of the results confirms the academic importance of establishing classifications. In this study, classification has reduced the complexity of the mass of JV problems and allowed further analysis which provides credibility to the overall approach.

The end result of the suggested resolution measures carries predominantly a practical value for western companies. Apart from the problem solving capabilities, the work explores and indicates where companies should or should not direct their resources in order to improve the problems they are most likely to encounter. Next to the development of potential resolution measures and the estimation of their effectiveness (Chapter IX, Cluster Structure Resolution), the value of the developed classification is confirmed.

The chapters successfully show which problem areas companies can expect when forming JVs in China and how one could potentially put measures in place in order to address them. Yet one might argue that these findings, nor the problem domains themselves, are entirely new. If the results and recommendations hold true, it may be questioned why companies do not take these aspects sufficiently into account. One could speculate that the problem domains are deliberately not taken into account or are underestimated in terms of their complexity. Furthermore, it could be the case that rather soft areas such as awareness and communication tend to be underestimated by Western companies. In this respect, the knowledge contribution also comes in the form of a confirmation. However, as outlined in

Chapter XI, Conclusions/Outlook, this gap of theoretical knowledge and practical application is certainly worthy of further research for the sake of science and practice.

A third valuable outcome of this research is the classification process developed to analyse JV problems. A flexible classification and clustering process of JV problems and their attributes is suggested. In this respect a predominantly academic value for further research is generated. The chosen approach of a holistic investigation to derive insights and confirmation as described above is considered to be unique. Not the nature of the problems, e.g. whether it is a problem related to marketing or finance, is classified, but rather the problems are classified based on their subject-related similarities in respect to the content of the problem attributes. Even though the classification process comes with subjectivity, this particular approach is considered to be novel in the social sciences.

The identification of similarities among Sino-Western JV problem areas and the development of a classification system are core aspects of this investigation. Although the method of comparison is a very important scientific method in social sciences, the methodological fundament of comparison methods has not been sufficiently researched. The method of comparison is one of the most important scientific methods in social sciences. However, despite its high importance, the methodological fundament of comparison methods has hardly been researched. He states that a wide and intensive discourse of epistemological and methodological aspects is missing in social sciences. One reason might be, that the complexity of human social behaviour makes it impossible to make direct conclusions when analysing human interactions.

To some extent, this work contributes to this missing discourse by providing a methodological approach and a basis for further discussion. The approach of this work bases on Wittgenstein's concept of a resemblance of elements which are not specific enough to be gathered in a taxonomical classification. The classification of

JV problems forms a kind of a hypothesis which is not tested based on existing theories, but can be replicated. Consequently, the work has an explorative character and is rather conceptual and predicative driven. This novel classification approach provides the basis for further investigations in social phenomena. Ideally, it will inspire other researchers to apply the suggested approach in different contexts.

To achieve the objective of this work a combination of known and established concepts and methods is suggested. The individual methods and concepts are not unique, but rather their combination within the context of exploring and analysing human behaviour is unique. These are, for example, the classification of data elements, the clustering approach and use of data trees and mind maps. None of the applied concepts individually are thought to be sufficient to properly address the research objective. A combination is needed to build on each of their strengths and to limit weaknesses associated with a single method. For example, the advantages of the use of classifications, such as presentation of knowledge, knowledge transfer, and their order creating character, are set against the disadvantage that classifications are usually pre-defined and tend to be inflexible. Consequently, an adaptable clustering approach is applied to allow data to be easily changed and supplemented. Another example is that the administration of a large amount of data elements requires the support of a software. A mind map software is originally intended to support and document the initial idea development or brainstorming process. In the context of this work, the software is used to cluster and manipulate problem attributes. Lastly, to make the research results reproducible, the approach and outcomes are clearly documented. The generated database is retrievable and open for other researchers. Thus, it can be used and expanded if needed.

In detail, knowledge is constructed through the clustering of Sino-Western JV problem attributes and development of a classificatory framework. Consequently, a key contribution of this work is to gain insights into the relations and

interconnections among problem attributes. It is through this classification process that knowledge is gained in a stepwise manner as the research progresses from problem attribute identification, to clustering, to the exploration of identifying potential resolution measures. It is only through the classification process and identified relations among problem attributes that pragmatic resolution measures and their effectiveness – representing an increased abstraction level of understanding and knowledge – are achieved.

The developed classification relies on a hierarchy as a structuring principle which orients itself on the characteristics of the objects. The classification is a powerful descriptive tool which reduces the complexity of the large population of JV problem attributes empirically derived from problem cases. As a result, similarities and differences among the problem attributes reveal important aspects of their relationships to provide the basis for further analysis.

Notably, the developed classification process concentrating on problem attribute clusters allows new ways to analyse large populations of complex data. Based on this, Chapter IX demonstrates how resolution measures can be explored from the classification and how their potential effectiveness could be analysed. Consequently, the insights gained through the developed approach not only allow the understanding of Sino-Western JV problem attribute clusters to be improved, but also to provide an empirical and action-oriented approach for both academics and practitioners.

The chosen level of abstraction of Sino-Western JV problems attributes is shown as suitable for the purpose of this work. Existing frameworks available grouping or classifying problems are not helpful in this context, as their frameworks can either not be applied or their categorisations would be too abstract to find new solutions.

The insights gained through the description of cluster structures (refer to Chapter VII, Cluster Structure Description) are summarised as follows: Eight problem

domains Western companies face when forming and operating a JV in China are identified referring to differences in: the Western and Chinese culture (domain called “Culture”), business practices (domain called “Practices”), business operations (cluster called “Operations”) and in the expectations of the JV (domain called “Expectations”). Other main areas are believed to be rooted in the Chinese history (domain called “History”), the way the Chinese government involves in the venture (domain called “Government”), the disparities between the Western expatriated managers and the local managers (domain called “Expats”) and opposing socio-cultural concepts between the East and the West (domain called “Concepts”). The thorough analysis and description of the domains and main clusters allows a better understanding of typical JV problem areas.

The problem attribute clusters can often be traced back to a few key sources and are predominantly related to issues which are not obvious for outsiders. In fact, these issues are often hidden or not visible from either side, such as expectations and assumptions. From a Western point of view, many less obvious problem areas can be found in the domains of “bureaucracy”, “culture”, “expectations” and “the history of China”. Less obvious also means that it is more difficult for Western companies to become aware of these potential problems and thus undertake the appropriate measures. Most likely, a foreigner will never understand all issues entirely. As a consequence, the problems stemming from these issues are often not easily described. For example, they may relate to complex constructs such as “trust” and “culture”. Other problem patterns arise due to China’s long history and culture, its transition from a communist economy to a market-oriented economy and governance by the communist party today. This means that JVs in China not only come with the usual challenges of establishing a JV in a foreign country, but also present very specific socio-economic and cultural challenges.

The documentation of the problem attributes proposes that Sino-Western JV problems are often interconnected and relate to one another. For example, it is possible to clearly identify recurring themes among the problem attributes, in

particular related to culture. Due to the strong Chinese culture, cultural aspects are a common theme among many of the other problem clusters and are expected in almost all business related problems. For example, Confucianism coins the Chinese society as a whole and can be found in all aspects of this socio-cultural and business environment. Similarly, problem attributes found in the “operations” domain often seem to be symptomatic of other issues which relate to socio-cultural aspects and differences in expectations. This underlines the importance of the consideration of cultural aspects in Sino-Western JVs.

One problem domain reflects solely problem attributes which relate to different expectations of the parties in the JV. The strategic objectives in the JV are particularly fundamental for the pay-off in the alliance (Yan and Gray, 1994; Zhang and Rajagopalan, 2002). Expectations and objectives should be carefully examined before the JV is formed, as these are a rich source for conflict and problems.

Another insight gained through the problem investigation is that many Western and Chinese concepts, values and business practices differ from one another. It was identified that the majority of the problems analysed do not relate to JV constellations specifically, but rather to cross-cultural differences which may apply to any form of business interaction in China. This is in line with the research of Schmid (2010, pp. 96-99), which shows that there are systematic tensions and conflicts between German Headquarters and their subsidiaries in China. Thus, a good understanding of these problems patterns and potential resolution measures may assist in various areas of conducting business in China.

In order to substantiate the results, the problem attributes and structure of one domain developed is compared with problem attributes identified through an interview with an expert (refer to Chapter VIII, Cluster Structure Comparison). The cluster structure based on the interview is less comprehensive than that based on the database. However, the two structures share the same main clusters. Furthermore, the interview provides insight into some additional topics, such as

anti-corruption. Overall, the problem identification and structuring process for the expert interview is congruent with the process applied previously for the database and demonstrates that the methodology can be applied by others to achieve similar results.

The intent of this work is to gain a deeper understanding of typical problem areas through the consolidation of problems and the classification of their attributes. The result of this process does not only highlight main problem areas, but also key recurring themes: difficulties in communication and problems caused by the lack of understanding or awareness. The insights gained through the examination of problem attributes enables potential resolution measures to be suggested. These measures aim to improve communication capabilities between both sides and to create a higher level of cultural awareness in the Western partner with regard to its Chinese counterpart. They are considered to be vital for the success of a Sino-Western JV.

Communication is an essential element which can be found in every aspect of business and daily life and a common underlying theme among many of the domains, such as “culture”, “concepts” and “bureaucracy”. Consequently, addressing communication problems through appropriate measures was found to also address a diverse range of conflicts in various other domains.

This approach builds on the proposition that a relationship between two business partners, such as in a JV, can only be successful if their communication is clear, continuous and in both directions. In this work, the notion of communication encompasses much more than simply language - it also involves other aspects such as verbal and non-verbal communication. The following main measures related to communication capabilities are suggested: a basic conversational knowledge of the Chinese language, a good understanding of the Chinese communication style and key principles, the ability to interpret non-verbal



communication forms and the recognition and regard for hierarchy in business interactions.

Furthermore, this research demands a greater cultural awareness of the Western partner. Cultural awareness measures are intended to prepare managers for situations they may encounter under various circumstances, such as daily operations or negotiations. Ahmed and Li (1996) confirm that awareness of the differences between the way the Chinese and their Western counterparts conduct business is vital for a JV's success.

One must distinguish between an individual's (or also a company's) knowledge of something and their awareness of something. In this work, knowledge alone is considered to not necessarily help one draw the right conclusions. In contrast, cultural awareness enables the westerner to understand the unwritten rules and ultimately gain further insights. Thus, cultural awareness equips the westerner with a means to apply this knowledge in order to make the right assumptions, to better understand his Chinese counterpart, to allow relevant and less relevant issues to be differentiated and to be alerted before a situation escalates into a problem. The creation of cultural awareness in the Western JV partner should concentrate primarily on the area of Chinese culture, history and society as well as on the Chinese approach to business and operations management. Potentially, cultural awareness may help to avoid many problems before they occur.

Consequently, it is suggested that Western companies need to implement these measures as early as possible. One can argue that if these measures are put into place during the initial stages of JV establishment, the likelihood of finding the right partner and attaining a successful cooperation is increased. In determining specific measures, companies must evaluate their particular situation and available resources. It is important that communication capabilities and cultural awareness measures are generated not only among the local team, but also at the headquarters. Without an understanding of local circumstances, the overseas

parent company is unlikely to support the JV and it will be difficult to realise the goals of the JV.

Four steps are suggested in order to support the Western partner to facilitate and ensure the successful implementation of the recommended measures. These are to: ensure a common understanding of the problem, agree on the consequences and impact if the problem persists, agree on a common problem solving approach and agree on actions and their priority to resolve the problem. However, in order to follow these steps related to problem resolution, sufficient skills related to communication capabilities and cultural awareness must already be present, as the Western partner and his Chinese counterpart need to follow these steps as a team.

As seen in the literature, the importance of both communication capabilities (Ying, 1996; Lee, 2006, Sun, 2010) and cultural awareness (Green, 1998; Connerley and Pedersen, 2005; Keller and Kronstedt, 2005) are not new. This fact leads to a number of presumptions: if both aspects are recognized, it seems that Western companies do not pay sufficient attention to them or may not properly address them in practice. Another possible explanation is that Western companies underestimate the complexity of these capabilities. Another suggestion may be that Western companies focus more on the financially driven “hard factors” (e.g. production price, market penetration rate), while “soft factors” are neglected in relative terms. However, this study clearly underlines their importance if Western companies want to be successful in China.

A last step in the approach is a review of the effectiveness of the identified resolution measures with respect to all problem attributes. This evaluation explores where problem attributes could be solved, avoided or reduced through the implementation of both types of measures. The intent is to enable Western companies to understand which kind of problems can effectively and efficiently be addressed. Difficult to solve (*unsolvable*) problem attributes are found in areas which are difficult for the Western company to influence, such as society, business

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traditions, disparities, Sino-centrism, China's communist history and government, such as local protection/localisation, legislation and jurisdiction. Influenceable problem attribute clusters are considered to be within the power of the Western company to positively influence. These are, for example, related to the alignment of expectations, communication, leadership and the wider field of operations management. To that end, foreign companies are equipped with suggestions regarding which problem areas can most effectively be addressed and how they may better achieve their business objectives and increase the likelihood of the JV's success.

## CHAPTER XI: Conclusions

*'Problems cannot be solved by the level of awareness that created them.'*

Albert Einstein

This last chapter is split into two parts. The first part summarises the research approach and key results. The second part provides an outlook regarding potential future areas of study.

### Summary

Despite the increasing economic importance of China and the low success rates of Sino-Western JVs, the reasons for these difficulties have not yet been investigated on a meta level. One explanation may be that the approaches for pre-empting the problems encountered have not yet been properly investigated or discovered. In order to address this need, this work classifies Sino-Western JV problems from the westerner's perspective and identifies measures to address these in order to increase the likelihood of a JV's success.

The objective of this research has been met, which is to develop a classification of Sino-Western JV problem attributes by arranging them according to their similarities in a hierarchical cluster structure. This allows the generation of a better understanding of typical problem clusters and their attributes and the exploration of effective resolution measures.

This research concentrates on the classification of isolated, individual Sino-Western JV problem attributes empirically identified from cases in the literature. The wider original setting and quality of the problem are not considered. The approach is based on a polythetic, conceptual classification of problem attributes.

To achieve this, this work takes a large population of Sino-Western JV problem cases and separates each into its individual problem attributes. A problem attribute characterises key elements included in the respective problem case. The problem attributes extracted from all Sino-Western JV problem cases acts as the basis for the research data and subsequent clustering process.

The problem attributes are arranged according to their similarities and grouped into clusters. The principle of classification is based on the allocation of pre-categorised problem attributes into clusters. The clusters have a hierarchical order of up- or subordination. Cluster characteristics of higher hierarchical levels are contained in the lower classes. Consequently, problem attributes are clustered and linked through this hierarchy, which ascends from more general to increasingly specific problem clusters. By bringing the data into this form, key problem areas as well as interrelations among the problem attributes are identified.

As a result, all individual JV problem attributes are organised into several domains, which form the lowest, most general level of the hierarchy. Thereafter, all attributes are further organised into multiple, related clusters of problem attributes. The total of all clusters contains all of the problem cases and their attributes. In cases where a problem attribute relates to more than one cluster, the cluster which has the greatest relevance for the problem attribute in terms of the context of the case from the literature is selected. In summary, individual Sino-Western JV problem attributes are brought into problem domains consisting of interrelated clusters.

A major advantage of this classification approach is that it reduces the complexity of the large population of JV problems. Further, the analysis of empirically derived problem cases and their respective problem attribute clusters enables a better understanding of the relationship among problem attributes to be developed. New insights gained through this research aim to help improve the success of JVs.

Through the process of categorising and clustering approximately 700 problem attributes, eight problem domains emerge. The domains are found in the history of China, different expectations of the JV parties, general operation problems in running the JV, different business practices, cultural differences, government interaction and intervention, issues relating to the Western expatriate managers and opposing concepts of China and the West. A number of conclusions can be drawn regarding important recurring themes. Many problems can be traced back to a few key sources which are often less obvious for a foreign company investing in China. These may be, for example, aspects related to China's bureaucratic environment, differences in the cultures or differences in the expectations for the JV of the two parties.

The consolidated problem classification shows two key recurring themes related to the behaviour and knowledge of the westerner. These were difficulties related to the ability of the westerner to suitably communicate in the Chinese social and business context and the westerners' lack of awareness in terms of Chinese culture, history and society and business. Based on these findings, this research further interprets the data and explores potential resolution measures which should focus on the improvement of the westerner's communication capabilities and the creation a higher level of cultural awareness with regard to China. Measures addressing the improvement of communication capabilities focussing on language proficiency, communication style, such as the ability to interpret non-verbal communication forms, sensitivity for the "losing" and "keeping" face concept and sensitivity related to the business hierarchy. Cultural awareness measures focus on developing an understanding of Chinese culture, history and society and the Chinese approach to business and operations management.

In applying these measures to the problem attributes, the power of the measures to *solve*, *avoid*, or *reduce* the problems is evaluated. This provides foreign companies with a concise picture of which problem areas can most effectively be addressed. The notion of focussing efforts on areas in which problems can more likely be

resolved is important, as resources are limited and Western companies are usually faced with a large number of diverse and multi-layered problems which occur simultaneously. Therefore, understanding which problems to address and how these are interrelated will help address them more efficiently.

It is the intent of this work to help the Western JV partner to better recognise and understand difficult situations and to anticipate issues in order to achieve its business objectives. The identification of recurring problem patterns through the classification of similarities among Sino-Western JV problem attributes enables pragmatic and effective managerial solutions to be offered to increase the likelihood of the JV's success. However, a typical limitation to qualitative research is the 'natural subjectivity of the researcher shaping the research' (Marshall and Rossman, 2011, p. 253). This limitation also applies to the interpretative framework of this work (refer to Chapter V, Methodology, Role of the Researcher) as well as the perspectives of the expert witnesses (refer to Chapter V, Methodology, Expert Involvement).

## Outlook

This research demonstrates how the classification of Sino-Western JV problem attributes provides a valuable source of insights. It is a first approach to holistically analyse Sino-Western JV problems. In order to progress beyond what this investigation achieves, aspects which further research may address are suggested. The section is divided into two parts. The first part highlights general areas on which future research should concentrate based on the insights gained from this work. The second part provides ideas on how the specific topic of Sino-Western JVs could be further researched, expanded and further improved.

As demonstrated in this work, in order to progress in this research field, a combination of existing research methods and disciplines is needed. Thus, it might not be advisable to follow one particular school of thought, but rather explore and combine different concepts. From the personal view of the researcher, especially a qualitative researcher should 'be brave' to explore new research concepts in order to progress science.

However, not only new and novel concepts should be developed, but also established methods and results should be questioned. For example, the identified resolution measures to improve the success rate of Sino-Western JVs are rather obvious and generally known to be important. One can only speculate why companies, investing significant resources and taking a number of risks into account when venturing into China, do not follow guidelines such as those proposed in the developed resolution measures. Perhaps they do not see the importance of 'soft' factors or do not give themselves sufficient time. In any case, there is a strong practical need to further explore this phenomenon. From the point of view of the researcher, it is not sufficient for research to produce results which and ensure their validity and applicability. But rather, research should go further to investigate phenomena and explore why their results/advice is not followed. This is



not only important from a practical point of view but also to avoid a certain disconnect from science and practice.

Since the categorisation process underlies subjectivity of the researcher, future work may investigate the development of ways to reduce this. For example, rules to explicitly define the categorisation of problems, both in the specific context of JVs, but also in other problem domains. Furthermore, future work could evaluate the quality of the categorisation to determine whether the categorisation process has been performed in accordance with the defined rules.

Further research in the area of Sino-Western JV problems is certainly also needed due to the lack of understanding and poor success rate of these ventures. Due to China's size and growing gross domestic product, its domestic markets are becoming increasingly more important. Concurrently, JVs focussing on the manufacture of simple goods are becoming less attractive. China is shifting from its self-proclaimed status of 'the world's factory' to a country focussing on gaining and implementing expertise from the West in terms of innovation, intellectual property investment and the development and manufacture of advanced value-added products. This trend is expected to have an effect on Sino-Western JVs in many areas. For example, the complexity of processes and interfaces between the two JV partners is expected to increase. As such, communication capabilities and cultural awareness will play a crucial role. Thus, the findings of this work are expected to become even more important over the coming years. Consequently, in the following are five areas suggested to further expanded the topic of Sino-Western JVs:

First, the problem database developed in this work may be enlarged to include further data: more Sino-Western JV problem attributes from additional sources and non-observational data may be considered, such as company size, industry sector and the year of JV establishment.

Second, a classification and exploration of problems the Chinese encounter in their JVs with Western partners would complement the findings from the Western perspective provided through this work. Most likely, the problems cited by the Chinese will look quite different due to their different perception of problems, problem solving approaches and different thinking patterns. A comparison of both classifications could bring valuable insights in generating a better mutual understanding.

Third, the importance of individual problems is deliberately not assessed in this work. However, this may be a next step for future work in order to gain further insight. For example, the importance of Sino-Western JV problems could be quantified with the help of an assessment matrix. Furthermore, recurrences in the citation of a problem may be used as an indicator of its importance. The result could be another dimension in the problem cluster structure. As problems may be potentially assigned to more than one cluster, the relevance of a problem for each cluster could also be included. Comparing this new cluster structure with the one developed in this research could also lead to new insights.

Fourth, in this research each problem attribute is assigned to only one cluster for which it is most relevant. Further research could explore potential inter-connections among problem domains and clusters within the structure. Another approach could be to specifically explore the type of problems which have the most cross-connections. Potentially, highly connected and recurring problems may be of greater significance than others. As highlighted in Chapter III (Western and Eastern Problem Solving Approaches), another suggested area of future study is to investigate the different problem solving approaches of westerners and Chinese. Potentially, these differences may exponentiate the number of problems due to the consequences of different problem solving approaches leading to subsequent problems.

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Fifth, the problems could be classified in different ways. For example, one way of classifying the problems could be to differentiate between “obvious problems” (e.g. problems which can be attributed to a clear source, such as frequent power failures) and “less obvious problems” (e.g. problems which cannot be attributed to a clear source, such as the lack of trust between JV partners). Another possibility is to separate the data into simple and complex problems.

With respect to the further analysis and interpretation of the problem attribute cluster structure, the approach and potential resolution measures may be applied to investigate JV problems in other country contexts, such as other LDCs. Due to its increasing global economic importance, India may provide an interesting setting for further study, as its culture and the role of government differ significantly from the West as well as from China.

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**Glossary**

Awareness	<p>Absolute Astronomy.com, defines in its encyclopaedia section, viewed 7 May 2009, awareness as: &lt;<a href="http://www.absoluteastronomy.com/topics/Awareness">http://www.absoluteastronomy.com/topics/Awareness</a>&gt; Awareness is a term referring to the ability to perceive, to feel, or to be conscious of events, objects or patterns, which does not necessarily imply understanding. In biological psychology, awareness comprises a human's or an animal's perception and cognitive reaction to a condition or event.</p>
Class	<p>In this work, the term “class” is used interchangeably with the term “cluster”.</p>
Domain	<p>This work uses the term domain to describe certain problem fields or problem areas. As problems provide the data elements, the problem attribute cluster structure consists of data domains and related sub domains. In order to develop the problem attribute clusters, domain knowledge (expertise) is necessary.</p>
Effective Resolution Measures	<p>Effective resolution measures are considered to be measures that address problems they can actually influence. In other words, they address the right, <i>influenceable</i> problems and not problems they most likely cannot solve or only solve with an unreasonable input of resources.</p>
Reducible Problems	<p>Through the application of the recommended measures, these problems cannot be solved, but can be reduced and thus, the overall situation can improved upon. The level of reduction/improvement depends largely on the particular issue and the individual circumstances and, for each case, requires a deeper analysis.</p>
Influenceable Problems	<p>These problems can be positively influenced by the Western company. In order to address these problems, the company must take certain measures. The result of taking such measures may be to either solve or reduce the problem.</p>
Knowledge	<p>The Oxford English Dictionary defines knowledge as (i) expertise and skills acquired by a person through experience or education; the theoretical or practical understanding of a subject; (ii) what is known in a particular field or in total; facts and information; or (iii) awareness or familiarity gained by experience of a fact or situation. There are numerous classifications of knowledge, such as conscious and unconscious knowledge or implicit and explicit knowledge. Other descriptions concentrate on the knowledge characteristics such</p>

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Measure	as domain knowledge and tactic knowledge. A measure is considered to be a proposed action which aims to <i>avoid</i> , <i>solve</i> or <i>reduce</i> a problem.
Method	A method is a 'set of procedures and techniques for gathering and analysing data' (Strauss and Corbin, 1990, p. 3).
Methodology	A methodology is a 'way of thinking about and studying social reality' (Strauss and Corbin, 1990, p. 3).
Problem	In the context of this work, a problem shall be considered as an obstacle which impedes the success of a JV in China. Thus, it is defined broadly including difficult issues, unforeseen events and circumstances which can lead to extra work, financial losses and other negative consequences.
Problem Attribute	The understanding for this work is that the original wider setting of the problem, its circumstances and its history are not considered.
Qualitative Research	Qualitative research is considered to be a 'nonmathematical process of interpretation, carried out for the purpose of discovering concepts and relationships in raw data and then organising these into a theoretical explanatory scheme' (Strauss and Corbin, 1990, p. 11).
Research Data	The research data is derived from case studies described in the cited literature. The data consists of approximately 700 problems which are collected in a database.
Solvable Problems	These problems are considered to be resolvable if the recommended measures are taken. However, in this work, "solving a problem", is understood in idealistic terms where the solution does not create further side-effects.
System	A system is considered to be a unit of interconnected elements with interdependent properties.
Unsolvable Problems	These problems cannot be solved at all or at least not through a reasonable effort in terms of time and money.

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**Appendix A. Profiles**

This work complies with the guidelines of the Ethical Principles for Conducting Research with Humans of the University of Lincoln. Consequently, the experts have given their consent to be named, profiled and to be quoted in this work.

**Paul Vega (Ph.D. lic. oec. HSG & MSc LBS)**

Paul Vega is principal with McKinsey & Company located in the Philippines Office and specialised in Private Equity, High Tech and Telecom. In his business career, he has also worked with IFG - Goldman Sachs, The Boston Consulting Group and General Atlantic Partners. Mr. Vega is of Chinese decent and grew up in Germany. He has lived and worked in the UK, US, Philippines and China for many years as both a consultant and in academic positions.

Mr. Vega has held research fellowships with INSEAD in France/Singapore, Wharton-SMU and CEIBS in Shanghai and is currently a part-time lecturer with INSEAD (Singapore campus) as well as a regular guest speaker with the University of St. Gallen.

**Wolfgang Kohl**

Wolfgang Kohl has been the General Manager & President of Gruner + Jahr (Beijing) Advertising Co. Ltd for the last 10 years and has worked in the media industry for over 20 years. Having studied Chinese and Japanese as well as macroeconomics, Mr. Kohl has a deep theoretical knowledge and also a deep strategic and operational knowledge. Further, he is on the board of three media Joint Ventures in China.

He has lived in Taiwan and China for 18 years and has been a member of the Board of the German Chamber of Commerce in China since 2006, representing the bureaus of Beijing, Shanghai and Guangzhou. He is a recognised expert in Chinese-German relations, representing the German business community for high ranking political and business delegations. He is also a regular contributor to diverse publications. Recent contributions by Mr. Kohl were for Tank, A. (2010), 'Zwischen Faszination und Furcht - Ausländische Marktakteure in China auf der Suche nach Stabilität und langfristig gültigen Einfluss- und Erfolgsfaktoren' (translated: "Between fascination and fear - foreign players in search of stability and long lasting influence and success factors in China") and for the prominent German business magazine 'Wirtschaftswoche' (WiWo): managing consultant of the China Special Edition (2012) 'Der Aufstieg des Drachen: von der Imitation zur Innovation – die chinesische Herausforderung' (translated: "The raise of the dragon: from imitation to innovation – the Chinese challenge").

**Max von Zedtwitz (Prof. Dr. oec., lic.oec. HSG & Dipl.-Ing. ETH)**

Max von Zedtwitz is an expert in global R&D and reverse innovation. He advises CEOs on China strategy and business with a functional focus on innovation, new product development and technology management. Mr. von Zedtwitz is an experienced leader of global teams in multi-cultural/lingual settings and has lived and worked in the US, Europe, Japan, and particularly China.

He has held different positions, such as Director at GLORAD (Research Center for Global R&D Management and Reverse Innovation), since 2003 and Director of the Board at AsiaCompete since 2004. He was also Vice President at PRTM Management Consultants and was the Vice-President at SwissCham (Beijing).

Academically Mr. von Zedtwitz is a permanent Professor at Peking University since 2008 and Visiting Professor at the University of St. Gallen since 2006. Between 2003 and 2008, he was Professor with the Tsinghua University. Other institutions he worked for include IMD and Harvard University.

**Christopher Päßler**

The author's perceptions of Sino-Western JVs and their problems have been shaped through both personal and professional experiences. The author gained professional experience directly with JVs in China from 2002 to 2003 as a management consultant. During this time, most assignments centred on JVs between Western and Chinese companies and involved direct contact with both Western and Chinese sides. The focus of the assignments was very different depending on the life cycle stage of the particular JV.

One assignment focused on the identification of possible investors in terms of capital and products for a pharmaceutical manufacturing site for a Chinese conglomerate of pharmaceutical companies. Another long-term assignment involved a proposed new JV establishment between a large Chinese pharmaceutical state-owned enterprise and a medium-sized German pharmaceutical and self-medication company. Here the author led negotiations, served as the key contact person and worked on a feasibility study and business plan.

During this time, many insights were gained. Much desperately needed information was generally treated as secret by the Chinese and legislation was less developed than today. Most importantly, tactical knowledge was difficult to acquire. Thus, the author began to network with a wide range of people who shared their experiences: foreign lawyers and tax advisors, foreign entrepreneurs, industry bodies, trade associations, foreign companies and other expatriates living in China. During this time, Chinese friends too, provided an important source for gaining knowledge and becoming accustomed to Chinese culture, traditions and ways of thinking.

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From April 2004 onwards, the author headed the Asia Pacific regional office for a medium-sized pharmaceutical company. One of the main projects was to establish a JV between a privately owned Western company and a publicly owned Chinese company.

According to the author's experiences, important prerequisites for a successful JV in China are: headquarters' trust and support, an in-depth understanding of Chinese culture and history, not to assume Western standards or ways of thinking and to be prepared for unexpected events. Another insight gained was that regardless of industry type (e.g. steel or pharmaceutical industry) or ownership (e.g. state-owned or private companies), a large number of the problems and challenges faced were similar.



## Appendix B. Research Approach according to Set Theory

As a complement to Chapter VI, Data Examination, this section summarises the approach employed in segmenting and grouping the entire population of problems reviewed into clusters and sub-clusters based on the set theory point of view. Set theory is used to mathematically describe populations consisting of different sets, such as the individual members of sets and the relationships between the sets. The primary purpose of this appendix is to describe the process in an alternate way. The process and the results are the same as shown in Chapter VI.

Let  $P$  denote the – unknown – set of all existing Sino-Western JV problems  $\{p_i\}$ . Further, let  $P^L$  denote the set of all such problems under review in this work derived from the set of problems from the literature  $\{p_i^L\}$ . If  $N$  is the total and unknown number of problems and  $n$  the number of problems investigated, then the following relations hold:

$$N := |P|, n := |P^L|,$$

$$P^L \subseteq P, N \geq n$$

$$P = \{p_1, \dots, p_N\}, P^L = \{p_1^L, \dots, p_n^L\}$$

Note that the subset relation merely means

$$\forall i, 1 \leq i \leq n \left[ p_i^L \in P^L \Rightarrow \exists j: p_i^L = p_j \right]$$

and not necessarily

$$\forall i, 1 \leq i \leq n \left[ p_i^L \in P^L \Rightarrow p_i^L = p_i \right]$$

All problems in the subset  $P^L$  were reviewed and found to fall into eight domains,  $C_1, \dots, C_8$  with

$$\bigcup_{i=1}^8 C_i = P^L$$

$$C_i \cap C_j = \{ \} \quad (i \neq j)$$

The individual clusters are defined as follows:

$C_1$	...	Culture
$C_2$	...	Expectations
$C_3$	...	Practices
$C_4$	...	Operations
$C_5$	...	History
$C_6$	...	Government
$C_7$	...	Concepts
$C_8$	...	Expat

Each cluster  $C_i$  contains  $n_i$  problems and is further subdivided into  $n_i^c$  sub-clusters,  $C_{ij}^S$ , each containing  $n_{ij}$  problems:

$$C_i = \bigcup_{j=1}^{n_i^c} C_{ij}^S \quad (i=1, \dots, 8)$$

$$C_i \cap C_j = \{ \} \quad (i \neq j)$$

$$n_i := |C_i| \quad (i=1, \dots, 8)$$

$$n_{ij} := |C_{ij}^S| \quad (i=1, \dots, 8; j=1, \dots, n_i^c)$$

$$n_{ij} \geq 1 \quad (i=1, \dots, 8; j=1, \dots, n_i^c)$$

$$n_i = \sum_{j=1}^{n_i^c} n_{ij} \quad (i=1, \dots, 8)$$

$$n = \sum_{i=1}^8 n_i = \sum_{i=1, j=1}^{i=8, j=n_i^c} n_{ij}$$

Thereafter, all problems in each cluster are analysed in terms of their potential to be solved through two means: measures related to communication capabilities and cultural awareness.

This analysis shows that each problem fits into one of the following categories:

$$\begin{aligned} P^S & \dots \text{solvable problem} \\ P^I & \dots \text{reducible problem} \\ P^U & \dots \text{unsolvable problem} \end{aligned}$$

Obviously,  $P = P^S \cup P^I \cup P^U$ ,  $P^X \cap P^Y = \{\} (X \neq Y)$ .

Limited to the problems under investigation, the following holds:

$$P^L = P^{L,S} \cup P^{L,I} \cup P^{L,U}$$

with

$$P^{L,S} = P^L \cap P^S$$

$$P^{L,I} = P^L \cap P^I$$

$$P^{L,U} = P^L \cap P^U$$

Accordingly, each cluster and sub-cluster of problems can be broken down into the three categories by intersecting with  $P^S$ ,  $P^I$  and  $P^U$ , respectively. The clusters can then be written as:

$$C_i = P^{C_i,S} \cup P^{C_i,I} \cup P^{C_i,U} \quad (i = 1, \dots, 8)$$

and

$$C_{ij}^S = P^{C_{ij}^S,S} \cup P^{C_{ij}^S,I} \cup P^{C_{ij}^S,U} \quad (i = 1, \dots, 8; j = 1, \dots, n_i^C)$$

Finally, the two categories *solvable* and *reducible* are grouped together as *influenceable* problems:

$$P^{Infl} = P^S \cup P^I$$

This allows a disjoint representation of each sub-cluster as:

$$C_{ij}^S = P^{C_{ij}^S, Infl} \cup P^{C_{ij}^S, U}$$

with

$$P^{A,B} := A \cap P^B \quad (B \in \{Infl, U\}).$$

Returning to the initial set of problems used in this work  $P^L$ , all *influenceable* problems are grouped together over all clusters in order to provide companies entering JVs in China with an overview of all *influenceable* and *unsolvable* problems, as below.

$$P^L = \bigcup_{i=1}^8 C_i = \bigcup_{i=1, j=1}^{i=8, j=n_i^C} C_{ij}^S = \bigcup_{i=1, j=1}^{i=8, j=n_i^C} \left( P^{C_{ij}^S, Infl} \cup P^{C_{ij}^S, U} \right).$$

## Appendix C. Illustrative Diagrams

### Addressing Communication

In the following figure, the sub-clusters below the level 2 cluster “communication”, which fall under the domain “culture” are shown, as the resolution measures draw from these. The “communication” sub-cluster consists of issues which fall under the following sub-clusters:

- “style”: problems caused by different communication styles
- “language”: problems caused by different languages
- “boss-subordinate”: problems caused by a different understanding of the boss-subordinate relationship

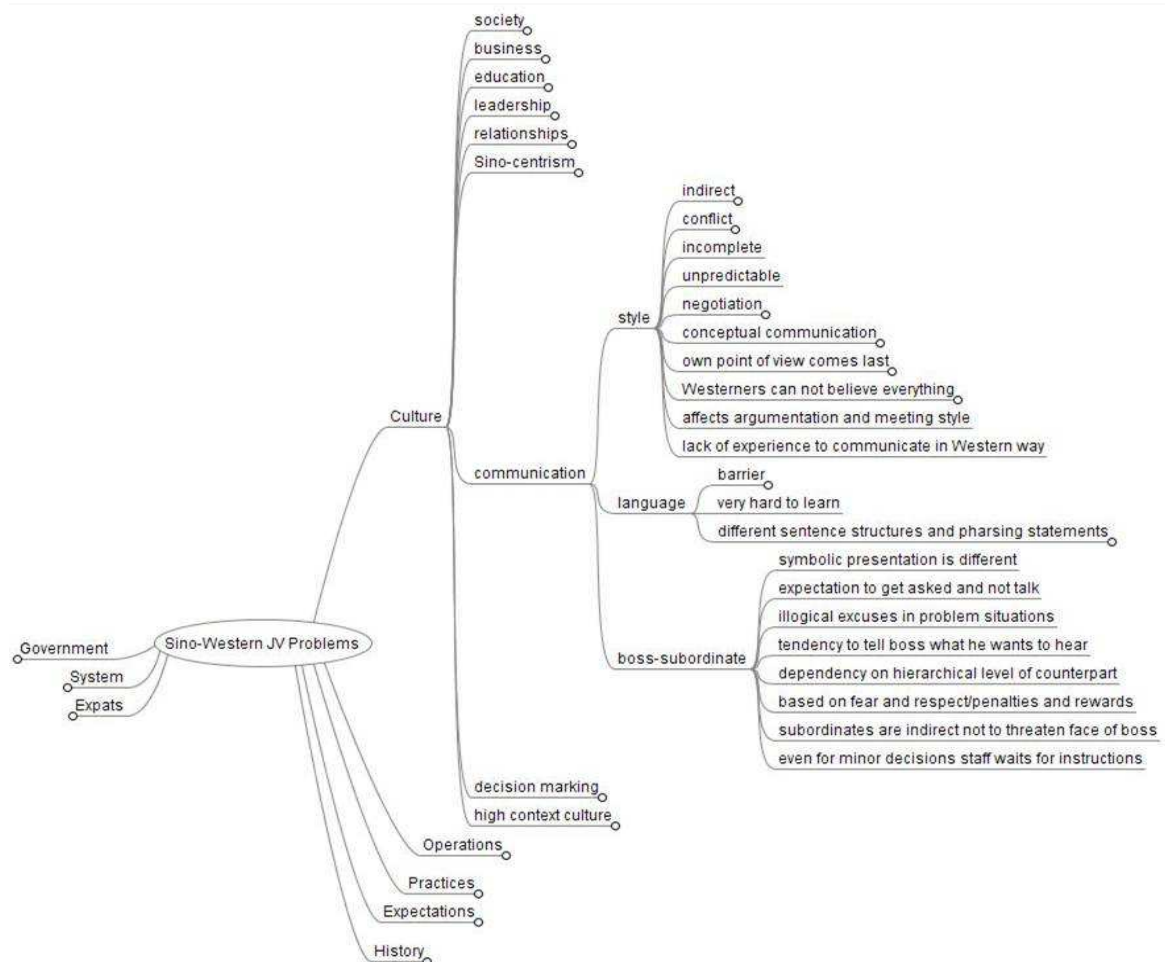


Figure 29 Communication Context

### Application of Communication Measures

The problem clusters are split into two main categories: *influenceable* problems and *unsolvable* problems. The figure next shows the outcome of this categorisation. The existing cluster structures are retained in their original form.

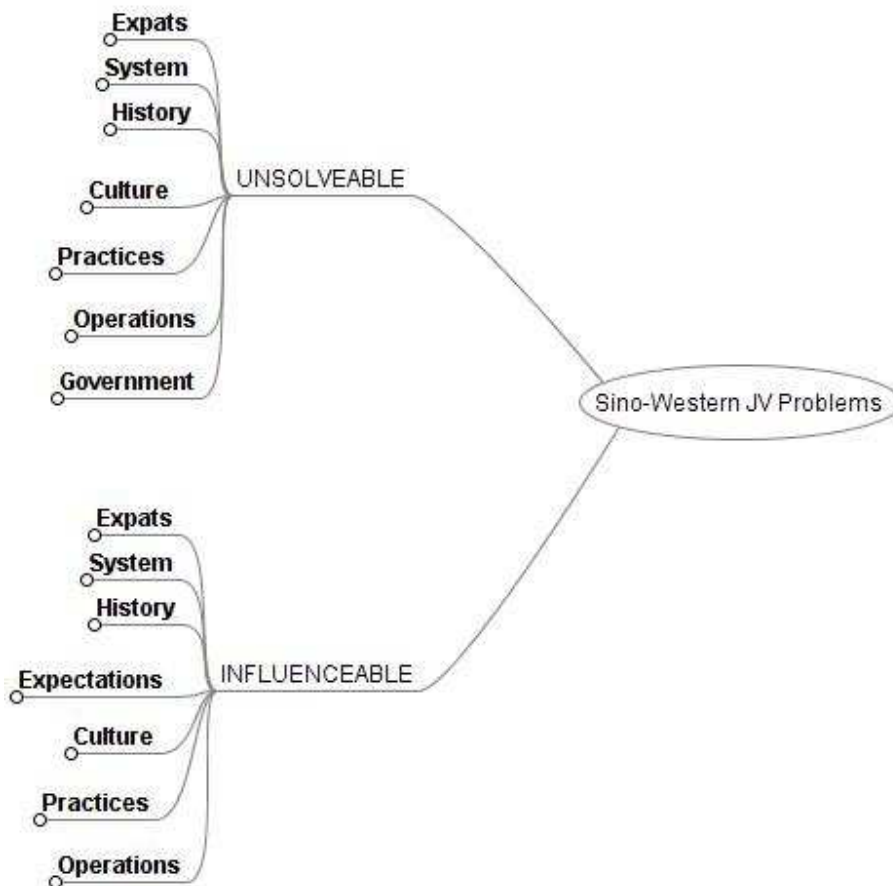


Figure 30 Problem Categorisation based on Communication Measures

The figure below shows the outcome of grouping the problem clusters into *solvable* and *reducible* problems and applying the measures to all problem clusters.

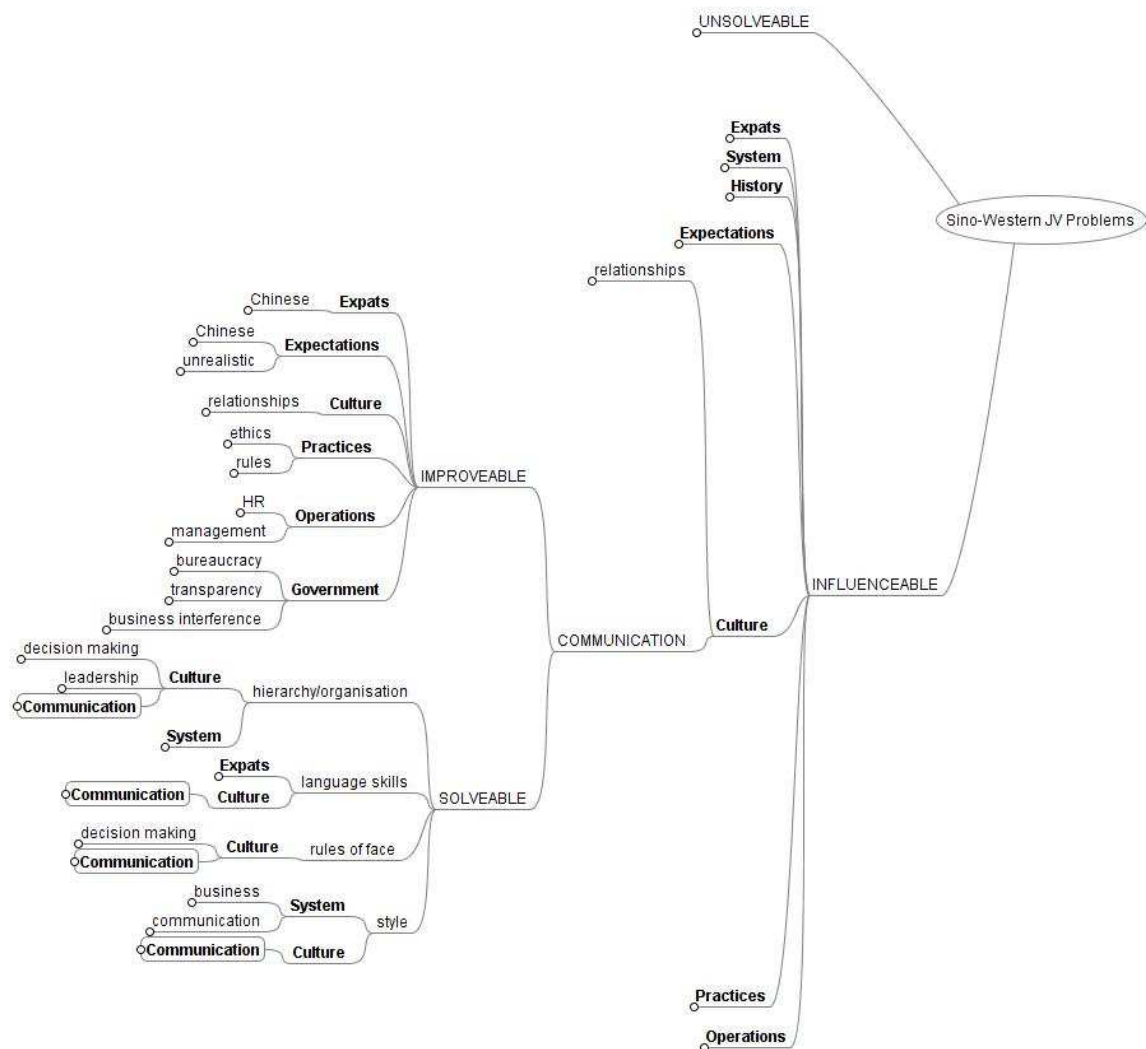


Figure 31 Influenceable Problems based on Communication Measures

The following figure shows the further split of *unsolvable* problem clusters.

### Application of Cultural Awareness Measures

The figure below shows the problem clusters following the application of cultural awareness measures alongside measures related to communication capabilities.

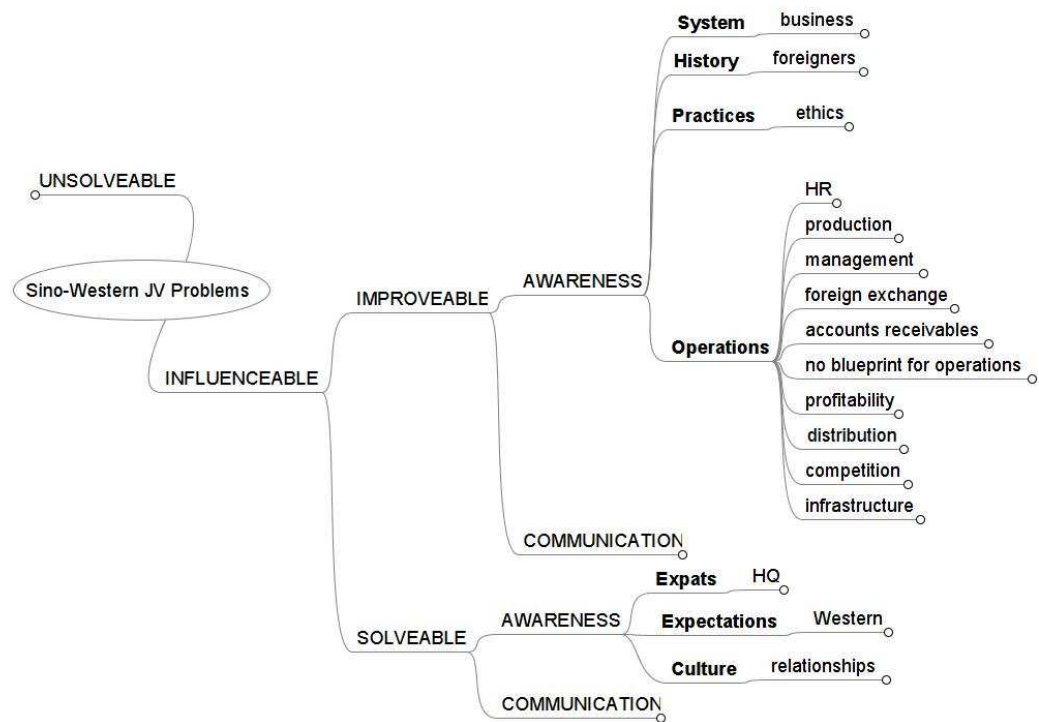


Figure 32 Influenceable Problems based on Cultural Awareness Measures



### Merging Communication and Awareness Clusters

As shown in the following figure, up to this point all measures related to communication capabilities or cultural awareness are accounted for under separate branches in the cluster structure. This enables traceability of the problem clusters.

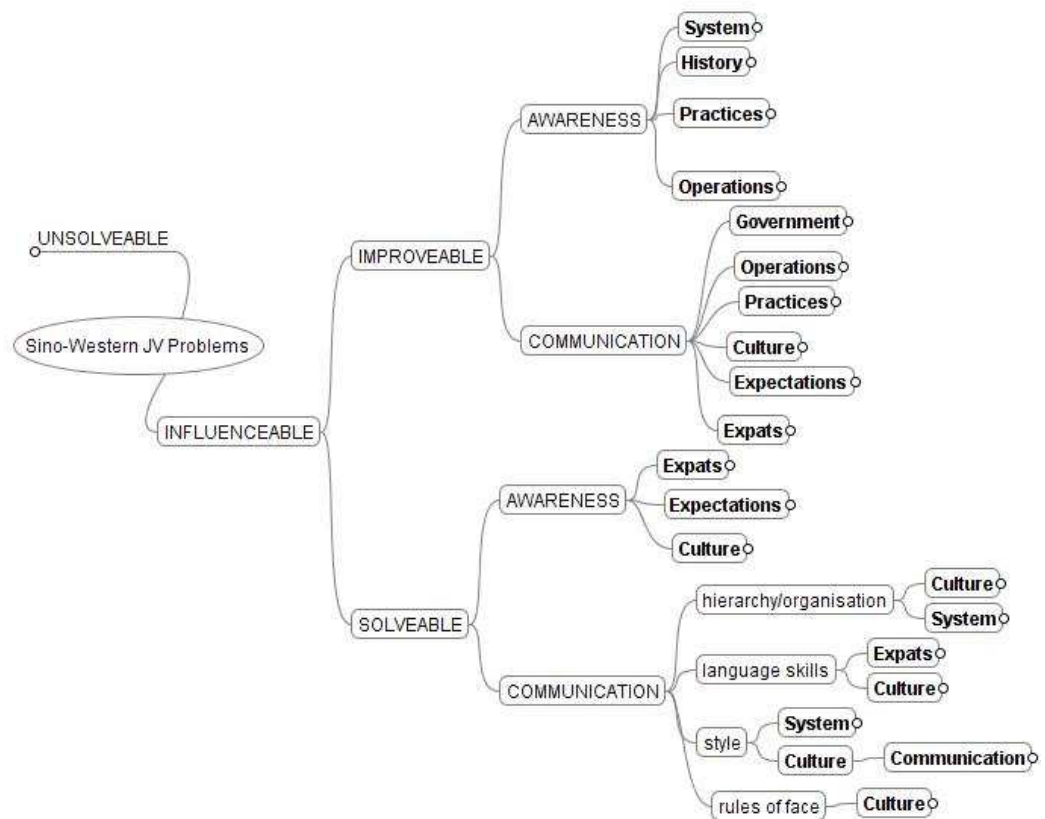


Figure 33 Influenceable Problems before Merging

A detailed differentiation of measures related to communication capabilities and cultural awareness is not vital, as it is recommended that companies put both types of measures into place. The following figure shows the outcome of merging communication and awareness clusters under the categories *solvable* and *reducible*.

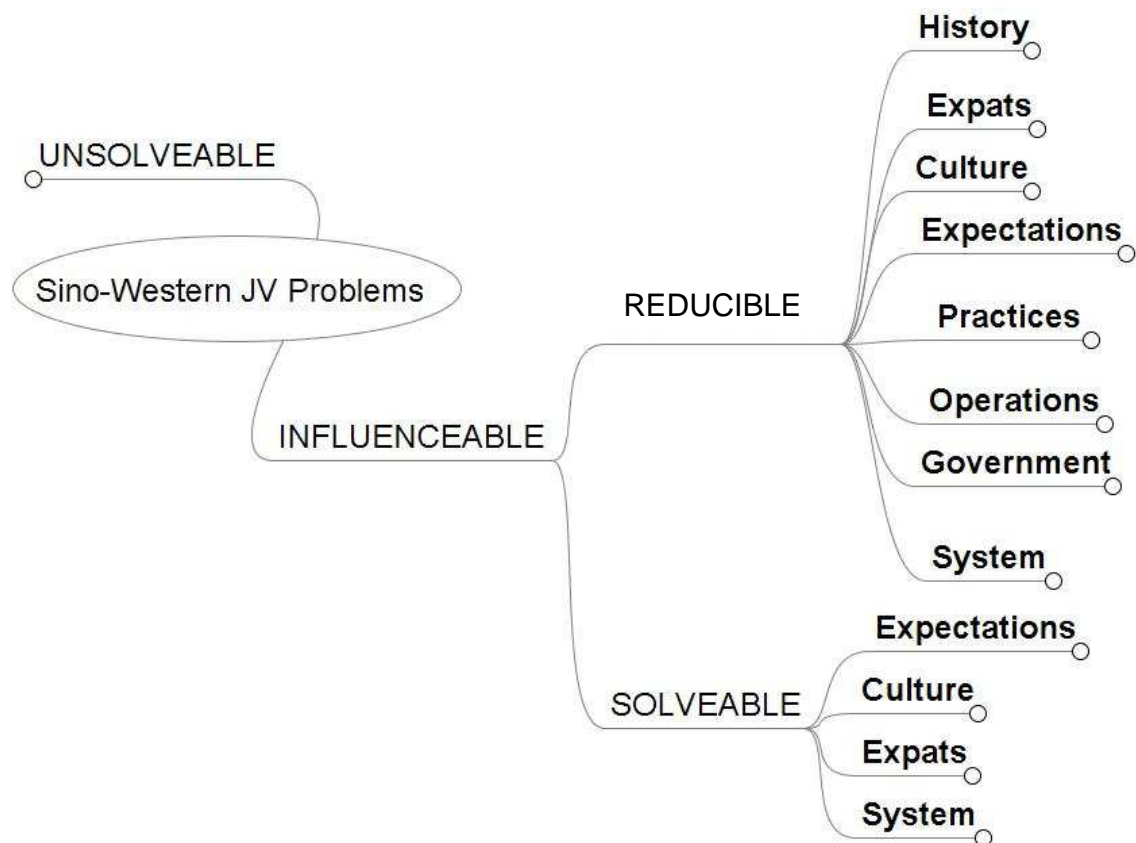


Figure 34 Merging Communication and Awareness Clusters

### Merging Solvable and Reducible Clusters

The last step focuses on a comparison between the *unsolvable* and *influenceable* problem clusters. Thus, in a second and last merging step, *reducible* and *solvable* problem clusters are merged as shown in the figure below.

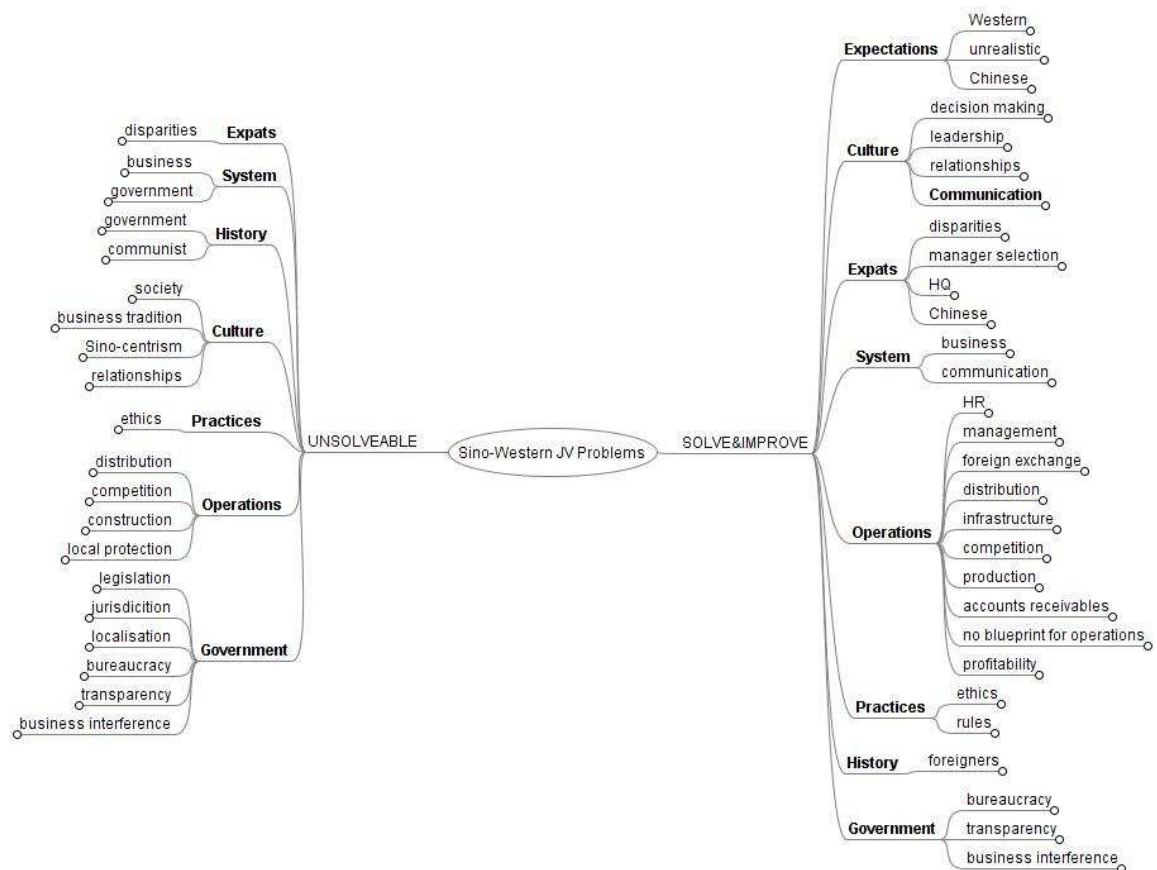


Figure 35 Merging of Solvable and Influenceable Problems

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## Appendix E. Original List of Collected Problems

Problem	Year	Page	Author
context differences in framing communications and interactions	1976	34	Hall
Technology transfer costs depend on different factors usually are higher than expected	1977	500	Teece
Cultural and attitudinal differences between nations.	1977	500	Teece
Socioeconomic differences and the level of economic development.	1977	502	Teece
Technology transfer to government enterprises of centrally planned economies involves higher transfer costs.	1977	502	Teece
Low levels of economic development increase the transfer costs.	1977	503	Teece
To get credible commitment mutual hostages need to be taken, minimizing the incentive for opportunistic behaviour.	1983	499	Williamson
Management of political risks	1985	1506	Daniels/Krug/Nigh
Legal and regulatory environment is very difficult setting up and operating a venture in China.	1985	1512	Daniels/Krug/Nigh
Mandatory export quotas in order to be allowed to manufacture in China	1985	1512	Daniels/Krug/Nigh
Very different objectives of JVs partners in China for setting up the enterprise	1985		Daniels/Krug/Nigh
Reasons for setting-up JV is that domestic competition is already in China.	1985	1480	Daniels/Krug/Nigh
Chinese government uses tariff and non-tariff barriers to influence economy	1985	177	Daniels/Krug/Nigh
Lack of participation in international patent and trademark agreements.	1985	4	Daniels/Krug/Nigh
The political environment might have significant impact on the Chinese JV.	1985	445	Daniels/Krug/Nigh
Degree of capabilities of foreign firms to assess political risks.	1985	446	Daniels/Krug/Nigh
Uncertainty concerning future laws and regulations affecting the China JV.	1985	447	Daniels/Krug/Nigh
There is a low reliability on information received in China.	1985	448	Daniels/Krug/Nigh
Maintaining of bargaining power in China over time.	1985	491	Daniels/Krug/Nigh
Potential political instability in China	1985	496	Daniels/Krug/Nigh
Reliability and availability of secondary information in China.	1985	496	Daniels/Krug/Nigh
JV characteristics are different in developed countries compared with developing countries.	1985	499	Beamish
Main differences of developing countries lie in culture, political system and economic level.	1985	499	Beamish
Main JV differences un developing countries lie in: reasons for creating the JV, frequency of association with government, ownership level, ownership control relationship, control-performance relationship, number of autonomously managed JVs, instability and performance.	1985	499	Beamish
National culture has a greater impact on employees than organisational culture	1986	48	Adler
firms seek more control the more the technological content of the product increases	1986	12	Anderson/Gatignon
the higher the country risk the more likely companies will establish a JV	1986	12	Anderson/Gatignon
western companies have higher adaptation (culture etc) and information requirements in developing countries.	1987	1497	Beamish/Banks

Problem	Year	Page	Author
Lack of understanding of the Chinese perspective.	1987	162	Mathur/Jai-Sheng
It was never China's intent to provide foreign firms access to domestic market.	1987	162	Mathur/Jai-Sheng
Eagerness of foreign firms to do business in China led to many mistakes like negotiating reasonable agreements.	1987	162	Mathur/Jai-Sheng
It was China's strategy in establishing JVs to provide limited access, at best, to domestic markets.	1987	163	Mathur/Jai-Sheng
Since enterprises are owned by the government it is not meaningful to distinguish between a Chinese firm and the Chinese government.	1987	163	Mathur/Jai-Sheng
There is no business law in China, the rules seem to change periodically.	1987	164	Mathur/Jai-Sheng
western manager are used operating in a highly formalized, well-established and deterministic legal environment.	1987	164	Mathur/Jai-Sheng
The Chinese language has nuances that can only be interpreted when one is very familiar with the language.	1987	164	Mathur/Jai-Sheng
the political environment in China is very different	1987	164	Mathur/Jai-Sheng
Operating expenses are often much higher than anticipated.	1987	164	Mathur/Jai-Sheng
Factors that influence the decision to form JVs in China are tax holidays for JVs, political stability, limitation on foreign goods imported.	1987	165	Mathur/Jai-Sheng
JVs become feasible when firm specific advantages interact with local specific advantages.	1987	165	Mathur/Jai-Sheng
Operating expenses are higher for JVs than for local companies (wages, raw materials, etc)	1987	165	Mathur/Jai-Sheng
Chinese JV law specifies that the foreign partner has to contribute state of the art technology.	1987	170	Mathur/Jai-Sheng
In general Western firms in China prefer to utilize a level of technology that enhances the JV profit.	1987	170	Mathur/Jai-Sheng
JVs are established in China to service the domestic market, JV products are allowed in Chinese market only in rare cases.	1987	171	Mathur/Jai-Sheng
JV products often compete with foreign partner products directly internationally.	1987	171	Mathur/Jai-Sheng
In traditional Maoist thinking foreign capital exploits China.	1987	172	Mathur/Jai-Sheng
western companies are not sure how long the Chinese political route of pragmatism and moderation will prevail.	1987	172	Mathur/Jai-Sheng
Chinese regulations are not clear and inconsistent, even among JVs.	1987	172	Mathur/Jai-Sheng
Foreign firms will encounter a number of regulatory problems.	1987	173	Mathur/Jai-Sheng
Any licenses and permissions should be assured in the JV contract.	1987	173	Mathur/Jai-Sheng
China does not stick to international rules of copyright and patent laws.	1987	173	Mathur/Jai-Sheng
China does not have a comprehensive commercial code.	1987	174	Mathur/Jai-Sheng
There is a high level of taxes involved when operating in China.	1987	174	Mathur/Jai-Sheng
The Chinese JV law specifies that the president of the venture shall be a Chinese	1987	174	Mathur/Jai-Sheng
It is difficult to assign decision roles to each JV party.	1987	174	Mathur/Jai-Sheng
western compensation and personnel policies are not consonant with Chinese procedures.	1987	174	Mathur/Jai-Sheng
There is a short supply of housing for foreigners.	1987	174	Mathur/Jai-Sheng
Foreign managers require food, entertainment, health, hospitalization care, transportation and	1987	175	Mathur/Jai-Sheng

Problem	Year	Page	Author
communication.			
Access to foreign exchange and profit repatriation procedures should be incorporated in the JV agreement.	1987	175	Mathur/Jai-Sheng
Financial figures are not reliable in China.	1987	176	Mathur/Jai-Sheng
Many Western companies are not making profits in China.	1987	176	Mathur/Jai-Sheng
Many Western companies have not understood what it is the intention of China to form a JV.	1987	176	Mathur/Jai-Sheng
Many Western firms do not pay enough attention to negotiate issues that their Chinese investment makes profit.	1987	176	Mathur/Jai-Sheng
China is more interested to protect its domestic markets when the products and the manufacturing process are not technically complex.	1987	178	Mathur/Jai-Sheng
Many Western companies establish the JV in a haste with very low levels of profitability.	1987	178	Mathur/Jai-Sheng
When providing technology to a JV the assessment of these assets is difficult.	1987	179	Mathur/Jai-Sheng
The foreign partner has to pay a marketing fee to the Chinese partner for selling the products in China.	1987	180	Mathur/Jai-Sheng
Negotiating transfer prices is difficult.	1987	181	Mathur/Jai-Sheng
Chinese firms usually do not have track records with foreign firms.	1987	181	Mathur/Jai-Sheng
JV establishment takes longer than expected and is running late	1987	1	Mathur/Jai-Sheng
Chinese demand Western wage rates for domestic workers	1987	1	Mathur/Jai-Sheng
no motivated workers	1987	2	Mathur/Jai-Sheng
delays in deliveries of supplies	1987	2	Mathur/Jai-Sheng
changing world market prices	1987	2	Mathur/Jai-Sheng
difficult dealings with Chinese partners	1987	2	Mathur/Jai-Sheng
Foreign firms rushed into JVs sighing agreements that were biased against them from the beginning	1987	2	Mathur/Jai-Sheng
western firms overestimate the sizes of the domestic Chinese market	1987	2	Mathur/Jai-Sheng
apparent lack of understanding of Chinese ideology and its perspectives on JVs	1987	2	Mathur/Jai-Sheng
western executives are not fully conversant with China's aspirations, its socialist ideology, its market planning, its pricing mechanisms and its 'four modernisations' program	1987	2	Mathur/Jai-Sheng
Foreign investors are frustrated by high costs, price gouging, tight foreign-exchange controls, limited access to the Chinese market, bureaucratic foot dragging, lack of qualified local personnel and unpredictability	1987	3	Mathur/Jai-Sheng
western firms need to develop a thorough understanding of and appreciation for the Chinese view on ventures	1987	10	Mathur/Jai-Sheng
in the past central planning was effective as economy was simple but it grew more complex and central planning became cumbersome, resulting in inefficiencies.	1987	10	Mathur/Jai-Sheng
western firms that missed the development boon in Asia in the past saw a second chance in the opening China rushing into unviable JVs	1987	12	Mathur/Jai-Sheng
there are two systems of ownership in China: by the whole people and collective type	1987	34	Mathur/Jai-Sheng

Problem	Year	Page	Author
Chinese industrial enterprises lack sufficient power to handle their personnel and financial and material resources and also lacked guidance in their production, procurement of supplies and the marketing of products	1987	50	Mathur/Jai-Sheng
Egalitarianism has been a big problem in China, as worker productivity and cost efficiency were ignored and workers all paid almost the same wages which promoted inefficiency, laziness and general apathy toward work.	1987	51	Mathur/Jai-Sheng
Egalitarianism dampens worker's initiative and hinders the growth in production	1987	51	Mathur/Jai-Sheng
In the past producers and consumers did not contact each other directly	1987	52	Mathur/Jai-Sheng
in the past the enterprises have to turn over all revenues to the state and losses are subsidized by the state. This, the enterprises do not feel any economic responsibility and do not pay attention to economic results.	1987	52	Mathur/Jai-Sheng
capitalist commodity production is established on the basis of private ownership while socialist production is based on the basis of public ownership	1987	53	Mathur/Jai-Sheng
in the past, some enterprises earned profits because of efficient management but others only due to irrational state pricing	1987	62	Mathur/Jai-Sheng
in the past there were no objective criteria to determine the value of a product	1987	68	Mathur/Jai-Sheng
without a being able to determine the profit of an enterprise it is difficult to determine the performance as well	1987	68	Mathur/Jai-Sheng
in the past, the suppression of demand using coupons couldn't restore the equilibrium between supply and demand and in fact, it worsen it	1987	69	Mathur/Jai-Sheng
in the past, the enterprises were not held to be economically responsible for the efficient utilization of the assets and funds	1987	69	Mathur/Jai-Sheng
in the past, the enterprises and their employees made little effort to meet the consumers' demands by reducing costs, improving quality and increasing the variety.	1987	69	Mathur/Jai-Sheng
in the past, the economy was managed by simple administrative directives instead of economic laws	1987	71	Mathur/Jai-Sheng
in the past, the decision who would get a what job was determined by the government officials	1987	77	Mathur/Jai-Sheng
there are fundamental differences between competition under socialism and competition under capitalism	1987	80	Mathur/Jai-Sheng
in the past, many products were subject to unified purchase and guaranteed marketing	1987	92	Mathur/Jai-Sheng
the PRC has undergone many changes in its regulatory framework	1987	121	Mathur/Jai-Sheng
in the past, one of the main problems was that China was not willing to permit the JVs to use scarce foreign exchange	1987	133	Mathur/Jai-Sheng
China emphasizes on relationships with foreign firms and countries based on the principal of "equality and mutual benefit".	1987	134	Mathur/Jai-Sheng
China's history indicates that it has not been always treated on an equal basis	1987	134	Mathur/Jai-Sheng
some in China argued that the open door policy will adversely affect China's economy	1987	135	Mathur/Jai-Sheng
China's history shows that domestic industries were adversely affected by allowing imports	1987	135	Mathur/Jai-Sheng

Problem	Year	Page	Author
today China is prioritizing high technology and technologically complex items following an open door policy without hurting its economy	1987	135	Mathur/Jai-Sheng
China has tremendous need to create employment and suffers from a shortage of capital and technological know-how	1987	136	Mathur/Jai-Sheng
JVs that hold the promise for creating new employment opportunities are given high priority	1987	138	Mathur/Jai-Sheng
JVs that are labour intensive are preferred to be capital intensive ventures, provided that tradeoffs for the technology benefits are reasonable	1987	138	Mathur/Jai-Sheng
JVs that promise to provide new types of training and higher technical development are given priority	1987	138	Mathur/Jai-Sheng
China wants to stem the flow of workers from the real areas and gives tax treatments when JVs establish plants in no urban or agricultural areas.	1987	138	Mathur/Jai-Sheng
JVs that can help to update the infrastructure are eagerly considered, provided China's sovereignty is not damaged	1987	138	Mathur/Jai-Sheng
China is willing to consider JVs that help to develop its natural resources	1987	139	Mathur/Jai-Sheng
China does not subscribe to patent and copyright arrangements and companies are reluctant to sign licensing agreements	1987	139	Mathur/Jai-Sheng
China did not have sufficient foreign exchange or did not have sufficient access to trade channels	1987	140	Mathur/Jai-Sheng
Due to lack of foreign exchange whenever possible, replacement parts were produced domestically.	1987	140	Mathur/Jai-Sheng
in China the prevailing feeling is that items or processes in the public domain should not be patented or copyrighted.	1987	140	Mathur/Jai-Sheng
China's enterprises suffer from inadequate equipment and facilities that have not been updated a long time.	1987	141	Mathur/Jai-Sheng
a foreign firm that focuses on China's open door policy is bound to be disappointed unless it has developed an understanding of China's need for self-reliance.	1987	142	Mathur/Jai-Sheng
China views the open door policy as a mechanism for achieving its social, cultural and economic goals.	1987	142	Mathur/Jai-Sheng
Article 1, P1: specifically mentions the principal of equality and mutual benefit.	1987	144	Mathur/Jai-Sheng
Article 2, P1: is not clear whether it refers to both present as well as future law, foreign parties need to include appropriate protective clauses in their JV agreement	1987	144	Mathur/Jai-Sheng
Article 2, P1: foreign firms are concerned that future laws may not be particularly favourable to their JVs	1987	145	Mathur/Jai-Sheng
Article 2, P1: "other lawful rights and interests" is also subject to interpretation	1987	145	Mathur/Jai-Sheng
A1, P2: implies that the foreigner has to be willing to conform to all of China's rules and regulations	1987	145	Mathur/Jai-Sheng
A3: provides only for the Foreign Investment Commission (FIC) approval or rejection of the JV agreement, in practice the FIC may require modifications in the agreement before the approval.	1987	146	Mathur/Jai-Sheng
A3: ensures the Chinese government that the JV conforms to its ideological, cultural and economic policies.	1987	146	Mathur/Jai-Sheng

Problem	Year	Page	Author
A4P1: a JV has to be a limited liability company, other legal forms such as partnerships are not provided for	1987	146	Mathur/Jai-Sheng
A4P1: China to date does not have a Uniform Commercial Code. Thus, there is a need for including appropriate clauses in the JV agreement.	1987	147	Mathur/Jai-Sheng
A4P1: a lower limit for equity participation by foreign partners is set by 25%	1987	147	Mathur/Jai-Sheng
A4P1: equity participation is not to be confused with effective control of the JV - the Chinese partner will always retain control of the JV	1987	147	Mathur/Jai-Sheng
A4P1: a foreign partner should give serious consideration to a lower level of equity participation as there is less risk in case the JV turns out to be a losing proposition.	1987	147	Mathur/Jai-Sheng
A4P2: does not address the issue of what happens if cumulative losses exceed the partner's equity participation.	1987	147	Mathur/Jai-Sheng
A4P2: all JVs have limited liability and hence in theory losses cannot exceed the equity but in practice the foreign partner may find himself absorbing losses beyond equity participation.	1987	147	Mathur/Jai-Sheng
A4P3: transfer of a JV ownership may not be easy as the Chinese prefer long-term relationships and it may be difficult to accept a new partner	1987	147	Mathur/Jai-Sheng
A4P3: a JV is specific to a foreign partner and thus hindering its transfer to a new partner	1987	148	Mathur/Jai-Sheng
A4P3: JV ownership transfer may not be possible due to approved foreign exchange transfer out of China is specific to a certain partner	1987	148	Mathur/Jai-Sheng
A4 in general: all registered capital has to be issued and the JVL does not address the issue of additional issuance of shares after the JV has started	1987	148	Mathur/Jai-Sheng
A5P1: a foreign partner will be expected to contribute a combination of cash, equipment and technology	1987	148	Mathur/Jai-Sheng
A5P2: there is a conflict between the wording to provision of "truly advanced" and "appropriate" technology.	1987	148	Mathur/Jai-Sheng
A5P2: given China's labour costs, energy resources and need for employment creation, advanced technology simply may not be appropriate.	1987	148	Mathur/Jai-Sheng
A5P2: in no case should the foreign partner seek to contribute obsolete technology. Additionally, only new equipment should be contributed unless specifically agreed	1987	149	Mathur/Jai-Sheng
A5P2: foreign partner that deliberately contribute obsolete or non-appropriate technology are liable for the losses of the JV	1987	149	Mathur/Jai-Sheng
A5P2: foreign partner should safeguard against being penalized for the technology supply by agreeing with the Chinese partner and giving a good rationale for the appropriate technology	1987	149	Mathur/Jai-Sheng
A5P3: JVL has no provision for the sale of land to the JV	1987	149	Mathur/Jai-Sheng
A5P3: the JV can only use the site for the duration of the agreement	1987	149	Mathur/Jai-Sheng
A5P3: an appropriate value needs to be jointly established for the use of the site, if not done properly, the JV may find itself paying rent on it later on.	1987	149	Mathur/Jai-Sheng
A5P4: the value of the site cannot be jointly established. The law implies that the Chinese government is the sole determinant of the value of the use of the site. - Any foreign partner is not going to accept this.	1987	150	Mathur/Jai-Sheng

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A5P4: not only the value of the contributions but also the timetable for making the contributions should be specified.	1987	150	Mathur/Jai-Sheng
A5P4: if possible, a readjustment clause should be included specifying revaluation if contributions are affected by large currency fluctuations.	1987	150	Mathur/Jai-Sheng
A5P4: technology provided by the foreign partner will need to be appropriately valued and capitalised.	1987	150	Mathur/Jai-Sheng
A5P4: capitalized technology value may constitute gains for the foreign partner and may be subject to taxes in its country of domicile.	1987	150	Mathur/Jai-Sheng
A5P4: if there is some potential for additional contributions of technology the foreign partner needs to include an appropriate clause covering the capitalization of additional technology contributed.	1987	150	Mathur/Jai-Sheng
A6P1: irrespective of equity contribution by the foreign partner, the chairman of the JV will be a Chinese and the foreign partner can appoint vice-chairman's	1987	150	Mathur/Jai-Sheng
A6P2: represents the usual Chinese method of arriving at a decisions by consensus rather than majority vote	1987	151	Mathur/Jai-Sheng
A6P2: consensus decisions are a process and involve substation time investment which is a process that quite often proves to be highly frustrating for Western managers	1987	151	Mathur/Jai-Sheng
A6P3: the board of directors has extensive powers to take action on a large number of matters related to the JV	1987	151	Mathur/Jai-Sheng
A6P3: Chinese managers are not used to a system of much discretion on the part of directors. Thus, Chinese directors may have trouble understanding the viewpoints of the foreign directors.	1987	151	Mathur/Jai-Sheng
A6P4: in practice, the Chinese have a strong preference for a Chinese president or GM	1987	151	Mathur/Jai-Sheng
A6P5: China currently does not have a labour law that covers JVs.	1987	151	Mathur/Jai-Sheng
A6P5: typically it is not easy to discharge workers once they have been employed.	1987	151	Mathur/Jai-Sheng
A6P5: All clauses related to labour procedures need to be developed, agreed and should be included in the agreement.	1987	151	Mathur/Jai-Sheng
A7P1: many of the deductions from revenues are subject to Chinese control, some foreign partners are afraid that they will not receive a fair return on their JV contributions	1987	152	Mathur/Jai-Sheng
A7P2: it is not specified what is meant by "up-to-date technology by world standards"	1987	153	Mathur/Jai-Sheng
A7P3: the JVL does not specify the portion of taxes that have to be reinvested to obtain tax restitution	1987	153	Mathur/Jai-Sheng
A8P1: Since China has a shortage of hard currencies, the foreign partner should not assume ready access to hard currencies.	1987	153	Mathur/Jai-Sheng
A8P2: the JVL does not specify the possible situation that a particular type of insurance may not be available from a Chinese insurance company.	1987	154	Mathur/Jai-Sheng
A8P2: It is possible that Chinese insurance rates are not competitive	1987	154	Mathur/Jai-Sheng
A8P2: requires additional appropriate clauses in the JV agreement	1987	154	Mathur/Jai-Sheng
A9P1: the A9 seems to be in conflict with A6 and a foreign partner needs clarification	1987	154	Mathur/Jai-Sheng
A9P1: Western firms are simply not equipped to handle the dealings of the Chinese bureaucracy	1987	154	Mathur/Jai-Sheng

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and the should seek to avoid review by the "authorities concerned".			
A9P2: if a foreign partner chooses to buy from the world market it will find himself expending its own foreign exchange	1987	154	Mathur/Jai-Sheng
A9P2: due to the foreign exchange situation to the extent possible, purchases of inputs should be made in China.	1987	154	Mathur/Jai-Sheng
A7P3: the foreign partner must negotiate the percent of output that can be sold in the domestic market.	1987	155	Mathur/Jai-Sheng
A7P4: the foreign partner needs to negotiate on the issue of competing with the JV in certain non-Chinese markets	1987	155	Mathur/Jai-Sheng
A10P1: the JVL allow the transfer of profits and other stated funds but does not guarantee the availability of foreign exchange for transfer abroad	1987	155	Mathur/Jai-Sheng
A11P1: foreign partners may try to negotiate a clause in the agreement that would place a limit on personal income taxes of their foreign employees.	1987	156	Mathur/Jai-Sheng
A12P1: The Foreign Investment Commission has not published the criteria utilized in deciding or approving JV extension requests.	1987	156	Mathur/Jai-Sheng
A13P1: a JV may be terminated only with the consent of the Chinese partner and after approval of the FIC and registration with the General Administration for Industry and Commerce.	1987	157	Mathur/Jai-Sheng
A13P1: presumably, unilateral termination would be a breach of contract and the partner in question would be responsible for losses.	1987	157	Mathur/Jai-Sheng
A14P1: in case of arbitration, qualitatively, the JV will be subject the Chinese laws	1987	157	Mathur/Jai-Sheng
It is obvious that major issues are not addressed in the JVL and will need to be negotiated until China develops a more comprehensive set of laws and codes	1987	158	Mathur/Jai-Sheng
to start a JV the foreign company needs a thorough understanding of Chinese culture, ideology and economy	1987	158	Mathur/Jai-Sheng
to the extent possible, the foreign partner should negotiate all transactions related to foreign exchange and include them in the JV agreement	1987	159	Mathur/Jai-Sheng
Issues relating to export and import licenses, building permits, excise taxes, custom taxes, stamp taxes and other taxes need to properly be negotiated	1987	159	Mathur/Jai-Sheng
thinly capitalized firms were particularly affected by changes to the business environment and were prone o the risk of bankruptcy.	1987	159	Mathur/Jai-Sheng
there are minimum equity requirements imposed.	1987	159	Mathur/Jai-Sheng
China's relatively low labour costs are attractive but did not fully realize due to the level of worker skills	1987	161	Mathur/Jai-Sheng
many business people are frustrated by high costs	1987	161	Mathur/Jai-Sheng
many business people are frustrated by price gouging	1987	161	Mathur/Jai-Sheng
many business people are frustrated by tight foreign-exchange controls	1987	161	Mathur/Jai-Sheng
many business people are frustrated by bureaucratic foot-dragging	1987	161	Mathur/Jai-Sheng
many business people are frustrated by lack of qualified local personnel	1987	161	Mathur/Jai-Sheng



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many business people are frustrated by unpredictability	1987	161	Mathur/Jai-Sheng
in China, since enterprises are owned by the government, it is not meaningful to distinguish between a Chinese firm and the Chinese government	1987	163	Mathur/Jai-Sheng
private ownership at the corporate level is still in a stage of infancy	1987	163	Mathur/Jai-Sheng
foreign firms contemplating a JV in china are faced with a variety of problems that they do not face in their domestic endeavours.	1987	164	Mathur/Jai-Sheng
The legal environment facing JVs is difficult, esp. for Western manager used to operating in a highly formalised, well-established and deterministic legal environment	1987	164	Mathur/Jai-Sheng
business laws are nonexistent in China	1987	164	Mathur/Jai-Sheng
the rules of the game seem to change periodically	1987	164	Mathur/Jai-Sheng
Language barrier	1987	164	Mathur/Jai-Sheng
Chinese language has nuances that can be interpreted only when one is very familiar with it	1987	164	Mathur/Jai-Sheng
the political environment is quite different from what one would encounter in the Western world.	1987	164	Mathur/Jai-Sheng
communications between China and other countries can be a problem at times	1987	164	Mathur/Jai-Sheng
the expenses of operating an office in China can be higher in Beijing than in Chicago	1987	164	Mathur/Jai-Sheng
JVs utilizing local raw materials need to negotiate the costs so that they are keeping with the world prices	1987	165	Mathur/Jai-Sheng
in the past JV utility rates were significantly higher than to domestic companies	1987	165	Mathur/Jai-Sheng
wages paid by JVs are quite often 5 to 6 times higher than wages paid by domestic firms	1987	166	Mathur/Jai-Sheng
foreign JV partner must maintain its interest in seeking to earn a fair level of profits - failure to do so results in signalling weakness to the potential Chinese partner	1987	166	Mathur/Jai-Sheng
skilled and semi-skilled workers may be in short supply	1987	167	Mathur/Jai-Sheng
foreign firms should be willing to provide appropriate training to upgrade the skill levels of the workers	1987	167	Mathur/Jai-Sheng
China assigns workers to JVs	1987	167	Mathur/Jai-Sheng
China quite often replaces workers after a few years which crease problems for JVs as new workers must be trained all the time	1987	167	Mathur/Jai-Sheng
the foreign partner should generally be willing to utilizes Chinese personnel in areas where local skill levels are appropriate	1987	167	Mathur/Jai-Sheng
the foreign partner needs to negotiate fair wages and needs to include them in the JV agreement	1987	167	Mathur/Jai-Sheng
China does not have much in the way of labour laws as in the case in Western countries	1987	167	Mathur/Jai-Sheng
Chinese workers are provided a level of social benefits that is, in general higher than their Western counterparts	1987	167	Mathur/Jai-Sheng
a foreign firm in China would have to concern itself with a variety of factors related to work conditions and worker benefits	1987	167	Mathur/Jai-Sheng
a foreign firm may be willing to provide a higher level of benefits to recruit and motivate outstanding workers and to achieve a high level of performance	1987	168	Mathur/Jai-Sheng
there are no labour unions and a foreign firm in China should have an appropriate mechanism for	1987	168	Mathur/Jai-Sheng

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monitoring on the job worker satisfaction and providing suitable channels of communications for listening to workers.			
many JV partners come from countries with well established quality control procedures and are used receiving high-quality items	1987	168	Mathur/Jai-Sheng
a steady supply of raw materials is assured if the supplier has sufficient warehouse capacity to smooth out the supply and demand cycles.	1987	168	Mathur/Jai-Sheng
the foreign partner needs to specify the delivery schedules in the materials purchase contracts	1987	168	Mathur/Jai-Sheng
if the availability of imported parts is of critical importance, the foreign partner may insist on an appropriate clause to secure sufficient access to foreign exchange	1987	169	Mathur/Jai-Sheng
China is not yet technologically advanced enough to have firms that would provide parts as well as repair and maintenance services	1987	169	Mathur/Jai-Sheng
the foreign partner must assure a steady supply of repair parts	1987	169	Mathur/Jai-Sheng
the JV itself may choose to establish an expensive maintenance and repair facility and provide appropriate personnel training	1987	169	Mathur/Jai-Sheng
foreign partner needs to assure that there is sufficient power and water	1987	169	Mathur/Jai-Sheng
in the past China has charged JVs considerably more for power and water than Chinese firms	1987	169	Mathur/Jai-Sheng
if the power requirements cannot be met the foreign partner should explore the feasibility of generating its own power. But power generating fuel such as oil and coal should be guaranteed before the start of the JV	1987	169	Mathur/Jai-Sheng
western plant layouts are different and are usually more efficient but not possible to apply in China	1987	170	Mathur/Jai-Sheng
higher operating costs associated with a multi-storey building would have to be accounted for in the JV agreement	1987	170	Mathur/Jai-Sheng
Corporate cultures must be integrated to ensure JV success	1988		Buckley/Casson
High degree of asset specificity leads to risk of hostage taking	1988	1495	Kogut
Uncertainty avoidance of collectivistic cultures is positively correlated with the preference for JVs.	1988		Kogut/Singh
The mindset of Chinese is fuelled by a problematic business history of foreign invaders into China a whole century before funding the PRC	1990	7	Ho
The fields of operation of JVs were developed according to the guidelines established by the Chinese government.	1990	8	Ho
JVs are highly political objects fulfilling strategic objectives of the Chinese government.	1990	11	Ho
JV government requirement/ pressure as a condition of a China market entry.	1990	1480	Teagarden
Bureaucracy leads to a time lag between signing and start up of a JV in China	1990	1492	Teagarden
Strict foreign exchange control in China	1990	1492	Punnett/Yu
Shared/split control (functional division) JVs have a higher success rate.	1990	1492	Shenkar
There is a high structural complexity and environmental diversity in China	1990	1495	Shenkar
In a JV the companies need bargaining power which they gain by contributing resources which are critical to the JV success.	1990	1495	Harrigan/Newman
The Chinese Government wishes to avoid domination of foreign sector enterprise by foreign	1991	163	Pearson

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managers.			
The Chinese Government has leadership established controls to ensure that foreign firms do not turn JV against the goals of the state.	1991	163	Pearson
Formally the decision-making structures in JVs is equal but retains elements of Chinese domination: state authority structures, state economic bureaucracy, labour organization and the party	1991	163	Pearson
There are formal controls designed to avoid foreign managerial dominance as Chinese domination of equity positions, of personnel and welfare positions, the establishment of formally equal management structures.	1991	164	Pearson
There is an informal dynamic that avoid foreign managerial dominance and undermines many of the formal controls.	1991	164	Pearson
There is an external control of the Party that avoids foreign managerial dominance.	1991	164	Pearson
Does shared equity ownership lead to less opportunistic behaviour of partners?	1991	1480	Geringer/Herbert
Very high frequency with government partners in China.	1993	36	Beamish
Use of JVs as a preferred mean of the Chinese government	1993	37	Beamish
High use of JVs with a predetermined duration of the cooperation	1993	37	Beamish
Very small number of autonomously managed JVs in China	1993	39	Beamish
Many intended but only a small number of implemented JVs in China	1993	41	Beamish
Foreign companies have only a minority JV ownership in China	1993	41	Beamish
Very high dissatisfaction of Western companies about JV performance in China	1993	42	Beamish
Desire of the Chinese government to acquire experience in new technologies as a requirement to form a JV	1993	43	Beamish
Persons signing the JV agreement are different from those implementing it.	1993	43	Beamish
High number of very small JVs	1993	43	Beamish
Level of equity ownership is determined by control, tax and political influence aspects	1993	43	Beamish
It takes longer to negotiate JVs in the PRC	1993	43	Beamish
MNCs perceive it as difficult to change the JV contract	1993	43	Beamish
The characteristics of JVs among developing countries are not the same	1993		Beamish
Due to government involvement there are different JV profit expectations	1993	1478	Beamish
Due to government involvement there is a different speed in decision-making	1993	1479	Beamish
Due to government involvement there are different views on employment efficiency	1993	1479	Beamish
Due to 'psychic distance' on investment decisions foreign companies may encounter even more adjustment problems in China than in other developing countries	1993	1479	Beamish
Signed JV agreements may or may not lead to an implementation.	1993	1479	Beamish
There is no correlation between JV stability and JV performance in China	1993	1483	Beamish
Trust may supplant contractual arrangements in Asian cultures	1993	1479	Parkhe
National culture can influence managerial decision-making, leadership style and human resource	1993	470	Puffer

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management			
Cultural distance is significant as a foreign expansion barrier	1993		Larimo
Business processes need to be customized to meet unique cultural systems	1993		Child/Markoczy
differences in decision-making and communication	1993		Child/Markoczy
the Chinese law provides little guidance on which of the JV assets are to be valuated and on what principles	1994	206	Lubamn/Wajnowski
in case of JV termination all parties and authorities involved have a different agenda	1994	207	Lubamn/Wajnowski
most JVs set a limited term of operation	1994	208	Lubamn/Wajnowski
clear grounds for termination need to be set along with clear procedures for dissolution even before the JV contract is signed.	1994	209	Lubamn/Wajnowski
it is unlikely that a dissolution on terms unfavourable to the Chinese party will be approved	1994	209	Lubamn/Wajnowski
the end result of the dissolution process will have to be negotiated before it begins	1994	209	Lubamn/Wajnowski
equity JV in China are governed by a wide variety of national and local legislation	1994	223	
some legislation applies only to foreign investments but not to domestic	1994	223	
Some of the Chinese representatives do not have the authority to negotiate with foreigners	1994	6	Neunuebel
State owned companies do not have the power to do business on their own.	1994	6	Neunuebel
The PRC has no company law	1994	6	Neunuebel
The Chinese groups have their own authority, as a reliable source can only be the institution itself (MOFERT, Bank, etc)	1994	7	Neunuebel
Business titles can be misleading in China and do not imply legal authority.	1994	7	Neunuebel
Officials of local and central government can change any time.	1994	7	Neunuebel
Power can depend on official position but also on unofficial connections.	1994	7	Neunuebel
Decision makers have not necessarily the proper knowledge about the decision they are making	1994	7	Neunuebel
People with highest official or unofficial power do not have necessarily the power to negotiate and sign contracts	1994	7	Neunuebel
All kind of legal documents can only be trusted when they are chopped and notarized.	1994	7	Neunuebel
Bureaucracy leads to very long approval times.	1994	8	Neunuebel
Even the LOI is legally not binding it is the basis for Chinese party approval of the project.	1994	8	Neunuebel
The feasibility study can be used as a basis for approval consideration of the MOFERT can is not just a formality.	1994	9	Neunuebel
Some Chinese suppliers may insist on foreign exchange as payment which can bring the foreign exchange balance of the JV in problems leading to pressure to export.	1994	9	Neunuebel
Reliable supply contracts of raw materials can be crucial for the operation of the JV	1994	10	Neunuebel
Verbal promises of authorities cannot be taken as a guarantee	1994	10	Neunuebel
Chinese companies usually do not see the need to invest into marketing.	1994	10	Neunuebel
There is a lot more manpower needed in China for start-up, training, engineering and checking.	1994	10	Neunuebel
There are a lot of cultural misconceptions on the Western side about the Chinese	1994	11	Neunuebel

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When Chinese proclaim mutual benefit it doesn't mean equal benefit.	1994	11	Neunuebel
Contracts can be enforced and interpreted differently from location to location within China.	1994	13	Neunuebel
Chinese managers are not focused on profitability.	1994	14	Neunuebel
Chinese managers have very little experience in international business	1994	14	Neunuebel
Decision-making on the Chinese side is either done through consensus or direct order from above.	1994	14	Neunuebel
The Chinese negotiator has not the freedom to change his position during the negotiation	1994	14	Neunuebel
Chinese negotiators can show emotional outbursts	1994	14	Neunuebel
Real reasons are hardly given, usually there is always a hidden Chinese agenda	1994	14	Neunuebel
The Chinese do not know how a modern company functions	1994	15	Neunuebel
The Chinese have the tendency to force the JV into the Chinese socialist business structure	1994	15	Neunuebel
The longer the Western negotiators are away the costlier it becomes and the pressure for success increases.	1994	15	Neunuebel
Chinese have the tendency to discuss minor things in detail while crucial issues get insufficient attention.	1994	15	Neunuebel
Chinese try to avoid to discuss sensitive issues at all costs	1994	15	Neunuebel
Unofficial negotiations seem to be very important as the official negotiations seem to be a means to fulfil a certain role.	1994	16	Neunuebel
Foreign companies should not expect to receive any information which is not in the best interest of the PRC party.	1994	16	Neunuebel
Foreign companies must research potential partners on their own and should not rely on the government.	1994	17	Neunuebel
Clarification of JV goals are very important, it should be evaluated if differing goals can be balanced or not at an early stage.	1994	17	Neunuebel
Chinese negotiators want to control the agenda, using it for their advantage coming up with surprises etc.	1994	15	Neunuebel
to avoid misunderstandings all contracts must be carefully translated in both languages	1994	32	Claydon Gescher
The Chinese representative must be legally be authorised to sign and represent the company, otherwise contracts will be void.	1994	21	Claydon Gescher
Not all businesses do have a business license and hence can conclude a valid contract	1994		Claydon Gescher
new legislations might be introduced which can a negatively effect for the JV	1994	22	Claydon Gescher
Chinese companies do not necessarily have all approval certificates necessary for general operations or to obtain a special status	1994	23	Claydon Gescher
the purpose of the JV must be clearly defined but also leave enough room for adoptions	1994	33	Claydon Gescher
commitments as productions scales should be avoided as these are factors outside the control of the JV and can be turned into guarantees	1994	25	Claydon Gescher
problem of clear definition of the responsibilities of the parties	1994	26	Claydon Gescher
contract breaches must be defined, esp. material breaches	1994	29	Claydon Gescher

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clear terminations reasons and termination procedures are not defined	1994	30	Claydon Gescher
standard contracts of the authorities (e.g. MOFERT) are not sufficient to protect interests of foreigners	1994	29	Claydon Gescher
JVs are build for a predefined time only	1994	30	Claydon Gescher
settlement times of disputes must be limited to avoid dragging on	1994	32	Claydon Gescher
There are a number of different approvals and requirements are necessary for the JV approval. Without having all of those completed the JV cannot start.	1994	50	Randt
The project proposal is more than just a proposal and should include all fundamental business aspects and special status applied for.	1994	50	Randt
The approval authorities issue the documents to the Chinese side, the foreign company will have to insist to see them.	1994	50	Randt
There is a wide range of materials required for the JV approval, all must be completed, otherwise the approval will be delayed.	1994	50	Randt
Statutory requirements must be considered for a benefit application or special status.	1994	50	Randt
Often, the proportion of capital contribution is not related to the business needs.	1994	66	Dennis
Value contribution of foreigners is limited to by certain categories, e.g. IP contribution	1994	66	Dennis
The Chinese partner will push that the foreigner contributes all assets at once and not structured to the business needs.	1994	66	Dennis
The capital contribution needs to meet the ration requirements for equity to debt.	1994	66	Dennis
The valuation of JV contributions is very difficult and problematic.	1994	66	Dennis
JV contribution must be structured to the business and financial requirement needs.	1994	66	Dennis
the contributions of the foreigner must be on time, otherwise the JV can be voided	1994	66	Dennis
It must be verified that a Chinese guarantor is authorised and that the guarantee is within the limits permitted.	1994	66	Dennis
If borrowings are guaranteed by a Chinese guarantor there will be many formalities to be complied with by both sides.	1994	66	Dennis
The JV must comply with the debt registration procedures if borrowings come from abroad.	1994	66	Dennis
Often the Chinese party has not a proper title for land contribution.	1994	80	Ho/Chan
All land titles and documents need to be checked and be in order before the land can be transferred as JV asset.	1994	80	Ho/Chan
The validation of land and buildings contributed to the JV is very difficult and needs independent review.	1994	80	Ho/Chan
It must be ensured that there will be enough land available for JV expansion at a later stage.	1994	80	Ho/Chan
The land transfer procedures are tedious and have to be kept, fees paid, etc before land acquisition.	1994	80	Ho/Chan
One needs to know the government incentive conditions well to eventually reduce land use fees.	1994	80	Ho/Chan
The Chinese design institute needs to be engaged for the design of the building.	1994	80	Ho/Chan
Before finalisation of the construction plans the building requirements need to be better discussed	1994	80	Ho/Chan

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with the relevant authorities.			
Foreign exchange self-sufficiency is the policy of the Chinese government for foreign investment enterprises.	1994	92	Jones
If a company needs foreign exchange the government will ask the company to do export business which might not be in the interest of the foreign partner.	1994	92	Jones
foreign exchange pricing for direct domestic sales is restricted in use.	1994	92	Jones
if there might be foreign exchange difficulties the JV needs to make applications immediately, otherwise the JV application status will be rejected.	1994	92	Jones
Purchase of local products for export is difficult as those will be most likely exported already.	1994	92	Jones
Reinvestment of local currency will not help to finance foreign exchange difficulties.	1994	92	Jones
Tax planning in China is vital and needs to be planned from the early start	1994	107	Zee/Ho
there are great differences on the taxation depending on the nature of business and its location.	1994	107	Zee/Ho
Taxes can be waived under certain circumstances	1994	107	Zee/Ho
offered local tax benefits are not always legal and in line with the central government	1994	107	Zee/Ho
there are lots of exemptions on taxation on imports for JVs	1994	107	Zee/Ho
transfer pricing is subject to the scrutiny of the tax authorities	1994	107	Zee/Ho
a reliable accounting system needs to be established before the start of the JV	1994	119	Shum
Supplementary accounts need to be prepared for accounting principles not matching the international standard	1994	119	Shum
the legitimacy of all economic operations and related vouchers need to be checked	1994	119	Shum
conservatism is not a principle used in Chinese accounting	1994	119	Shum
disclosure of accounting requirements is inadequate in some areas	1994	119	Shum
Chinese JV partners are often not willing to pay for international accounting firms	1994	119	Shum
It is common that the Chinese partner will bring more workers into the JV than needed	1994	133	Bath
Worker recruitment outside the local area is expensive and time consuming.	1994	133	Bath
Labour bureaus are supposed to help to recruit worker but in reality they dictate the conditions and charge extra fees for workers outside the local area.	1994	133	Bath
Fees have to be paid to current workers and pay for training when recruiting workers outside the local area.	1994	133	Bath
It is very difficult to find trained and qualified staff and even more difficult to keep it.	1994	133	Bath
Chinese partners are most of the time not willing to pay for foreign technicians.	1994	133	Bath
Dismissing workers is difficult, grounds need to set in the labour contract and employee handbook.	1994	133	Bath
Labour contracts are an issue of discussions and should be agreed by the time of the JV contract.	1994	133	Bath
A significant amount of the wages is underestimated as the JV will have to pay for subsidies, housing, insurances etc.	1994	133	Bath
Payment of the GM is a difficult matter and needs to be agreed in the JV contract.	1994	133	Bath
It must be clearly defined which partner nominates what personnel for management posts.	1994	133	Bath

Problem	Year	Page	Author
The roles and responsibilities of the GM and his deputy need to be clearly defined.	1994	133	Bath
Often the deputy GM must agree on all decisions of the GM which leads to a number of conflicts.	1994	133	Bath
Board of director nominations of GM and deputy GM lead to a lot of conflict.	1994	133	Bath
Different understanding of technology "license" and technology "transfer"	1994	135	Kay
Know-how JV contribution is restricted to 20% of the total contribution.	1994	138	Kay
Know-how contribution needs to be individually itemized in the asset description	1994	138	Kay
technology licensing is difficult in China and limited to 10 years	1994	139	Kay
Technology agreements should be part of the JV agreement and not produced at a later stage	1994	140	Kay
Approval authorities don't like the idea of technology contribution and royalty generator at the same time, even there is no law.	1994	140	Kay
Chinese are reluctant to accept royalty payments based on production, they prefer lump sums.	1994	140	Kay
The PRC law excludes "unreasonable restrictive" terms on the technology recipient.	1994	141	Kay
PRC law requires broad guarantees from technology providers to be the rightful owners	1994	142	Kay
PRC law requires that the technology provider warrants that the technology is complete, correct, effective and capable to accomplish the targets of the contract.	1994	142	Kay
Concerns of technology know-how protection.	1994	143	Kay
it is difficult to obtain confidentiality obligation agreements exceeding the term of the license	1994	144	Kay
companies need to consider that their technology gets illegally transferred.	1994	145	Kay
trademark protection is only effective when the trademarks are registered in China	1994	146	Kay
there is no restriction using trademarks when they are not registered in China	1994	146	Kay
companies must expect that their trademarks get infringed	1994	147	Kay
foreign companies need to engage an agent for trademark infringements as they are not allowed to approach AIC directly.	1994	148	Kay
Quality control standards and inspections must be implemented to make sure that the quality is not impaired.	1994	150	Kay
training programmes, technical assistance and requirements of trainees need to be part of the technology agreement	1994	150	Kay
Problems of proper storage of goods.	1994	156	Riley
Inaccurate reports are common.	1994	156	Riley
High waste levels are common	1994	155	Riley
Accounting inaccuracies are common	1994	156	Riley
Back-door sales of workers are common	1994	156	Riley
High staff turnover is common and may lead to quality problems and extra costs	1994	157	Riley
Inaccurate calculation of manufacturing costs and hence, inaccurate profit pricing and profits	1994	157	Riley
Expect a slow growth in domestic sales	1994	157	Riley
Expect problems and competition by copy products	1994	158	Riley
Expect that the Chinese JV partner has a weak distribution network	1994	158	Riley



Problem	Year	Page	Author
purchase prices are regulated in China , wrongdoings can be penalised	1994	159	Riley
Copy products are damaging the reputation	1994	158	Riley
Problems are not openly addressed and discussed.	1994	158	Riley
The price control regulations differentiate between there types of prices: state stipulated price, state guided price, market adjusted price	1994	159	Riley
There is a list of commodities subject to price control and drawn up locally.	1994	159	Riley
Prices are supposedly treated as 'state secret'	1994	159	Riley
The price control regulation specify that prices must be reasonable, must include average production costs, tax, distribution costs, profits, wholesale margins, etc	1994	160	Riley
the foreign partner has to accept the representative of the Chinese Communist Party	1994	160	Riley
Accounting procedures are difficult to understand	1994	160	Riley
the role of the accountants as a reporting ("statistical reporting") arm to the government party is unclear	1994	160	Riley
Most JVs do not know that there are standardization law implementing regulations	1994	161	Riley
non compliance with the standardization law will be penalised	1994	162	Riley
the standardisation law is split into national standards, industry standards, local and enterprise standards	1994	163	Riley
there is a differentiation between mandatory and advisory standards, if mandatory standards are not met, production, sales and import is prohibited.	1994	164	Riley
the product liability cases against JVs are increasing	1994	164	Riley
Some provinces require insurances to cover malfunction in industrial accidents but the exact terms and conditions of these insurances are not clear.	1994	165	Riley
Advertising to controlled and regulated in China and must be approved before used.	1994	167	Riley
advertising has increased a lot in china and became more expensive	1994	167	Riley
good advertising spots can only be obtained when paying foreign currency	1994	167	Riley
promotion takes largely place through industry groups	1994	168	Riley
traditional state-owned companies did not have any contact to their customers until 1985	1994	168	Riley
Quota sales at fixed state prices were still common long after 1985	1994	168	Riley
Chinese JV partners produce outdated products most of the time	1994	168	Riley
Higher prices can be achieved domestically but the price level is lower on international markets to get foreign exchange the prices will be lower internationally but companies might be facing dumping allegations.	1994	169	Riley
State subsidized raw material prices can allow competitors to produce cheaper	1994	169	Riley
Costs involved to obtain export licences and quality control permit are higher than expected.	1994	169	Riley
Pricing and marketability of export business is determined by many unforeseen factors	1994	169	Riley
Constant source of friction are accounting differences and lax accounting practices.	1994	169	Riley
As soon as products sell well there will be lots of competition in China	1994	169	Riley

Problem	Year	Page	Author
export sales are considered vital by the Chinese side, Western partner cannot neglect them	1994	170	Riley
the number of Chinese population doesn't reflect the number of potential customers	1994	170	Riley
the Chinese market is restricted and complicated by poor distribution channels and inadequate transport	1994	170	Riley
one needs creative solutions to overcome the deficiencies of the market and system	1994	170	Riley
one should expect problems in the area of production delays	1994	170	Riley
one should expect problems in the area of high wastage levels	1994	170	Riley
one should expect problems in the area of unforeseen costs	1994	170	Riley
one should expect problems in the area of unreliable supplies	1994	170	Riley
prepare to meet regulatory restrictions such as pricing controls that may affect the JVs ability to market its products	1994	170	Riley
the JV needs to clarify all standardisation requirements on technical and quality level for all products	1994	170	Riley
foreign investment enterprises are lucrative targets for product liability law suites	1994	170	Riley
all duties and responsibilities regarding environmental protection need to be specified and documented in the contract	1994	171	Silk/Ross
technology and equipment imported is required to be non- or low polluting	1994	171	Silk/Ross
Environmental impact reviews can be ordered before building a new plant, checking if state regulations are kept	1994	171	Silk/Ross
Local authorities may not approve construction projects before the environmental impact review has been approved.	1994	172	Silk/Ross
Some banks require prior approval of the local authorities before they approve loans	1994	172	Silk/Ross
because of the environmental impact review approval some minor authorities become players in the investment approval process although their influence was meant to be subordinate to main authorities	1994	172	Silk/Ross
the approval of construction projects can be depend on other constructions planned in the same area	1994	172	Silk/Ross
it is possible that JVs will have to provide scientific data for the environment safety	1994	173	Silk/Ross
provision of scientific safety data might compromise the proprietary technology of the foreigner	1994	173	Silk/Ross
environmental compliance issues are often settled among ethnical Chinese with guanxi	1994	173	Silk/Ross
the Chinese JV might have poor records on regulatory compliance	1994	173	Silk/Ross
potential pollution will cause delay in construction until suitable "compensation" will be paid	1994	177	Silk/Ross
Enterprises in foreign economic development zones are required to obtain air and water discharge permits	1994	178	Silk/Ross
the environmental protection of JVs is more closely monitored than Chinese companies	1994	178	Silk/Ross
high fees will have to paid in case the pollution is higher than in the respective permits	1994	178	Silk/Ross
Chinese companies are privileged to convert fees due to pollution into a low-interest rate environmental loan facility	1994	178	Silk/Ross

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there are many unforeseen environmental compliance requirements	1994	179	Silk/Ross
ideally a JV imposes they highest environmental standards of the most stringent countries	1994	179	Silk/Ross
the JV contract need to contain a section on pollution control and responsibilities	1994	179	Silk/Ross
there are many reporting and approval requirements for environmental compliance which need to treated seriously.	1994	179	Silk/Ross
JVs need to factor in possible compensation costs for potential damage from neighbours.	1994	179	Silk/Ross
Foreigners need to expect to have to reveal confidential information to authorities.	1994	179	Silk/Ross
JVs need to expect disputes, and prepare dispute settlement clauses	1994	181	Moser
disputes cannot be settled under a foreign jurisdiction under Chinese law	1994	181	Moser
Disputes must be settled through "friendly negotiations" and hence, through extra juridical means	1994	181	Moser
Often the JV parties have a hard time to agree on the dispute settlement procedures	1994	181	Moser
foreigners are afraid of a bias Chinese court	1994	182	Moser
Chinese are afraid of a Western courts	1994	182	Moser
there is only a few juridical Chinese personnel familiar with settling JV cases	1994	182	Moser
Chinese judicial procedures are slow, court proceedings can be lengthy and expensive	1994	182	Moser
Because of the Chinese courts and procedures arbitration is the preferred mechanisms for settling disputes	1994	182	Moser
Chinese companies are extremely reluctant to agree on arbitration outside China, even it is legally possible	1994	182	Moser
Foreigners are usually left with the choice to have an arbitration in China or agree to the Chinese jurisdiction	1994	182	Moser
the Chinese requirement to settle disputes by friendly negotiations is a very broad and language term and it is unclear what are the measures to be taken to fulfil that before going to court	1994	184	Moser
the Chinese requirement to settle disputes by friendly negotiations is a very broad and language term and potentially allows the parties to delay the arbitral proceedings	1994	184	Moser
Arbitration fees can be substantial and must be paid by the foreigners in USD	1994	186	Moser
Arbitration hearing and language is Chinese, the counsellor of the foreign party must be fully capable of bilingual representation.	1994	187	Moser
There is a distinctive Chinese approach to arbitration with special importance to mediation which is reasonable in theory only.	1994	187	Moser
Arbitration tribunal will apply Chinese law to JV contracts	1994	187	Moser
the PRC courts are bound to enforce a CIETAC award in theory but in practice some foreign parties have encountered difficulties in enforcing against Chinese parties	1994	188	Moser
Problems can arise when the governing law of the JV contracts in not specified	1994	189	Moser
Problems can arise when the place of arbitration is not specified	1994	189	Moser
under China's domestic arbitration, most arbitration awards are not final and may be appealed to the courts	1994	191	Moser

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Changes in government policies can change the market	1994	197	Lubamn/Wajnowski
market problems due to fixed export / domestic sales ratios	1994	197	Lubamn/Wajnowski
Loose of trust among the partners might lead to dissolution of the JV	1994	198	Lubamn/Wajnowski
Liquidation of JVs is often not in the interest of the government	1994	198	Lubamn/Wajnowski
in liquidation partners tend to overestimate the value of their share	1994	198	Lubamn/Wajnowski
Operations can be paralysed by failure to agree on major issues	1994	198	Lubamn/Wajnowski
Mistrust of accountants hired to assess company share values	1994	199	Lubamn/Wajnowski
JV dissolution will make partners unhappy and can raise serious legal and financial problems	1994	199	Lubamn/Wajnowski
the legal framework for JV dissolution is inadequate and incomplete	1994	199	Lubamn/Wajnowski
the rules govern the termination, liquidation and dissolution of JVs are far less developed than the legislative and regulatory framework for creation and operation of JVs	1994	199	Lubamn/Wajnowski
due to the lack of legal framework there is a high dependency on the discretion of the officials	1994	199	Lubamn/Wajnowski
it is almost impossible to terminate a JV without consent of all the partners	1994	199	Lubamn/Wajnowski
for JV dissolution the consent of the department in charge is necessary - which will usually only agree if the termination is its own and the Chinese partners best interest	1994	199	Lubamn/Wajnowski
Chinese foreign investment approval authorities must give their consent for the dissolution of the JV	1994	199	Lubamn/Wajnowski
the foreigner has limited negotiation leverage when it comes to JV dissolution as a veto power	1994	199	Lubamn/Wajnowski
often the topic of JV dissolution is not properly discussed during the JV negotiations	1994	200	Lubamn/Wajnowski
the JV law 5 reasons for dissolution but the reasons are not clearly defined	1994	200	Lubamn/Wajnowski
due to the unfavourable position of the foreigner under liquidation of the JV it is quite likely that the Chinese partner will attempt to acquire the assets with a considerable discount	1994	201	Lubamn/Wajnowski
it is important to define the basis for the valuation of the assets in case the JV gets dissolved	1994	201	Lubamn/Wajnowski
handling of insolvent companies is poorly defined by the Chinese law.	1994	201	Lubamn/Wajnowski
the Chinese insolvency law does not apply to foreign investments	1994	202	Lubamn/Wajnowski
it is unlikely that the liquidation process can begin and come to an amicable agreement without deciding in advance the terms of agreement.	1994	203	Lubamn/Wajnowski
the cellular structure of the Chinese bureaucracy makes it extremely difficult for one ministry to force a decision on another	1994	205	Lubamn/Wajnowski
in case of a JV dissolution the Chinese authority will prefer that the foreign party finds another Chinese partner	1994	206	Lubamn/Wajnowski
JVs are a mix of partners who cooperate and compete simultaneously.	1994		Yan/Gray
Bargaining power of the partners shape the management control	1994		Yan/Gray
Parent control is a critical factor that determines the JV performance	1994		Yan/Gray
Longitudinal studies are underrepresented in JV research	1994		Yan/Gray
Most research concentrates on the perspective of the partner of the developed country and excludes the views of the developing country partner	1994	320	Yan/Gray
Dynamic aspects of JV are largely ignored in research	1994		Yan/Gray

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Little is known about the relationship among bargaining power, control and performance of JVs in China	1994		Yan/Gray
In-depth empirical research on the management and organizational issues on Sino-Western JVs has been limited.	1994		Yan/Gray
Conceptualization of JV control is problematic because two or more parents may influence the ventures activities	1994		Yan/Gray
The Chinese government assigned JV partners in the past, leaving the Western company with no alternative.	1994		Yan/Gray
Chinese firms contribute especially in the area of dealing with local government and institutional infrastructure	1994		Yan/Gray
Foreign firms contribute especially in the areas of technology and global support.	1994		Yan/Gray
considerable differences in the JV objectives of the partners	1994	35	Yan/Gray
Chinese companies want to upgrade technology and earn foreign exchange while US companies are interested in local market and profit generation.	1994	34	Yan/Gray
JV managers don't represent the partnership but rather act as the representative of the parent firm.	1994	37	Yan/Gray
The partner who gains more bargaining power during the negotiations will exercise more control in the venture	1994	39	Yan/Gray
changes in the ventures local government environment can trigger structural reconfigurations in the JV.	1994	34	Yan/Gray
The foreign partner will have to make continuing commitments of resources to maintain the original balance of bargaining power	1994	34	Yan/Gray
JV control is a long-term issue which leads to continuing renegotiations	1994	34	Yan/Gray
western individualism versus Chinese Collectivism	1994		Earley
the concept of a "limited liability" company is not clearly defined in the Chinese jurisdiction	1994	22	Claydon Gescher
Chinese directors have different personal objectives (e.g. public image) compared with Western directors.	1995	104	Chen
Chinese want to integrate the whole SOE within JVs and not only the performing parts of the SOE	1995	105	Chen
Chinese ministries fear loss of control, especially in important industry sectors.	1995	105	Chen
Chinese directors are not keen to work with foreign companies as they are anxious about losing power.	1995	105	Chen
One company might have two kind of remuneration systems.	1995	105	Chen
Subcontractors become competitors after receiving training, technology and equipment	1995	120	Chen
Chinese directors are proud and want to internationalize without the help of foreigners	1995	121	Chen
Managing culture differences	1995	56	Wilkof/Brown/Selsky
It is questionable whether research findings from Western countries can applied to the Chinese settling	1995	57	Yan/Gray
JVs involve a "double layered acculturation": 2 companies in foreign national culture	1996		Barkema/Bell/Pennings
Alliances are unstable and transitional in nature	1997	50	Inkpen/Beamish

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Among alliance types JVs are vulnerable to unintended transfer of knowledge and know-how	1997	53	Hennart/Reddy
a positive reputation can lessen fears of moral hazard and adverse selection and is positively related to alliance outcomes.	1997	54	Saxton
a prior relationship is positively related to alliance outcomes	1997	54	Saxton
Shared decision-making is positively related to alliance outcomes.	1997	54	Saxton
Similarities between partners are positively related to alliance outcomes.	1997	55	Saxton
A positive reputation reduced the perceived likelihood of defection in a gamer-theoretic perspective.	1997	128	Dollinger/Golden/Saxton
A positive reputation reduced transaction costs.	1997	128	Dollinger/Golden/Saxton
A positive reputation is an indicator of the firm's overall effectiveness.	1997	128	Dollinger/Golden/Saxton
Commitment of employees is based on cultural values	1997	8	Dunning/Bansal
Individualistic cultures have technological advantages, collectivistic cultures advantages in workforce organisation and relationship establishments	1997	14	Dunning/Bansal
Chinese tendency to conclude business deals without feasibility studies or contracts	1997	30	Cheng
Building long-lasting relationships is key in China	1997	30	Cheng
Firms rush into alliances without adequate preparation or understanding of partner's needs	1997	4	Dacin/Hitt/Levitas
Partner selection is the most important and difficult part in forming international alliances	1997	5	Dacin/Hitt/Levitas
Firms based in different countries have largely different criteria in selecting partners	1997	5	Dacin/Hitt/Levitas
Firms based in different countries seek different benefits from the alliance	1997	5	Dacin/Hitt/Levitas
It is more difficult to find a compatible partner in international JVs than in national ones	1997	5	Dacin/Hitt/Levitas
Cultural heritage has been found to have a strong effect on executives strategic orientations	1997	6	Dacin/Hitt/Levitas
National culture differences form different managerial ideologies	1997	6	Dacin/Hitt/Levitas
Differences in the level of economic development can produce differences in alliance motives	1997	6	Dacin/Hitt/Levitas
Differences in government support and foreign investment policies can influence the alliance process	1997	7	Dacin/Hitt/Levitas
High fixed asset investment might lead to hostage situation	1997	7	Dacin/Hitt/Levitas
It is difficult to assess a potential partner's intention	1997	7	Dacin/Hitt/Levitas
US managers place heavy emphasis on the financial assets and intangibles of a partner while Korean partners look for technical capabilities and learning motives	1997	13	Dacin/Hitt/Levitas
US firms concentrate on their firms benefit and less on the partners benefit.	1997	13	Dacin/Hitt/Levitas
Companies have to expect differences in the objectives of the partners to form an alliance	1997	14	Dacin/Hitt/Levitas
To be successful over time both partners must achieve their objectives	1997	14	Dacin/Hitt/Levitas
Building an effective working relationship and trust is very important.	1997	14	Dacin/Hitt/Levitas
Opportunistic behaviour of partners	1998	259	Das/Teng
A balance of trust and control is needed for alliance	1998	256	Das/Teng
Control mechanisms and trust building are costly for organizations.	1998	256	Das/Teng
Alliance specific investments are often non-recoverable	1998	258	Das/Teng
the more alliance specific the investments the more risk for the firms	1998	258	Das/Teng

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among alliance types JVs require the highest level of alliance specific investment	1998		Das/Teng
JVs require a higher level of interfere embeddedness	1998	53	Das/Teng
JVs have a higher possibility of opportunistic resource transfer	1998	46	Das/Teng
JVs require a high level of confidence in partner cooperation	1998	48	Das/Teng
Formal control mechanisms undermine the level of trust among JV partners	1998	51	Das/Teng
Social control (a system of shared values and norms) mechanism enhance the level of trust among JV partners	1998	49	Das/Teng
the level of trust influences the level of control positively	1998	50	Das/Teng
western confrontation versus Chinese accommodation	1998		Morris <i>et al.</i>
Main Chinese government objectives to form JVs are absorbing foreign capital, technology and management techniques.	1999	VII	Riley
During the 1980 there was an euphoria when every Western company had to have a JV in China.	1999	VII	Riley
There are many difficulties to match corporate cultures, especially Western and Chinese including the Chinese government's own culture	1999	VII	Riley
Guidelines usually all favour the Chinese party, the Western company needs competent legal advice.	1999	VII	Riley
Even the letter of intent is supposedly non binding but it comes with considerable moral power attached.	1999	VIII	Riley
The feasibility study has quasi binding authority and is often prepared by the Chinese party only.	1999	VIII	Riley
Certain provisions in the contract are mandatory like inclusion of Chinese insurer, trade union, etc	1999	VIII	Riley
Chinese language is the governing language of the contract, at best it is possible to have both languages equal effect.	1999	VIII	Riley
The personality of foreign managers is very important in the JV negotiation and operation process.	1999	IX	Riley
Chinese assets are routinely over-valued and foreign assets under-valued.	1999	IX	Riley
the Chinese legal system is very much a system of law with Chinese characteristics	1999	1	Riley
to really understand Chinese law one has to understand Chinese society	1999	1	Riley
the Chinese legal system is under development and constant changes	1999	1	Riley
it is not possible to comment accurately on the Chinese legal system due to the constant changes	1999	1	Riley
high quality legislation is produced well ahead of it assimilation	1999	1	Riley
reading the law alone once concludes that the legal system is soundly based	1999	1	Riley
looking at the enforcement of the law alone one concludes that the legal system is poorly assimilated	1999	1	Riley
everyday events take longer in China	1999	2	Riley
many ordinary activities involve interactions with people who expect gifts	1999	2	Riley
China is full of red tape	1999	2	Riley
a multitude of approvals must be obtained to accomplish many ordinary things	1999	2	Riley
the Chinese approval system slows things down	1999	2	Riley

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government officials view approvals as a useful means to collect information	1999	2	Riley
granting approvals confirms the power and authority of the government on a daily basis	1999	2	Riley
managers should get to know the authorities and remain on good terms with them	1999	2	Riley
officials get credit for reporting success to their senior authorities	1999	2	Riley
there are international expectations how to do business in China	1999	3	Riley
nobody seems to be able to describe Chinese society convincingly and much less the legal system	1999	3	Riley
the Chinese themselves sometimes interpret laws and regulations differently	1999	4	Riley
Chinese people have no long history of trust and respect for the law	1999	8	Riley
JV directors are exposed to liability when there is no one else to be held liable	1999	9	Riley
JV directors must make sure that a detailed a clear system of allocating responsibility and being followed	1999	9	Riley
under the company law, all other Chinese laws and regulations must be observed	1999	10	Riley
directors are responsible on paper but in fact are frequently away from the company and may find themselves liable for the decisions taken by the day-to-day management	1999	11	Riley
the company handbook must be filled out very carefully as it can help to reduce liability	1999	11	Riley
a company in China is only permitted to engage in activities stipulated on its business license	1999	13	Riley
land use rights are issued under terms consistent with the company's scope of business as stated on the business license	1999	14	Riley
China generally suffers from contradictory concerns of ensuring broad employment and workers safety	1999	18	Riley
director responsibilities can be delegated but must be in writing, clear and must contain scope of details	1999	21	Riley
in order to avoid liability for employee complains, directors must know the legal requirements	1999		Riley
liability is created or implied under hundreds of administrative regulations governing workplace and employees supervision	1999	21	Riley
there are many local employees safety regulations and must be identified separately in each province and for each major city in China	1999	21	Riley
companies must keep good records of safety and compliance with quality regulations, maintenance procedures, environmental standards and testing of workplace regulations in case of accident liabilities	1999	22	Riley
even employees wilfully disregard safety procedures the company must provide better supervision	1999	22	Riley
due to the communist tradition there is a very wide and broad obligation to supervise employees	1999	24	Riley
a foreign director is at disadvantage in China as it is difficult to learn and keep up with all the rules that the company might be subject to	1999	25	Riley
expectations of Chinese workers may range from a sort of child-like helplessness to an ingrained animosity at supposed imperialist foreign practices	1999	25	Riley
prior to the establishment of any industrial project and environment impact report must be prepared and filed with the Chinese authorities	1999	26	Riley



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Chinese authorities have the legal authority to impose criminal liability for certain violations of environmental regulations and impose high charges	1999	27	Riley
unauthorised conversion from farm land to non-farm use and other environmental violations are considered as criminal acts and can include up to 5 years imprisonment	1999	27	Riley
when a party established an enterprise on land which was formerly farmland during may 97 and may 98 that party committed a criminal offence	1999	27	Riley
payments returned to the polluters as grants fro the development of pollution abatement programs are typically for Chinese companies only	1999	28	Riley
there is a national environmental legislation but local standards differ from place to place	1999	28	Riley
at the time of the establishment of the JV discharges must be disclosed in an environmental impact report	1999	28	Riley
appropriate pollution control installations should be build into the project during the initial design and construction of the project facilities	1999	29	Riley
environmental rules on certain issues are not well spelled out	1999	30	Riley
JVs need emission permits of all kind of discharges	1999	30	Riley
depending on the industry environmental requirements differ from large new projects, medium-sized new projects, small and older projects	1999	32	Riley
government has the expectation to make better funded enterprises to take on clean-up obligations	1999	32	Riley
uneven pollution law enforcement is a common practice in China	1999	32	Riley
a JV can get easily a target when a clean-up campaign is declared	1999	33	Riley
foreign investors are seen as having deep pockets in the eyes of the government	1999	33	Riley
the technology supplier may not impose unnecessarily restrictive requirements on the recipient of the technology	1999	42	Riley
the technology supplier may not require the recipient to purchase unnecessary technology along with the subject technology	1999	42	Riley
the technology supplier may not require the recipient to purchase technical services other than theses requested or needed by the recipient	1999	42	Riley
the technology supplier may not request the purchase of special raw materials not wanted by the recipient	1999	42	Riley
the technology supplier may not require the recipient to purchase special equipment	1999	42	Riley
the technology supplier may not require the recipient to purchase other kinds of products	1999	42	Riley
Article 9 prohibits restrictions on the development or improvement of the technology: in practice this may mean that the supplier is restricted from preventing the recipient from misusing the technology	1999	43	Riley
the technology supplier is not permitted to restrict the quantity, variety or sales price of products manufactured by the recipient	1999	43	Riley
the technology supplier is not permitted to restrict the sales channels or export markets for such products regardless of the quality of the recipients production, packaging, marketing techniques	1999	43	Riley
the technology supplier is not permitted to restrict the products manufactured regardless of	1999	43	Riley

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commitments made to other distributors in specified markets			
a technology transfer recipient must be free to acquire technology from competitors of the supplier or from other sources even though this might result in leakage of trade secrets	1999	43	Riley
any sort of 'non-reciprocal' terms of exchange in the technology transfer contract are prohibited, though this provision is never used to restrict the recipient	1999	43	Riley
as the technology recipient is not restricted this may result in a supplier having to purchase unwanted 'improvements' back from the recipient	1999	43	Riley
a supplier may not forbid use by the technology recipient after expiration of the technology transfer contract	1999	43	Riley
there are restrictions and warranties embedded in the Chinese technology transfer legislation	1999	43	Riley
there is a feeling that many Chinese businesses are not prepared to deal with the over-confidence of the international salesman.	1999	44	Riley
SOEs are often uncertain which information might be classified as state secret and which information would put the company at a competitive disadvantage	1999	44	Riley
many problems are caused by the inept handling of the technology by the recipient	1999	44	Riley
many problems are caused by the over-enthusiastic opinion of the technology of the licensor	1999	44	Riley
there is a lack of proper due diligence work on both sides prior to the JV start	1999	44	Riley
old fashioned technology may work better than most modern technology for certain applications in China	1999	44	Riley
increased disclosure increases the possibility of industrial espionage may occur	1999	44	Riley
inadequate disclosure increases the probability that the technology may malfunction due to ignorance how to use it	1999	44	Riley
due to the history of technology transfer deals in the 1980s the Chinese concentrated towards protecting unsuspecting SOEs against paying for fake technology	1999	44	Riley
technical support was often not available locally for sophisticated technology and environmental factors often were inadequate	1999	45	Riley
too many technicians had to be brought to China from abroad at great cost and language barriers hindered training efforts	1999	45	Riley
many high technology projects tended to be economically not successful	1999	45	Riley
foreign investors became cautious about investing technology in China with fears of economic unfeasibility, piracy of technology and IP	1999	45	Riley
the publication of the guidelines for executing and approving technology import contracts written for commissions and technology receivers, state that contracts should not be breached.	1999	45	Riley
the guidelines for executing and approving technology import contracts are not promulgated legislation but only guidelines	1999	45	Riley
technology transfer contracts are often understood but the Chinese authorities to be, in effect, instalment purchase contracts	1999	45	Riley
royalties are viewed not as license payments but as payments for a product which belongs to the	1999	45	Riley

Problem	Year	Page	Author
Chinese party at the end of ten years			
Chinese expectations are to acquire all of the suppliers know-how and business secrets as a permanent acquisition	1999	46	Riley
many foreign parties are completely unaware of the principle of 'provisional signing' of a contract and actually formal final signings	1999	46	Riley
article 14 provides that matters such as costs of installation, know-how documentation, standards for inspecting quality, etc and exceeds what is required by law	1999	46	Riley
Chinese guidelines go far beyond what foreign suppliers wish to supply especially when the terms of the transfer are that all modifications must be also be supplied and that the technology can continue to be used on a royalty-free basis by the Chinese after the 10 year term	1999	46	Riley
a foreign party may not wish to transfer to the Chinese party all the know-how in written documents	1999	46	Riley
stipulation of such matters in the guidelines inevitably confuse the Chinese parties into thinking that such maximum provision of documentation and details is required in order for the project to get approval	1999	46	Riley
the guidelines assist the Chinese party's negotiations and it makes the Chinese party a very determined bargainer	1999	46	Riley
Chinese insistence on including shipping details in the master contract which is disadvantageous to the technology supplier because this is too detailed and often results in a technical breach of contract	1999	47	Riley
technical contract breaches give the Chinese party the option to demand further changes to the contract or even repudiating it altogether.	1999	47	Riley
from investors point of view too many details should not be included in the master contract because these change in this premature stage of the JV	1999	47	Riley
article 17 of the technology transfer guidelines specify a number of terms which are not advantageous to the foreign supplier	1999	47	Riley
article 17 stipulations on terms to be included in the technology contract include making reference to the inspection process upon technology receipt is commonly misused	1999	47	Riley
the inspection of the technology receipt needs to be detailed as much as possible	1999	47	Riley
the technology packaging needs to prevent damages. If the shipment is damaged, the entire technology transfer contract can be dislodged, payment delayed and inspection failed.	1999	47	Riley
the Chinese party frequently wants to specify the packaging in the technology transfer contract but the supplier may not know in advance how exactly the shipment will be packaged. If packaging details are not fulfilled this can lead to a technical breach of contract.	1999	48	Riley
article 25 covers force majeure and details that strikes, floods and fires cannot be considered as a force majeure	1999	48	Riley
It is very important to ascertain that the recipient actually has the capacity to pay for the technology	1999	51	Riley
it is advisable to make sure that signature by means of company chop is affixed with proper authorisation, otherwise the document is considered as void	1999	51	Riley

Problem	Year	Page	Author
the wording of warranties is important in order to limit it	1999	51	Riley
it is very important to supply a good description of all applicable standards in order to avoid the problem of higher standards being imposed by the Chinese authorities	1999	51	Riley
precautions should be taken to register and to protect IP in a technology transfer	1999	51	Riley
the supplier should request for notification of the inspection and participation in the proceedings. That is especially important for unfinished products as this gives the supplier a chance to explain the product to the inspectors.	1999	52	Riley
sales literature and samples of the product create warranties so it is important that such items accurately represent the product to be produced by the technology	1999	52	Riley
problems can arise when undefined terms are used or leave room for interpretation by the parties	1999	54	Riley
problems can arise through misinterpretation and weak translation	1999	54	Riley
problems can arise when two courts have different attitude on how to handle an admitted breach of contract due to extenuating circumstances	1999	55	Riley
in China there had long been a Communist principle that wealth is somehow direct and money is bound to be suspect	1999	56	Riley
although the term 'product liability' is rarely used, China has a considerable volume of legislation which creates product liability.	1999	59	Riley
there are statutorily implied warranties on product liabilities which are easily overlooked	1999	59	Riley
there are regulations, rules, government circulars, standards, charts etc regarding products and are enforced on a strict liability basis	1999	59	Riley
national and trade standards may be compulsory or recommended	1999	60	Riley
if no standards exist for products manufactured, the enterprise itself must formulate enterprise standards as a basis for organising the production.	1999	61	Riley
there may be joint liability with the seller, transporter or warehouser, depending on the circumstances	1999	61	Riley
there are severe penalties if a product does not comply with the national or the trade standards	1999	61	Riley
in order to make sure applicable quality standards and contractual agreements are met, a manufacturer should set up an effective quality assurance arrangement.	1999	62	Riley
manufacturers may be sued by customers or sellers of their products on a wide number of circumstances.	1999	62	Riley
the labelling of a product must contain considerable detail which might assist sellers and users to ascertain whether the quality of the product conforms with their needs.	1999	62	Riley
a seller of a defective product may be jointly or alternatively liable with the manufacturer.	1999	63	Riley
MNCs have little knowledge of the local market and business practice in China	1999	643	Sun
MNCs are unfamiliar with the cultural environment in China	1999	643	Sun
operating in a foreign culture increases business uncertainty and unpredictability	1999	643	Sun
if a Chinese firm holds significant proprietary assets and expertise it will less likely form a JV and demand more control.	1999	645	Sun

Problem	Year	Page	Author
Host governments may require MNCs to form a JV with local companies	1999	646	Sun
Host governments may encourage the JV formation with incentives	1999	646	Sun
sociocultural distance promotes the formation of JVs	1999	647	Sun
the higher the technological content the higher the demanded equity share	1999	649	Sun
the economic condition and policy environment vary substantially among the regions in China	1999	649	Sun
the various regions might require different entry modes in China	1999	653	Sun
JV provide an effective mechanism for technology transfer to local firms	1999	657	Sun
to successfully set-up a WOE investors need a sound knowledge of the legal system, market structure, business practice and policy conditions.	1999	657	Sun
incompatibility of business practices stemming from the differences in Western market versus Chinese relationship orientation	1999		Lovett/Simmons/Kal
Chinese firms commonly lack technological and organizational skills to scope with an international competition.	2000	117	Luo
Exporting from China and creating foreign exchange earnings are governmentally preferred and institutionally encouraged strategies.	2000	117	Luo
Chinese firms are particularly interested to become competitive for international markets while foreign firms primarily want to expand within China.	2000	117	Luo
Objectives of JV partners are not in sink.	2000	117	Luo
Export of JV products can increase the competition with parental products on an international level.	2000	117	Luo
Chinese firms select partners based on organizational learning considerations rather than transaction cost concerns.	2000	116	Luo
Chinese firms have deficits caused by bureaucracy.	2000	116	Luo
Needed attributes under strategic or organizational categories are asymmetrical between Chinese and foreign partners.	2000	116	Luo
Chinese firms have idiosyncratic needs from partner contributions and maintain asymmetric rationales behind partner selection and JV formation.	2000	116	Luo
Different ownership structures of mother companies have variable influences on managerial motivation, agency costs, administrative autonomy, decision power, growth strategy and strategic orientation.	2000	116	Luo
Control of venture operations	2000	118	Luo
Protection of IPRs	2000	118	Luo
Creation of financial and operational synergies.	2000	118	Luo
There is a lack of focus on the examination of the Chinese firms, especially their strategic behaviour, economic rationales and business policies.	2000	118	Luo
Chinese firms are expansion driven rather than focused on maximizing returns or minimizing costs.	2000	118	Luo
Constant changes of the institutional environment and unexpected dynamics of structural transformation increase the complexity.	2000	118	Luo
Relationships are used to resolve problems resulting of lacking feasibility studies and clear	2000		Li/Karakowsky

Problem	Year	Page	Author
contracts			
western short-term versus Chinese long-term orientation	2000		Li/Karakowsky
differences in power distance	2000		Harrison et al
Many Western companies came into China drawn by a hype from media and own governments rather than convinced by facts	2000	55	Blackman
How to operate a venture in China is the difficult question (not how to structure the investment) as there is no blueprint.	2000	55	Blackman
Many Western companies came into a crowded market instead of being the single player as expected.	2000	56	Blackman
China is very bureaucratic opening doors for bribery and corruption	2000	57	Blackman
Unclear property rights in China (e.g. land) make operating difficult.	2000	57	Blackman
western firms most of the times don't know who is in charge and who is making the actual decisions.	2000	57	Blackman
Common business ethics are missing in China.	2000	58	Blackman
Chinese say something and it doesn't mean that they will actually do it.	2000	58	Blackman
in China, breaking your word seems to be acceptable.	2000	59	Blackman
Chinese profit thinking is much more short-term than Western thinking	2000	59	Blackman
distributors have to be tightly controlled	2000	60	Blackman
there is a lot of competition from local companies having a much lower cost basis than the JV	2000	60	Blackman
Competition focuses in the big and wealthy cities where all foreign companies are trying to enter.	2000	60	Blackman
There are high taxes and the system is not transparent.	2000	61	Blackman
local Chinese companies are not taxed the same way.	2000	61	Blackman
Money collection (A/R) and long payment terms is a big problem.	2000	61	Blackman
It is very hard to explain the situation in China to Western head office.	2000	62	Blackman
Many companies have scaled down their initial investment as strategic goals cannot be met in reasonable time.	2000	63	Blackman
Chinese government directs foreign investors to non-performing enterprises.	2000	63	Blackman
Chinese government copies Western techniques using it in their own enterprises.	2000	63	Blackman
The government takes a very active role in business and standing behind JVs.	2000	64	Blackman
western companies expect straightforward and frank communication.	2000	65	Blackman
western companies are made believe that Chinese are interested in long-term investment and the government is trustworthy.	2000	65	Blackman
Debt and high AR are a serious problem in China as companies can easily become illiquid.	2000	66	Blackman
There is a lack of dependable enforcement mechanisms for legal agreements in China	2000	66	Blackman
The market in China is highly competitive	2000	C5/6	Blackman
There are lots of bad business practices	2000	C5/6	Blackman
inadequate enforcement mechanisms	2000	C5/6	Blackman
the government has a hands-off tradition in commercial litigations	2000	C5/6	Blackman

Problem	Year	Page	Author
many agreements are not doable due to debt of companies and withdrawal of government support	2000	C5/6	Blackman
There is a lack of enforcement mechanisms to collect debt in China, debt collection agencies are not allowed either.	2000	C5/7	Blackman
State-owned enterprises follow social welfare responsibilities but not profitability.	2000	C5/7	Blackman
Credit terms in China are long-term, manufacturers tend to finance the whole value chain from purchasing to selling.	2000	C5/7	Blackman
There is generally a low trust in outsiders.	2000	C8/10	Blackman
Deception is considered as acceptable to gain strategic advantages.	2000	C8/10	Blackman
To be straightforward is difficult as 'losing face' is unacceptable.	2000	C8/10	Blackman
There is a historical mistrust in foreign business investment.	2000	C8/10	Blackman
Chinese JV partners have different and hidden agendas, expectations and priorities	2000	C6/8/9	Blackman
Often there are power struggles on the Chinese management side	2000	C6/8/9	Blackman
Dishonesty, aggressive and emotional attacks are common.	2000	C6/8/9	Blackman
When it comes to 'shared' decisions expatriates are often excluded.	2000	C6/8/9	Blackman
Chinese managers have often a communist background and get external pressure.	2000	C6/8/9	Blackman
Chinese managers are unfamiliar with Western business practices and priorities	2000	C6/8/9	Blackman
JV shared management is a common problem all over the world	2000	C6/8/9	Blackman
Chinese have a lack in focusing on quality and focusing on customer demands.	2000	C10/11/12/13	Blackman
The skill level is often too low for the introduced high technology.	2000	C10/11/12/13	Blackman
Work approaches are often unstructured and undisciplined	2000	C10/11/12/13	Blackman
Command and control structure is top down in China, westerners believe in leadership	2000	C10/11/12	Blackman

Problem	Year	Page	Author
Socialist enterprise culture is based on command economy and political control	2000	/13 C10/ 11/12	Blackman
The general education level is very low.	2000	/13 C10/ 11/12	Blackman
There are old power networks in China, leadership is based on seniority and age	2000	/13 C10/ 11/12	Blackman
Chinese market has exploded since being opened up, you can find a rush on Western side and greed on Chinese side.	2000	/13 C1/3	Blackman
in China most prices are inflated due to haggling tradition	2000	C1/3	Blackman
Deception of strangers is a common business tactic	2000	C1/3	Blackman
Chinese and westerners have different ethical business traditions.	2000	C1/3	Blackman
Chinese enterprises have a short-term profit making focus	2000	C1/3	Blackman
Chinese companies have limited purchasing power	2000	C2/5	Blackman
Government supports local companies	2000	C2/5	Blackman
Chinese companies have a lot of excess capacity	2000	C2/5	Blackman
Problems of counterfeiting and smuggling	2000	C2/5	Blackman
Chinese have a trader nature with small commissions	2000	C2/5	Blackman
There are weak compliance mechanisms in China	2000	C2/5	Blackman
There is a 'family fist' ethics and business practice in China.	2000	C4/5/ 12/13	Blackman
Reciprocity is an important element of traditional Chinese business behaviour	2000	C4/5/ 12/14	Blackman
Officials have control over licences, permits, land, etc which are essential for operational business	2000	C4/5/ 12/15	Blackman
Personal morality is considered as the controlling mechanism	2000	C4/5/ 12/16	Blackman
Chinese high context communication affects argumentation and meeting style	2000	C4/5/ 12/17	Blackman
In the Chinese hierarchical system Information is perceived as a means of power	2000	C4/5/ 12/18	Blackman
Chinese differentiation in their ethical standards if it is regarding an insider or an outsider	2000	C4/5/ 12/19	Blackman
Problems and difficulties most of the times are communicated disguised	2000	C4/5/ 12/20	Blackman



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Communication is often indirect, incomplete, misleading and comes with unpredictable keeping face issues	2000	C4/5/ 12/21	Blackman
Communication depends on the hierarchical level of the Chinese counterpart	2000	C4/5/ 12/22	Blackman
There is a lack of experience to communicate in Western way	2000	C4/5/ 12/23	Blackman
The Chinese supervisory- subordinate relationship is based on fear and respect/ penalties and rewards	2000	C10/ 11/12 /13	Blackman
Even for minor decisions staff waits for instructions	2000	C10/ 11/12 /13	Blackman
There is a distrust in young expatriate managers	2000	C10/ 11/12 /13	Blackman
There are often sudden changes in legislation	2000	C14	Blackman
there is a lack of consultation between government and businesses before decisions are made	2000	C14	Blackman
Poor enforcement mechanisms across all businesses	2000	C14	Blackman
Top-down legislation has problems to keep up with rapidly moving economy and infrastructure	2000	C14	Blackman
There are differences in the legislation between central and local level	2000	C15	Blackman
National taxes are levied locally	2000	C15	Blackman
There are overlapping jurisdictions of local bureaus for taxes, fines, regulations	2000	C16	Blackman
One can find retrospective, excessive and ad hoc taxation	2000	C16	Blackman
Local business avoid transparent accounting in fear of being taxed	2000	C16	Blackman
there is unequal power between officials and public, embedded in a tradition of local 'tax bullies'	2000	C16	Blackman
There is an 'inherent' power of officials	2000	C16/ 17	Blackman
There is a lack of commercial and legal infrastructure	2000	C16/ 17	Blackman
State-owned enterprises are run by bureaucrats	2000	C16/ 17	Blackman
Bureaucrats are risk-adverse, slow, hidden decision makers, status conscious, and little proactive in nature	2000	C18	Blackman
banquets have their own rules and often include heavy drinking	2000	3	Blackman
you need to be a street-smart person and good drinker to get the respect of the Chinese	2000	4	Blackman
the Chinese throw out challenges and if you don't keep up you will be downgraded in their eyes	2000	4	Blackman
every banquet will bring a challenge food wise	2000	6	Blackman
everything is based on challenging the next person and on losing face	2000	5	Blackman

Problem	Year	Page	Author
banquets take a lot of time and follow different targets like extracting information from people, test their reputation, test their endurance	2000	5	Blackman
the banquet table was not friendliness and hospitality but the opposite	2000		Blackman
you cant say that you cant dink - you have to drink	2000	6	Blackman
entertainment may include call girls	2000	7	Blackman
the banquets will invite people at all levels in order to make sure to get cooperation form all people who might have an influence on their business dealings with the boss	2000	7	Blackman
in the old state system appointed distributors by the government had monopolies over their geographical area and a hidden commission system with a vast network of lower-tier networks	2000	7	Blackman
Chinese distributors are used to dealing with large quantities of product and a high wastage rate, so producing quality products is entirely new to them	2000	7	Blackman
the Western distributor bonus system might not world as people trade with one another for very small margins	2000	8	Blackman
the company has to deal with a number of distributors without knowing them and the relationships between them	2000	8	Blackman
it is difficult to win the loyalty of distributors	2000	8	Blackman
distributors are undercutting one another and trying to kill of a competitor that affects the price initially and later the stock	2000	8	Blackman
distributors lack of proper product storing and handling	2000	8	Blackman
there are transportation restrictions and trucks cant go into certain areas and other areas you cant bring vans in	2000	9	Blackman
the company needs to double up its vehicles due to the transportation restrictions	2000	9	Blackman
there is a logistical problem and it needs time to understand the transportation restrictions	2000	9	Blackman
due to the multilevel tier distribution in China goods get easier damaged	2000	9	Blackman
at the current time the Chinese customers don't have loyalty to a particular brand	2000	9	Blackman
the way of consuming food products is different in china compared with other countries	2000	9	Blackman
it is hard to understand and predict the market fluctuations	2000	9	Blackman
Chinese consumers have their own value and status systems, their own beliefs that affect the way they consume products	2000	10	Blackman
western executives found that a system of sub-contracting banned in their home market was normal in China	2000	11	Blackman
through pyramid sub-contracting, profits are shared by a large number of related groups	2000	11	Blackman
the contractor actually doing the job is actually getting one third of the profit and has not been told about the required quality	2000	11	Blackman
the company needs to work directly with the workers showing them how to do the project	2000	11	Blackman
westerners are outsiders without contacts and are more open to being cheated.	2000	12	Blackman
China's business environment is highly competitive	2000	12	Blackman
there has been a long tradition for the government to have little to do with the implementation of	2000	12	Blackman

Problem	Year	Page	Author
commercial regulations and dispensing justice in conflict resolution			
litigants were expected to enforce the judgement themselves and the court expenses were heavily against the plaintiff	2000	12	Blackman
the problem is that there are all in it together	2000	14	Blackman
there is a common Chinese practice of submitting inflated invoices	2000	14	Blackman
in China one has to question everything	2000	15	Blackman
products can be very quickly be replicated by Chinese competitors	2000	16	Blackman
companies are overoptimistic about financial assumptions and profits and the competition in China	2000	16	Blackman
Chinese companies are very good in engineering their own solutions to particular market requirements or copy very quickly the better ideas or access technology directly through technology transfer agreements and become straight out competitors	2000	16	Blackman
Chinese managers had been stealing the equipment and stealing it to other organisations associated with the parent organisation	2000	16	Blackman
by selling stolen goods even managers can easliy earn a month wage	2000	16	Blackman
illegal selling of parts and equipment to comेतitors results in a competitive disadvantage for the JV	2000	16	Blackman
State-owned enterprises are able to sell their products at a low price because they don't properly cost their inputs	2000	17	Blackman
Distributors given exclusive rights are not proactive and only wait for the telephone to ring	2000	20	Blackman
the commonest forms of competition from Chinese companies is through counterfeiting foreign products	2000	21	Blackman
the successful counterfeiting sentence was only slowly enforced, esp where the manufacturers had their factory	2000	21	Blackman
foreign complains about lack of profitability due to overcapacity	2000	23	Blackman
Chinese policy-makers are worried about foreign domination of key industry sectors	2000	23	Blackman
corruption is remarkable, esp. by its frequency and the involvement of officials	2000	24	Blackman
even through communist system education the values are remarkably similar to the traditional Chinese family values	2000	26	Blackman
western managers find their Chinese staff recommending relatives for positions in the company	2000	26	Blackman
Chinese managers appointing relatives of officials to positions for which they are not qualified	2000	26	Blackman
there are huge differences from the Christian view which centres on individual redemption and faith and the Chinese values where an individual is defined by relationships with and responsibilities to his family and friends	2000	28	Blackman
patronage is an commonly accepted element which is featured by the Chinese value of 'sharing'	2000	28	Blackman
westerners and Chinese have different value systems	2000	29	Blackman
there is a strong value of reciprocity in China which is very differently handled in the West	2000	30	Blackman
corruption in the bureaucracy is aided, and in fact made inevitable by the principal of 'entrusted' or 'inherent' power within the legal and administrative system	2000	31	Blackman

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China seems as too big and diverse for centrally proclaimed laws and regulations to be appropriate in detail for every locale.	2000	32	Blackman
Laws are written in the general and applied in the particular by local officials.	2000	32	Blackman
Chinese see information as power and restrict it on all levels	2000	40	Blackman
authorities keep information on regulations they promulgated within the bureaucracy for their discretionary application	2000	40	Blackman
work groups trained by foreigners refuse to train the next work group because that might give them advantage	2000	40	Blackman
Chinese trainers may omit to impart crucial information to trainees, in order to shore up their own power	2000	40	Blackman
indirectness distinguishes Chinese communication from Western communication	2000	40	Blackman
local authorities might show upset by indirect methods signalling their disapproval of things	2000	41	Blackman
China falls into 'high' context' type of culture, while most English speaking cultures fall into the 'low context' type.	2000	42	Blackman
different communication ways and sentence structures in phrasing statements	2000	43	Blackman
Chinese aims to minimize disagreements by including possible points of view of others	2000	43	Blackman
westerners might not listen properly due to different communication style how to phrase an argumentation	2000	43	Blackman
important points a Chinese person makes indirectly in his communication and as a result, the westerners are in danger of concluding that everything is OK	2000	43	Blackman
For Chinese, to follow the Western order in putting their point of view would be to risk appearing rude because it would sound as if they were demanding something.	2000	43	Blackman
Americans are trained in public speaking skills, the stress in Chinese upbringing at home and at schools in on listening skills	2000	43	Blackman
westerners don't listen intently or with enough patience, quite often they will cut the Chinese speaker off before he reaches his main point.	2000	43	Blackman
westerners must be aware of giving face to the Chinese counterparts	2000	44	Blackman
the way a Chinese subordinate communicates with the boss differs from comparable communication in a Western workplace	2000	44	Blackman
chinese subordinates want to be 'non-face-threatening' towards the boss, to publicly express alternative ideas is to express lack of confidence in the boss	2000	44	Blackman
there is a difference in 'conceptual communication' - that is, the notion that words do not necessarily conjure up the same concept in another culture	2000	44	Blackman
Chinese workers expect top management to go out and talk to them, asking them about their problems	2000	46	Blackman
the real problem was the communication with the Chinese	2000	46	Blackman
western impatience paired with chinese communication style	2000	46	Blackman
Chinese preference for indirect communication confuses westerners	2000	46	Blackman

Problem	Year	Page	Author
distract westerners by starting to say that they want to buy one thing when they are actually interested to buy another thing	2000	47	Blackman
it is not uncommon for the Chinese to agree on a proposal but then to do nothing	2000	47	Blackman
the Chinese expect that the other party will read the hidden signals and deduce the actual situation	2000	47	Blackman
the Chinese have an ingroup concept - if you are a member they use the techniques of respect, mutual benefit and an emphasis of harmony	2000	48	Blackman
if you are an outsider of the ingroup the Chinese communication style will be dispassionate and rationalistic, without regarding the other party's feelings	2000	48	Blackman
nothing is as it seems on the surface	2000	50	Blackman
There are always intricate reasons and underlying reasons why someone is doing something.	2000	50	Blackman
westerners need to sit down and listen and try and work out what the real game plan is.	2000	50	Blackman
westerners need to be flexible, it is very difficult to set endpoints	2000	50	Blackman
managing people takes a lot of time as managers need to talk to the workers constantly	2000	50	Blackman
western managers need to find out when issues are brought up if they are an issue or a non-issue.	2000	50	Blackman
the Chinese have difficulties dealing with each other	2000	51	Blackman
westerners can believe everything they are told and have to find people they can trust to find out what is going on	2000	51	Blackman
westerners need to build up a management team who are loyal and who they can trust	2000	51	Blackman
you need to have systems in place to control as much as you can	2000	51	Blackman
the Chinese will do everything to make money out of you	2000	51	Blackman
the bigger the business gets the harder it gets to control the business	2000	51	Blackman
during the 80s and 90s many companies went into China believing that the booming economy would provide a growing market. They were led in these assessments by the hype from their own governments media.	2000	55	Blackman
advisers in legal and accounting know black letter laws but not necessarily what it would actually like to operate in China	2000	55	Blackman
there is no blueprint for business operations in China	2000	55	Blackman
strategic head office plan of the foreign partner had to be tested in the reality of the Chinese market	2000	55	Blackman
the Chinese government had oversold the opportunities for profit-making and had not undertaken detailed planning about how many international companies the market could support	2000	55	Blackman
western companies were expecting that competition would be controlled by industry sector, in fact there were no controls	2000	56	Blackman
western companies found that they were one player in an overcrowded market	2000	56	Blackman
there is a Chinese desire for bribery and corruption which we found hard to handle	2000	57	Blackman
after the company established the JV the Western executives discovered that their JV partners did not have any money.	2000	57	Blackman
if a JV does not develop the land within a few years the Chinese government will reclaim it	2000	57	Blackman

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you don't know who is in charge and who is making decisions	2000	57	Blackman
we could not figure out who to talk to	2000	58	Blackman
Chinese give wrong excuses for not fulfilling their obligations	2000	58	Blackman
we are used to people having a common business ethic	2000	58	Blackman
in China, breaking your word is seen to be acceptable	2000	59	Blackman
Chinese are self-centred and short-term minded from business point of view but the political leaders seen to have a long-term perspective	2000	59	Blackman
the company's own distributors were undermining the company's reputation and relationship with the public, as well as cheating the manufacturer out of money.	2000	60	Blackman
unethical practices	2000	60	Blackman
Competition from local companies who don't have the financial burden of expatriate managers	2000	60	Blackman
most JVs focused on the big cities were all the international competition is	2000	60	Blackman
to move to provincial markets would stretch their resources and would not be cost-effective	2000	60	Blackman
the JV is taxed on turnover but one is not sure that Chinese companies have to comply in this way	2000	61	Blackman
receivables are extraordinary - people in China don't pay	2000	61	Blackman
common feedback from headquarters: "China cant be that bad"	2000	62	Blackman
the managers who are located in china brought up the problem of head office expectations a number of times	2000	62	Blackman
the foreign board has to understand that it isn't an open invitation to make money	2000	62	Blackman
big companies have the attitude that success should come to it automatically	2000	62	Blackman
SOEs were in deep financial trouble and desperately needed fresh capital	2000	69	Blackman
the Western business people expected trustworthy, co-operative business partners, since all were linked to government enterprises	2000	68	Blackman
Chinese partner was concentrating on maximising its own gains from the partnership	2000	68	Blackman
the Chinese partners were Communist Party managers schooled for 30years in anti-capitalist and anti-western rhetoric	2000	68	Blackman
Chinese partner's agenda was quite different from what they had thought it was.	2000	68	Blackman
What was driving the Chinese side was a short-term focus on profit and lack of finance.	2000	70	Blackman
The Chinese partner did not have the cash to handle the start-up period.	2000	70	Blackman
they tried to take money out of the JV to help fund their share	2000	70	Blackman
the Chinese partner would use any reason at all to prevent the foreign executives from seeing that they could not meet their financial obligation.	2000	70	Blackman
the expatriate GM a Malaysian Chinese, was compromising and hiding it from head office	2000	70	Blackman
the more defensive of their position they became, not letting us know what the real position was, the more aggressive they became and the less the initial feelings we had about them became sustainable	2000	70	Blackman
after a fight between the JV partners it is very difficult to go back from that point	2000	70	Blackman

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one issue that caused ongoing conflict was that the Chinese partner saw it as legitimate for them to take gain out of building the factory	2000	70	Blackman
the Chinese attempted to take a commission on all activities	2000	71	Blackman
the Chinese position was that they wanted all construction contracts to go to the construction divisions of their parent company	2000	71	Blackman
the Chinese side instructed the contractors to increase their price so that they could pay them a commission	2000	71	Blackman
when to foreign company insisted on giving contracts to the contractors best qualified for the job, the Chinese side wanted to take a commission form them.	2000	71	Blackman
the foreign executives believed that not only the Chinese parent company was benefiting from the commissions but also the Chinese directors as individuals	2000	71	Blackman
the problem was the foreign company could not sign a contract above a certain amount without board approval	2000	71	Blackman
they set up blocks - when a signature was needed they delayed it	2000	71	Blackman
although the local contractors knew the specifications stipulated in the contracts, they tries to maximise their returns by cutting back on quality - doing the rework they also cut corners	2000	72	Blackman
that's one of those things they agree to on JV signing: it is another to live with it afterwards	2000	73	Blackman
the Chinese side insists that it is their role to manage the Chinese relationships	2000	73	Blackman
concessions were made my the Malaysian Chinese GM allowing the Chinese partner to renegotiate the original terms on the land price and was making concessions which head office wasn't aware of	2000	73	Blackman
the Chinese went all out to break the new GM through victimisation and employed every method to apply pressure	2000	74	Blackman
when the foreign GM would not co-operate they would write to the CEO	2000	74	Blackman
the Chinese were vocally very aggressive	2000	74	Blackman
it was just a standards "extract anything you can get out of the JV" mentality	2000	74	Blackman
the Chinese did not have a clue about business	2000	74	Blackman
the Chinese claims that the foreign partner does not understand how to conduct business here	2000	75	Blackman
the Chinese side wanted to transfer people form their organisation and told the Western executives at great length that they didn't know what they were doing and that their approach was wrong	2000	75	Blackman
little incidents were used to make a big issue out of them emphasizing that the foreign don't know the rules, they must let HR issues handle the Chinese side and they don't understand the system	2000	75	Blackman
although the price of the land had been agreed to, the Chinese partners later wanted to renegotiate it	2000	75	Blackman
the Chinese brought in other issue to reopen the negotiations	2000	75	Blackman
the Chinese force you to fight on so many fronts that the foreigner will lose on some.	2000	75	Blackman
the Chinese partner hadn't told the foreign partner that they had no license to do certain things	2000	76	Blackman
the Chinese used excuses were whatever came into their heads	2000	77	Blackman
the foreign partner had to make sure that government departments handling the relationships did	2000	78	Blackman

Problem	Year	Page	Author
not get bad publicity and loss of face			
many Chinese have the view that foreign companies are rich, so they can pay.	2000	79	Blackman
the Chinese partner, being a very big enterprise with supply, manufacturing and marketing arms	2000	79	Blackman
was used to using their muscle to achieve their ends			
taking a commissions is a time-honoured commercial practice in China.	2000	81	Blackman
the Western criteria , the best contractor for the job, is less common than using related contractors	2000	81	Blackman
or in-house contractors who pay a percentage to the go-between			
Chinese contractors are closely associated though a contracting pyramid	2000	81	Blackman
the result of the commission taking pyramid is that the contractor doing the job is being paid a	2000	81	Blackman
fraction of the original contract price and he gives quality accordingly			
the Chinese may well say, 'this is our country - why should we tell the foreigners what we are doing?'	2000	82	Blackman
some see facilitation payments and services as the equivalent of sponsorship, public relations,	2000	83	Blackman
marketing and advertising the developed markets in the West			
big companies have staff dedicated to fostering relationships with the bureaucracy, but these staff	2000	83	Blackman
always run the risk of being on the other side of the law.			
to deal with a steady stream of incidents relating to corrupt practices	2000	84	Blackman
there is no relationship between price and cost	2000	84	Blackman
the entertainment and the deals that are done by the Chinese are more extensive than foreign-	2000	84	Blackman
owned JVs are prepared to go to			
the operations manager organised local Chinese workers in a revolution against him	2000	85	Blackman
hung long banners denouncing all Western imperialists around the factory walls	2000	85	Blackman
even MOFTEC government officials were arrested by the authorities for taking commissions form	2000	86	Blackman
facilitation work			
it is proving t be a difficult assignment to recover money when the aunt is at a high level in an	2000	86	Blackman
internal security division of government			
they used false invoices and were splitting the profits	2000	86	Blackman
"if you not import your copper through us, you shipments will be delayed"	2000	87	Blackman
quite often you find out that digging deep into who is this agent, who is supporting him, it will be	2000	87	Blackman
some branch of the military			
factory manager were buying plant and equipment simply because it was a way to pick up extra	2000	87	Blackman
cash from the machinery manufacturers			
our biggest problem is getting paid for what we have delivered	2000	88	Blackman
accounts receivables are about 250days	2000	88	Blackman
threatening legal action is just a waste of time	2000	88	Blackman
my company is not profitable but I am rooted and I cant get out, it would cost me too much money	2000	88	Blackman
to close it up			
we will be never be able to make any money in China	2000	88	Blackman



Problem	Year	Page	Author
on paper it made good sense. But we spent no time looking at how we would run the business once we'd invested our money	2000	88	Blackman
lavish entertainment is a sign of status and affluence in a society where many have been traditionally living in poverty	2000	89	Blackman
although the government and the Public Security Bureau are committed to fighting these corrupt excesses , it is a difficult task when government officials and managers of public organisations are participants.	2000	90	Blackman
getting justice through local officials proved to be a long and difficult process in a number of criminal offences against overseas Chinese	2000	90	Blackman
China is no longer the controlled society Westerners experienced in the communist period	2000	90	Blackman
because of the significance of entertainment in facilitation, large Western companies have facilitations departments, so-called government co-ordinations departments.	2000	90	Blackman
all the guanxi in the world wont get you payment unless you have a strong commercial basis	2000	91	Blackman
the structure is oriented towards the Chinese and they know it	2000	91	Blackman
westerners and their parent organisations are not integral parts of the Chinese community where values and goals are shared and where obligations have been built up over a long time-frame, they are not included in the Chinese community of trust.	2000	94	Blackman
Lack of trust opens the ways for duplicity in the treatment of outsiders	2000	94	Blackman
people who are Sino-centric, who will put their needs above those of the JV	2000	95	Blackman
all the Chinese lied to us and they would lie and lie and lie to cover up	2000	96	Blackman
that is why a lot of people take about the losing face thing. Everything is a constant test of strength	2000	97	Blackman
a foreign party will have to find out who is related to whom and who owes whom a favour	2000	97	Blackman
doing business in China is not all nice and friendly and kissing	2000	98	Blackman
things can be done in China, but the only way you can have real satisfaction is to be very prudent	2000	98	Blackman
it is possible that a foreign party will get false documents presented, they can produce anything you want and they can change the dates or change the stamps.	2000	99	Blackman
there is a Chinese custom of keeping damaging information from themselves	2000	99	Blackman
there is no open-problem solving approach expected by Western JV partners of their Chinese partners	2000	99	Blackman
there is a secretiveness about Chinese actions and agendas	2000	99	Blackman
it is common observation that Chinese staff are skilled at telling Western managers what they want to hear, rather than the truth and fabricating illogical excuses in problem situations	2000	100	Blackman
collectivist societies are low in trust between people who are not family and friends	2000	100	Blackman
Chinese are pragmatic, meaning that they make the best of any situation.	2000	100	Blackman
Chinese have not been brought up with the belief in 'truth' as an absolute, and 'untruth' as a sin.	2000	100	Blackman
members of collectivists societies are very sensitive about having their mistakes publicly noted.	2000	100	Blackman
The Chinese view of their history with the West is being reduced to semi-colonial status prior to the communist revolution and victory.	2000	101	Blackman

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There is antagonism, fear and suspicion in regard to foreign business	2000	101	Blackman
Coupled with the antagonism versus foreigners are the exclusiveness of in-groups in Chinese society and hostility towards out groups	2000	101	Blackman
individual members of the Chinese side are under pressure to meet the objectives of their side are under pressure to meet the objectives of their side. Anyone who breaks ranks can easily be labelled a traitor to Chinese interests.	2000	101	Blackman
Chinese are concerned that foreign products have taken away market share and harmed the reputation of Chinese brands	2000	102	Blackman
Chinese believe that the preferential treatment given to foreign-invested enterprises has put China's national enterprises into an unfavourable positions.	2000	102	Blackman
Chinese believer that pivotal industries such as automobiles and communications are already monopolised by multinational companies, and chemicals and electronics are increasingly dominated by multinationals	2000	102	Blackman
Chinese criticise that JVs accept favourable treatment without fulfilling their required social responsibilities.	2000	103	Blackman
as part of a JV the Chinese want to share management equally, regardless of their equity level.	2000	107	Blackman
shared management is a potential time bomb	2000	107	Blackman
two partners are involved in a struggle for power	2000	107	Blackman
naturally each partner attempts to implement the agendas of their parent organisation	2000	107	Blackman
When Chinese JVs were established, Chinese managers despatched to them from the parent believed that foreign participation would be short-term.	2000	108	Blackman
Chinese managers believed that everything would be better in a JV	2000	108	Blackman
Chinese believed that Western management know-how could be easily learned overnight and advanced technology could be applied at once	2000	108	Blackman
in the past 30 years the Chinese have repeatedly been told that they are their countries masters, the owners of enterprise and in the position to have the final say. In a 50/50 JV they no longer have that position.	2000	108	Blackman
when the Western managers began they did not know that the market was highly competitive and was to become increasingly so over time	2000	109	Blackman
the Western company had been told that once they had improved the product would sell on its own	2000	109	Blackman
the Chinese side had expected that the foreign partner would do well automatically.	2000	109	Blackman
both sides had expectations that were impossible to meet	2000	109	Blackman
in the JV nothing was be possible to be kept confidential	2000	109	Blackman
the state wanted returns as quickly as possible, before we had established the business and sales	2000	110	Blackman
Chinese directors wanted to buy local plant and thus keep the money in local Chinese factories.	2000	110	Blackman
although we would have preferred to buy locally, we could not find local equipment suited to a modern plant	2000	110	Blackman
there was a bad hostility from the Chinese side	2000	111	Blackman

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over the years the Chinese partner real agenda emerged and it was too different from the foreign company's.	2000	111	Blackman
The Chinese wanted to have quick returns and management control.	2000	111	Blackman
expectations on both sides that were unrealistic	2000	112	Blackman
Chinese managers who saw their past prestige and power being undermined	2000	112	Blackman
different agendas on both sides	2000	112	Blackman
Chinese expected foreign companies to invest large amounts of money that would save state-owned enterprises from heavy debt burden	2000	112	Blackman
Chinese wanted to maintain high staffing levels and social welfare support	2000	112	Blackman
Chinese managers were directed to carry out the government policy of 'localisation' - that is, to give maximum opportunity to local industry to supply foreign invested companies.	2000	112	Blackman
their parent company had its own distribution system which worked on high volume, small margins and no brand awareness	2000	112	Blackman
the foreign manager had to cope with the expectations of his HQ, best practice production, which implied a substantial reduction in the workforce, marketing based n brands, building market share etc	2000	112	Blackman
the irreconcilable agendas were expressed through divided loyalties among staff, suspicion and distrust.	2000	112	Blackman
Chinese people just did not want to pay for a foreign product when adequate and cheap local products were available. This led to poor financial outcomes, resulting in recriminations from Chinese board members.	2000	113	Blackman
they saw it as a betrayal of their trust in the foreign company's ability to make profits.	2000	113	Blackman
many things happen that do not appear to conform to Western logic and over which a foreigner has little control	2000	113	Blackman
westerners are not familiar with rules	2000	113	Blackman
western managers experience high stress levels and frustrations	2000	113	Blackman
unpredictable nature of management problems	2000	113	Blackman
dispatches and deliveries were delayed due to the attitude of the local people who wanted to protest about noise or traffic or some other uses related to the factory - to demand monetary compensation	2000	113	Blackman
Chinese partner concerns with matters on their side to the exclusion of the Western partner's interest.	2000	113	Blackman
the Chinese directors had made promises of a divided to the local government and the Party	2000	114	Blackman
that the company had serious debt was secondary to the pressures on the Chinese side to appear profitable by distributing a dividend.	2000	114	Blackman
One of the major challenges for an expatriate manager is introducing Western workplace culture	2000	116	Blackman
workplace culture inherited from the SOEs	2000	116	Blackman
Staff trained in the SOE culture was used to management by Communist Party cadres, rather than	2000	116	Blackman

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by professional business managers			
there was a reward system unrelated to performance	2000	116	Blackman
once the quota was reached, employees had nothing more to do.	2000	116	Blackman
the state enterprises had financial structures that had nothing to do with market forces	2000	117	Blackman
technical and management skill levels lower than Western managers expected, even among university graduates	2000	117	Blackman
expatriate managers charges with effecting culture change is difficult when the ratio is 3:350	2000	117	Blackman
the Chinese ripped off our parent company right from the start	2000	118	Blackman
there has been a lot of corruption	2000	118	Blackman
it is hard from the to realise that they have no longer lifetime employment and lifetime security	2000	118	Blackman
other problem areas are quality issues	2000	118	Blackman
productivity issues	2000	118	Blackman
customers demands about delivery	2000	118	Blackman
it is very hard for them to break the mould of the past , of the last 30 years	2000	118	Blackman
the shop floor felt intimidated by the older style, senior management	2000	118	Blackman
Chinese managers feel they have lost their authority and status, it has created friction between the senior level of Chinese management and the expatriates	2000	119	Blackman
they are afraid of making the decisions.	2000	119	Blackman
they have never had that responsibility in the past because the operations manager made all the decisions and disciplined the workers.	2000	119	Blackman
he blames it on something that had no relevance whatsoever	2000	120	Blackman
things which take a minute or five minutes at home take an hour or two days here	2000	120	Blackman
here we need two operations managers on duty to cover 20 hours	2000	120	Blackman
head office wants to have only one expatriate responsible for productions	2000	120	Blackman
the work gets not accomplished on time	2000	121	Blackman
Chinese are very good in blaming someone else	2000	121	Blackman
things were stolen	2000	121	Blackman
it is very rare to find people who make decisions for themselves	2000	121	Blackman
there is a resentment between old and young shift managers	2000	122	Blackman
No one likes the people we employed after the JV was formed	2000	122	Blackman
all the old people have power, the shift managers never tell you when an old employee has done something wrong	2000	122	Blackman
when the company first came in, it tried to throw money at the existing employees thinking it would motivate them. It did not work.	2000	122	Blackman
that is how they show their concern: they go and find another job	2000	122	Blackman
they are happy in what they are doing because it is so much better than what they used to.	2000	123	Blackman
the scrap rates are very high	2000	123	Blackman

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they have an unusual consumer attitude. If they go to a shop and buy five things they expect that two will not work.	2000	123	Blackman
the equipment is too sophisticated for the workers - they went from a bicycle to a rolls-Royce over night	2000	123	Blackman
they are more interested in our social welfare than in getting the plant operations	2000	123	Blackman
we had a lot pf problems because they see expatriates as an very expensive item and they feel that they can do the job themselves without the expats	2000	124	Blackman
the Chinese partner at this plant has too much to say	2000	124	Blackman
the personnel department reports to the Chinese deputy GM and not to the expatriate GM	2000	124	Blackman
the market hasn't expanded according to expectations	2000	124	Blackman
we came to help them improve the business to the extent that they sit back and let you do everything	2000	124	Blackman
we have the feeling that things are going better now but it doesn't show in the figures	2000	124	Blackman
we are getting the blame. We have had some of the Chinese hierarchy come down to get us to change some of our ways and do some things differently.	2000	125	Blackman
sometimes we sit down at the table and all the foreigners sit on one side and all the Chinese on the other	2000	125	Blackman
I think the Chinese deputy GM are saying to the Chinese staff: "the foreigners are no good- listen to us"	2000	125	Blackman
trust is a big issue. They don't trust us.	2000	125	Blackman
They see us as being temporary employee here, earning a lot of money.	2000	125	Blackman
they think we are here to cause them trouble and grief, and to feather our own nest.	2000	125	Blackman
it is public knowledge how much the expats costs the organisation. Our living standards are high compared with theirs.	2000	125	Blackman
the language barrier is difficult because we can not thrash over something	2000	125	Blackman
there are many things that go on in here that are for Chinese ears only.	2000	125	Blackman
there are many times the interpreters would like to tell us things, but they know that we are here for only 2 years. They are under pressure from their side.	2000	125	Blackman
the one day they are mad at us and the next day they thanked us for getting the productivity up	2000	126	Blackman
we are a lot more up-front. We don't understand that way the Chinese do things.	2000	126	Blackman
They are always very nice to your face, but behind your back they say whatever they want.	2000	126	Blackman
being in a JV is our biggest problem	2000	126	Blackman
we cannot dismiss personnel	2000	127	Blackman
at the end of it you might be able to get rid of them but you have to highly compensate them	2000	127	Blackman
the only advantage of having a Chinese JV partner is that they handle relations with the local government.	2000	127	Blackman
there is a budget for taking Chinese officials for dinner twice a month	2000	127	Blackman

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expats have to struggle with ignorance in their own head office	2000	127	Blackman
due to the market the sales have not improved significantly. The Chinese therefore start to question the usefulness of Western management and the cost of expats	2000	128	Blackman
some companies had to disguise the expat cost factor	2000	128	Blackman
they do not understand that for the Chinese managers interpersonal issues may be the main issues	2000	129	Blackman
indirectness is the natural communication style of the Chinese because they belong to the group of high context cultures	2000	129	Blackman
facts with negative implications for their own status within their group are suppressed	2000	129	Blackman
foreigners not understanding the rules of face, cannot be relied upon to exercise discretion.	2000	129	Blackman
Chinese conclude that the safest rout is to dissimulate, to hide damaging information	2000	129	Blackman
decision-making in China has to take into account the relationships between people.	2000	130	Blackman
Chinese avoid open conflict and loss of face by using a pragmatic strategy - white lies.	2000	130	Blackman
there are dangers in using a style of supervision that is based on democratic Western models	2000	130	Blackman
western people believe in self-reliance. They don't know a bout Chinese laziness and slave characteristics.	2000	130	Blackman
The westerners probably cannot feel psychologically comfortable if they are too hard on us. Hey are too kind and too nice and there is too much democracy.	2000	130	Blackman
a lot of problems come from a lack of management strength	2000	131	Blackman
the foreigners cant speak the language so they cant talk to us directly	2000	131	Blackman
there is a lot of stealing. The guards just sleep in their work time.	2000	131	Blackman
when the shift managers give overtime to certain workers there is a commission for the shift managers.	2000	131	Blackman
the middle managers block all information to the foreigners	2000	131	Blackman
the problem of small numbers of expats managing a large Chinese workforce	2000	132	Blackman
it is hard to find highly skilled workers and managers in China	2000	133	Blackman
train, train, train is the motto of most companies in China that are serious about quality production	2000	133	Blackman
some ordinary problems that occur because of low skill levels and unfamiliarity with Chinese thinking about tasks they are assigned.	2000	133	Blackman
low level of technical knowledge	2000	134	Blackman
hidden agendas on the Chinese side	2000	134	Blackman
check everything as much as you can	2000	134	Blackman
one person does the work the other checks	2000	134	Blackman
problems of trust	2000	134	Blackman
problems of training	2000	134	Blackman
problems of staff turnover	2000	134	Blackman
the foreign partner has control over them, which is not the case with all the other Chinese employees	2000	135	Blackman

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managers are working only when you are there, when you leave they get someone else to do their work	2000	136	Blackman
quality problems	2000	136	Blackman
huge turnover of people	2000	136	Blackman
you must make sure that the GM is not seen as someone who is dictatorial	2000	136	Blackman
if they hate you they will not let you know what they are feeling, but you will feel it	2000	136	Blackman
that would be another reason for them not to respect you	2000	137	Blackman
if by being a diplomat you show too much patience and weakness, you are never going to get an outcome	2000	137	Blackman
for some expats it is impossible to predict Chinese behaviour or to understand motivations of the Chinese	2000	137	Blackman
you tell them one thing and the do another	2000	137	Blackman
staff don't arrive at work at the assigned time, but wander in anything up to two hours	2000	138	Blackman
staff requires strict supervision	2000	138	Blackman
low skill levels of staff and total lack of experience of Western quality	2000	138	Blackman
I spent most of my time concentrating on catching the faults before they became disasters	2000	139	Blackman
they just don't understand that the equipment cost so much	2000	139	Blackman
western managers often find that Chinese staff devise the 'wrong solution' to problem when they are actually thinking they are self- reliant.	2000	139	Blackman
The 'wrong solutions' are usually because Chinese simply haven't had the experience of advanced machinery.	2000	140	Blackman
the problem of the 'little chiefs' created by the training programs is a natural outcome of the Chinese social structure.	2000	140	Blackman
education is prized because it is short in supply, thus leaving many people doing menial tasks	2000	141	Blackman
there are symbolic presentation form subordinate to superior which are rather different in form and expectation compared with Western countries	2000	143	Blackman
western managers need a fine line between being dictatorial, which is not well tolerated but local staff and needing to show strength in order to maintain discipline	2000	143	Blackman
the Chinese have a certain perception the way a boss should treat them, and when this is transgressed, westerners can feel the hostility of people	2000	143	Blackman
on the one hand the boss must give directions, supervise closely and maintain discipline; while also, on the other hand, establishing a warm relationship	2000	144	Blackman
company structures in China are hierarchical with clearly delineated power and responsibilities. If you use less clearly defined methods, noting is achieved	2000	145	Blackman
time was being whittled away by trivial things.	2000	145	Blackman
there is a huge amount of time taken in recruiting staff and in inter-departmental disputes	2000	145	Blackman
there is a Chinese tendency to tell the boss what he wants to hear	2000	147	Blackman
Chinese people, when give a decision task, are more positive about the outcome than westerners	2000	147	Blackman

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Chinese teaching style is based on models that students then emulate. This contrasts with Western education in which students are valued for their own opinions.	2000	147	Blackman
western judicial systems use confrontation, Challenge and debate to reach a solution. Chinese systems use meditation, conciliation and guided solutions.	2000	147	Blackman
falsification of statistics is still happening	2000	148	Blackman
western managers were used to democratic decision-making, consultation, delegation and self-reliance. There is a lot of evidence that this Western style is not successful in China.	2000	148	Blackman
westerners need to redefine the takes of a GM in China.	2000	149	Blackman
Close supervision is the key among them.	2000	149	Blackman
the JV had skilled people but not those they needed.	2000	149	Blackman
hands-on management consumes a lot of time. Very few head office executive offices understand this.	2000	149	Blackman
the Western managers have to deal with the pressures from his own head office	2000	150	Blackman
the HQ expectations are based on an unfair comparison. It is like to compare a high school sprinter with an Olympic champion.	2000	150	Blackman
some companies have also confided that their choice of manager was inappropriate because of the managers inability to relate well to the Chinese and this this caused business problems.	2000	151	Blackman
the foreign company needs to find managers who bring Chinese employees to a higher level through a sympathetic regards for the local culture.	2000	151	Blackman
only a fraction of people and machines were actually running	2000	152	Blackman
a Chinese deputy GM will split the staff	2000	153	Blackman
managers spent little time with the workers and they did not know what was going on. When problem arose they could not handle it.	2000	154	Blackman
There is a language barrier and a method barrier to managing in China	2000	154	Blackman
in the past the power used to go off regularly	2000	154	Blackman
we only employ people who have not worked in SOEs. They do not have a bad work habit.	2000	155	Blackman
Chinese often have bad relations among themselves.	2000	156	Blackman
If they have friends working in the same department, they cannot discipline them.	2000	156	Blackman
communication causes a lot of headaches	2000	156	Blackman
you need to talk to the people directly, otherwise it is likely that the manager will tell a totally different story.	2000	156	Blackman
they just report 'sick' and their mum and dad will look after them. That is the effect of the one child policy.	2000	157	Blackman
you come out of the meeting thinking that there are no problems. Three days later everything collapses around you.	2000	157	Blackman
if the staff does not like you, you have got trouble	2000	159	Blackman
Chinese directors dominated the board, and meetings wasted valuable expatriate time.	2000	160	Blackman
pressure to appoint Chinese deputy GM which will split the worker loyalty and end up in conflict	2000	160	Blackman



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management			
they are reluctant to take responsibility for a decision that could result in a negative outcome.	2000	163	Blackman
people are used to the command-and-obey model of management	2000	163	Blackman
communication cannot be accomplished so fast because of faulty English language skills and the Chinese preference for indirectness.	2000	164	Blackman
it is a state-owned economy and the government believes it can interfere in the operation of your business at any time for no reason whatsoever	2000	169	Blackman
we would like to be left alone to run our business and pay our taxes according to what we are agreed to do	2000	169	Blackman
the bureaucracy has the ability to unilaterally impose something on a business, retrospectively and you have no right of redness	2000	169	Blackman
the bureaucracy is business	2000	169	Blackman
my view is that the whole of China is bureaucracy. We are selling to government departments, and we interface with the bureaucracy in customs, employment and in many other areas.	2000	169	Blackman
surveys conducted by the United States-China Business Council (95, 96, 98) found that 'government interference' was key problem for foreign-invested businesses.	2000	170	Blackman
information about proposed regulatory changes is rarely available to foreign enterprises, although such changes can have a huge impact on their operations and profitability.	2000	170	Blackman
the further away from Beijing, the less people worry about laws suddenly passed by the Central Government	2000	171	Blackman
the Central government has a horrible tendency to suddenly pass a law without any system for imposing it, making it work, checking on it.	2000	171	Blackman
the VAT fraud is still going on, even though they have executed people	2000	171	Blackman
Governments lack of consultation with private business and a concern that a lack of infrastructure to implement the law fairly across all businesses can disadvantage foreign corporations	2000	171	Blackman
local companies find a way to manoeuvre around the law	2000	171	Blackman
in the face of policy-making from the top, Chinese people have traditionally clustered together in self-protective and self-regulating groups based on a shared industry like guilds and chambers of commerce or associations	2000	172	Blackman
commercial disputes among members were adjudicated within the guild	2000	172	Blackman
foreign investors must deal with local governments whose officers exercise discretion in the interpretation of laws and regulations	2000	175	Blackman
local laws are often inconsistent with central laws and there are differences in legal interpretation and administrative directives.	2000	175	Blackman
the problem raised by foreigners in the inconsistent enforcement of laws and regulations	2000	175	Blackman
if you have JVs in different cities you will find different treatment, different procedures, different rates applying in the areas.	2000	175	Blackman
there is a misconception that China is a unity rather than a geographically and politically diverse	2000	175	Blackman

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collection of provinces			
there is a misconception that the Chinese legal system is somehow similar to Western legal-political systems	2000	175	Blackman
the laws are broadly drafted at the central level, but the rule-making and implementation based on those laws is left to the discretion of the lower levels of the bureaucracy	2000	176	Blackman
provincial governments have both administrative and legislative power	2000	176	Blackman
the Organic Law of Local People's Congresses and Local People's Governments allows enactment of laws 'according to concrete local conditions and actual needs'	2000	176	Blackman
the country is too big in terms of both population and territory and too diverse in terms of both folkways and customs for the central Government to enact any uniform and clear-out ordinance on the whole nation	2000	177	Blackman
exceptions are allowed in almost all Central government regulations	2000	177	Blackman
local government power always need to be factored into the forecasts and projections foreign companies make in China	2000	179	Blackman
falsified projections by new taxes and levies imposed by local and municipal authorities	2000	179	Blackman
special taxes are only levied to certain enterprises and not across all JVs	2000	180	Blackman
Chinese official expect JVs to fund social security, retirement, medical and housing programs.	2000	182	Blackman
individual bureaucrats take on great significance for business	2000	185	Blackman
the government environment has a lot of grey areas	2000	186	Blackman
people in the government who think they have jurisdiction over something but really don't, but they will try and say they do.	2000	186	Blackman
companies need to bargain about taxes and levies	2000	187	Blackman
all negotiating and discussing is very time consuming. They have many people in the government looking for revenue-generating activities to support housing or some other project.	2000	187	Blackman
tax and revenue-sharing systems are not governed by uniform rules established by law and enforced but the courts.	2000	188	Blackman
there are many complexities with different treatment given to different enterprises depending on the ownership	2000	188	Blackman
local enterprises are able to negotiate special tax reductions with their governing bureaus	2000	188	Blackman
tax, a fundamental instrument of government, is an area in which discretionary treatment is entrenched	2000	188	Blackman
there are major differences in granting tax exemptions and privileges or the authorising of alternative methods of computing profits and depreciation of fixed assets	2000	188	Blackman
negotiate fines and there is always a fine	2000	189	Blackman
everything is negotiable	2000	189	Blackman
Chinese believe that a large company from overseas has lots of money and the tax department want a piece of it	2000	189	Blackman
many Western managers feel that fines and taxes are primarily directed against foreign-invested	2000	190	Blackman

Problem	Year	Page	Author
enterprises.			
local supplementary fees increased by 100 to 200% and the number of bureaus collecting them doubled	2000	191	Blackman
sudden appearance of numerous new charges	2000	191	Blackman
it was common that even after tax had been paid, an extra tax charge would be levied at the end of the year.	2000	193	Blackman
the reason for extra tax charges would not be known to the business people levied	2000	193	Blackman
Chinese entrepreneurs protect their business by linking themselves to local bureaucrats in patron-client ties.	2000	194	Blackman
in return for benefits from the profits and skills of private business, bureaucrats provide access to information about policy thinking etc.	2000	195	Blackman
local protection can be imposed by setting up 'inspection stations' on the provincial borders to block the entry of competitive products	2000	195	Blackman
provincial authorities also protect foreign industry by giving preferential treatment to foreign partners an erecting tariff barriers against foreign companies located in other areas	2000	195	Blackman
In the West, the legal system is the foundation upon which trust in commercial relationships is built. In China, trust in commercial relationships is not built on a legal foundation but through specific ties to individuals.	2000	195	Blackman
ties based solely on commercial considerations are the weakest. The strongest and most productive ties are those produced by birth.	2000	196	Blackman
it is difficult for foreign businesses to handle their relationships with officials as the locals do, because of the different structure of the companies.	2000	197	Blackman
many Chinese-style business relationships would contravene corporate governance requirements.	2000	198	Blackman
at the municipal level there might be 20million people under the control of the local major - he is like god.	2000	198	Blackman
the structure bears no relationship to anything you can call logic. Ever. You have the most illogical groups of corporations, all cross-linked, that you never see in the West.	2000	199	Blackman
there may be dates in your contract but the chances happening are pretty remote to get infrastructure like power and water on time.	2000	199	Blackman
You have to watch like a hawk through the building program and take action yourself, otherwise your plant might sit there for a year without being able to run.	2000	199	Blackman
to start up a company you need maybe 140 chops put on documents to show approval. If you miss out on one, you can not run your operations.	2000	199	Blackman
people get moved around in the departments. You have got to work out on a day-to-day basis who is important to what.	2000	201	Blackman
before considering a major investment site, foreign companies need to invest a lot of time in understanding the local system	2000	201	Blackman
Foreign companies have to learn about the power-holders and the linked between different parts of the bureaucracy and about what mattered to them.	2000	201	Blackman

Problem	Year	Page	Author
bureaucracy doesn't make for preferential treatment. That is why knowing the actual local situation is so important	2000	202	Blackman
difficult experience of sharing JV management	2000	202	Blackman
difficult and unpleasant process of buying out the JV partner	2000	202	Blackman
Risk-averse is a common description given by Western business people to Chinese bureaucrats.	2000	204	Blackman
risk-averse behaviour results in decisions being postponed or passed up the hierarchy.	2000	204	Blackman
Communication from the bureaucracy to business is not always very good	2000	204	Blackman
matters not relevant to a particular department can be put aside and forgotten, and you may not be told that this is what has happened.	2000	204	Blackman
proactive action is necessary to progress matters through the bureaucracy	2000	204	Blackman
bureaucrats make their decisions based on rule books. When Western companies approach in a different way, the bureaucrat is faced with a problem: it is not according to the rule book and he might become responsible if something goes wrong	2000	204	Blackman
Chinese administrators have to balance the sensitivities of different departments because jurisdictions overlap.	2000	204	Blackman
Bureaucratic complexities are hidden from Western business people.	2000	204	Blackman
westerners must understand the process, who is behind the process, who has the authority and the chops to keep the matter moving.	2000	204	Blackman
there are a few published regulations available to the public. This forces people back on to relationships to find out how to expedite matters.	2000	204	Blackman
it was all written down, but nothing happened. It was just delayed and delayed.	2000	204	Blackman
Rather than reject the application and send it back, she just let it sit on her desk	2000	204	Blackman
We found out that we are now part of the administrative responsibility of another district	2000	204	Blackman
all department present their own problems. You have to learn how to get around them: whether it is relieving them of having to make a decision or implying that is has already been decided.	2000	204	Blackman
relationships in the approval process are almost as important as relationships in a business deal	2000	204	Blackman
you cant be heavy handed. The people approving things a lot of power.	2000	204	Blackman
many things depend on the interpretation. It is knowing who has the authority to interpret	2000	205	Blackman
you have to ask yourself how to remove a bureaucrat from a traceable responsibility.	2000	205	Blackman
you need to see lots of people and other companies to find out who chops their approvals. It is a lot of hard work.	2000	205	Blackman
Departments tell you to come back another time. You have to be very persistent.	2000	205	Blackman
you also have to watch out for people having the authority NOT to sign the approval	2000	207	Blackman
you have to work with various ministries to get your product approved	2000	207	Blackman
what Western manager find different from their dealings with the bureaucracy at home is the lack of helpful attitude	2000	207	Blackman
information is not freely given unless they have good personal relationships	2000	207	Blackman

Problem	Year	Page	Author
the Chinese bureaucracy is personalised as opposed to impersonal	2000	207	Blackman
because a westerner is not familiar with the rules of bureaucracy ,means that there are hold-ups	2000	207	Blackman
Chinese government departments have an abundance of workers to check all forms thoroughly.	2000	207	Blackman
This, coupled with the national preference for attention to detail, ensures that discrepancies in documentation will be spotted.			
even a stamp crossing a line on the document can result in non-approval	2000	208	Blackman
matters may cross the jurisdiction of a number of departments and it may not easy to track down	2000	208	Blackman
which departments are involved and who in those departments is responsible			
Chinese bureaucracies are staffed with large numbers of functionaries. People lower in the echelon	2000	208	Blackman
dare not make decisions that are the preserve of their bosses.			
it is necessary to track the chain of command to reach the person who makes the decision	2000	208	Blackman
their attitude towards regulations is, "I wont provide any assistance because it gets me into trouble."	2000	208	Blackman
dealing with the bureaucracy you cant expect a Western response. A Western response might be a	2000	209	Blackman
five minute response but in China you get frustrated after the third week.			
westerners go to the bureaucracy with the wrong attitude. They don't acknowledge the different	2000	209	Blackman
system and they have to know and understand the system.			
they start applying Western standards and when they do not achieve what they want they can get	2000	209	Blackman
very dogmatic.			
we discovered that we did not have the right cards to work there, but we have got all the stamps	2000	209	Blackman
and all the authorisations.			
sudden change of regulations	2000	209	Blackman
to get approval to build, the Chinese design institutes have to chop the drawing to indicate that it is	2000	210	Blackman
their drawing.			
it can be up to 22 authorities involved to get a preliminary approval for the plant design	2000	210	Blackman
design institutes are highly technically oriented and very high and strict on environmental matters,	2000	210	Blackman
especially with westerners, in regards to fire regulations and earthquakes			
if you go to a design institute with a proposal it is quite possible that they will say "Sorry, that is	2000	210	Blackman
impossible to do." They are so used doing things according to their code.			
you don't get ever total approval. You get permission to build, but when you have finished building	2000	210	Blackman
you need to get the drawings chopped again.			
you need to talk to them as equals and friends trying to reach a logical conclusion which is going to	2000	211	Blackman
satisfy both the authorities and your own situation.			
there are key persons who want that everything has to go through them	2000	212	Blackman
bureaucrats get frustrated by dealing with foreigners who don't know what they are talking about	2000	212	Blackman
when you try the Western way there are all sorts of walls build up. You need to do it the Chinese	2000	212	Blackman
way and give them the indication that you are willing to deal in the Chinese way.			
westerners need to acknowledge the differences in the procedures	2000	213	Blackman
westerners need to acknowledge that they are outsiders and unknown	2000	213	Blackman

Problem	Year	Page	Author
westerners need to accept that bureaucrats are risk averse	2000	213	Blackman
westerners need to accept that things take time	2000	213	Blackman
westerners need to prepare for minute examination of technical details and documentation	2000	213	Blackman
westerners need to talk around the regulations with different authorities	2000	213	Blackman
westerners need to make a personal approach to people with status in the hierarchy	2000	213	Blackman
westerners need to recognise the frustration which non-Chinese speaking foreigners cause for the Chinese	2000	213	Blackman
there are said to be 11 million bureaucrats and they control many essentials for business their co-operation is worth fostering	2000	214	Blackman
assumptions held in the West cannot be automatically applied to China	2000	215	Blackman
western managers have to know the local, unwritten rules if they are to negotiate successful outcomes.	2000	215	Blackman
especially language problems hinder that Western managers join networks and build personal relationships to learn the unwritten rules of the local business community.	2000	215	Blackman
Most Western managers exclude themselves from Chinese life. Their living standards and recreational interests are foreign.	2000	215	Blackman
most Western managers are transients, sojourners, seen by the Chinese as only passing through. This makes the issue of trust in business relationships difficult to achieve.	2000	216	Blackman
westerners can feel excluded by the Chinese.	2000	216	Blackman
The physical appearance of foreigners among Chinese is very obvious.	2000	216	Blackman
Chinese society consist of very large numbers of people living closely, working closely and who have a strong sense of 'Chineseness'.	2000	216	Blackman
Any stranger who cannot speak the language of the local community is largely excluded.	2000	216	Blackman
The Chinese language is unrelated to any Western language and presents a special barrier.	2000	216	Blackman
most Chinese had little contact with westerners	2000	216	Blackman
western people are easily identified as outsiders	2000	216	Blackman
westerners are under scrutiny from Chinese managers and employees.	2000	216	Blackman
Locals will soon not the strength and weaknesses of the foreigners and use them for their advantage	2000	216	Blackman
the points of cultural difference cannot be lightly dismissed	2000	216	Blackman
the learning in China is China-specific with very little transferable to a wider global business context	2000	216	Blackman
Chinese live in a strong, all-embracing culture, confident in its values. This can make for resistance to Western methods and Western goals.	2000	217	Blackman
Power holders in the bureaucracy are responsible for the local economic well-being and social stability.	2000	217	Blackman
There is a strong tendency to favour Chinese business, much of it happens secretly.	2000	217	Blackman
local tax bureaus will exclude foreign accountancy firms by recommending to local and foreign businesses former government employees now running independent tax companies.	2000	217	Blackman

Problem	Year	Page	Author
No foreign company can ignore local power holders and their interests.	2000	217	Blackman
The market has not been as welcoming as expected.	2000	217	Blackman
many Chinese prefer to buy Chinese goods, and their lower prices make them attractive	2000	217	Blackman
in JVs, Chinese partners are not always willing to share benefits and adopt capitalist thinking.	2000	217	Blackman
western executives did not foresee how strongly Chinese expectations and customary practices would influence the transfer process.	2000	217	Blackman
the relationship between a foreign company and its Chinese employees is also shaped by Chinese custom.	2000	218	Blackman
Chinese employees expect a foreign company to look after them in a total sense.	2000	218	Blackman
western manager have had to exercise strict control over assts and address an avalanche of petty theft.	2000	218	Blackman
Chinese staff places high expectations on foreign companies on personal and family benefits: housing, medical, retirement, education, travel, opportunities form promotion and income.	2000	218	Blackman
Chinese turn the relationship with the company into a moral issue with concomitant disillusionment if the company fails their expectations	2000	218	Blackman
the boss-subordinate relationship reflects the whole style of power relationships in Chinese society: directive from above with punitive discipline for the disobedient	2000	218	Blackman
the discipline father figure present but distant seems to be the most successful model	2000	218	Blackman
the power relationships in China run counter to all the current Western theory and practice on workplace relationships: participatory, democratic and with a large margin for the exercise of individual initiative	2000	218	Blackman
making assumptions from the directive boss-obedient employee model that Chinese employees are dependent and compliant is far from the truth.	2000	218	Blackman
A Western executive's inability to control the workforce leads to chaotic work practices, low productivity and a company that is effectively out of control.	2000	219	Blackman
government law-making has been unpredictable	2000	219	Blackman
the local bureaucracy is neither impartial nor distant	2000	219	Blackman
the principle of local benefit dominates administrative decision-making.	2000	219	Blackman
officials have discretion over issuing of licenses and permits, customs clearances and taxation.	2000	219	Blackman
the officials formulate and administer rules and regulations, and have the discretion whether or not to enforce administrative and court judgements in commercial disputes.	2000	219	Blackman
decision-making based on black letter laws and regulations is not clear and transparent	2000	219	Blackman
unlike in most Western democracies, the power of Chinese officials transcends the purely administrative.	2000	219	Blackman
western executives have found China a nominally united country with strong local loyalties	2000	219	Blackman
western executives must deal with a multiplicity of local regulations and taxes, as well as highly protectionist and competitive behaviour towards other localities	2000	219	Blackman
using expertise or products from other areas of china is vehemently discouraged.	2000	219	Blackman

Problem	Year	Page	Author
Making into another locality is difficult by the localities protectionist policies.	2000	219	Blackman
the unexpected often catches Western executives unprepared.	2000	219	Blackman
Risk minimisation concerning power, water supply and transport are essential.	2000	219	Blackman
China's market who are unprotected by sovereign guarantees, find debt a serious management problem.	2000	220	Blackman
Court judgements to recover debt cannot be enforced in many cases because Chinese businesses have moved into other accounts	2000	220	Blackman
it is a long business tradition in China to keep two or three sets of accounts to avoid tax and to keep information on the business within a trusted circle.	2000	220	Blackman
the tightness of the official-business linkage is reinforced by an official's in adequate public sector salary which is mightily improved by the profits from business.	2000	220	Blackman
although many characteristics of Chinese business derive from the socialist period, they are uncannily reminiscent of Chinese business before 1949, when business and bureaucracy were intermixed.	2000	220	Blackman
there are always new entrants to the market	2000	220	Blackman
Companies demonstrate different needs and capacity for guanxi cultivation.	2001	455	Park/Luo
Guanxi leads to higher firm performance, but is limited to increased sales growth and has little impact on profit growth.	2001	455	Park/Luo
Guanxi benefits market expansion and competitive positioning of firms, but does not enhance internal operations.	2001	455	Park/Luo
there is no clear scientific evidence of the success rate using JVs as an entry mode versus WFOEs is	2001	116	Li/Lam/Qian
JVs in China lack of control of important institutional and environmental factors	2001	117	Li/Lam/Qian
JVs are not good for IP protection	2001	127	Li/Lam/Qian
JVs are predominately set-up for low-tech and low cost but due to change to a buyer market many face tough competition	2001	128	Li/Lam/Qian
China is a web of complex foreign institutional arrangements and inter-organisation relationships	2003	185	Slough/Miesing
inadequate infrastructure	2003	185	Slough/Miesing
Chinese companies often put a premium price on their company based on little more than gut instinct.	2005	M5	Rong
Government rules state that state-owned enterprises are not to be sold lower than their NPV.	2005	M4	Rong
Chinese companies tend to focus on the value of their assets rather future profitability.	2005	M3	Rong
Chinese executives often have no realistic sense of how much their companies are worth.	2005	M2	Rong
Chinese executives generally don't use pricing methodologies common in developed markets.	2005	M1	Rong
convoluted ownership	2003	185	Slough/Miesing
in China everything is difficult leading to frustrations, esp. for newcomers	2003	185	Slough/Miesing
national cultural complexities and enormity inherent cultural differences	2003	186	Slough/Miesing
In China one can find ingrained values and attributes as "guanxi", "hou men" and corruption	2003	186	Slough/Miesing



Problem	Year	Page	Author
there is a long-standing, embedded matrix of cultural foundations and manifestations	2003	186	Slough/Miesing
there is a lot of contradiction in research results about China on business practices and cultural habits	2003	189	Slough/Miesing

## Appendix F. Problem Categorisation Worksheets

Problem	Cat I	Cat II	Page
banquets have their own rules and often include heavy drinking	culture		3
you need to be a street-smart person and good drinker to get the respect of the Chinese	west	culture	4
the Chinese throw out challenges and if you don't keep up you will be downgraded in their eyes	culture		4
everything is based on challenging the next person and on losing face	culture		5
banquets take a lot of time and follow different targets like extracting information from people, test their reputation, test their endurance	culture		5
every banquet will bring a challenge food wise	west	culture	6
the banquet table was not friendliness and hospitality but the opposite	interaction		6
you cant say that you cant dink - you have to drink	culture		6
entertainment may include call girls	culture		7
the banquets will invite people at all levels in order to make sure to get cooperation form all people who might have an influence on their business dealings with the boss	relationship	culture	7
in the old state system appointed distributors by the government had monopolies over their geographical area and a hidden commission system with a vast network of lower-tier networks	history		7
Chinese distributors are used to dealing with large quantities of product and a high wastage rate, so producing quality products is entirely new to them	concepts	quality	7
the Western distributor bonus system might not world as people trade with one another for very small margins	concepts		8
the company has to deal with a number of distributors without knowing them and the relationships between them	concepts	transparency	8
it is difficult to win the loyalty of distributors	concepts	trust	8
distributors are undercutting one another and trying to kill of a competitor that affects the price initially and later the stock	competition	concepts	8
distributors lack of proper product storing and handling	infrastructure	knowledge	8
there are transportation restrictions and trucks cant go into certain areas and other areas you cant bring vans in	operations	infrastructure	9
the company needs to double up its vehicles due to the transportation restrictions	operations	infrastructure	9
there is a logistical problem and it needs time to understand the transportation restrictions	operations	infrastructure	9
due to the multilevel tier distribution in China goods get easier damaged	operations	infrastructure	9

Problem	Cat I	Cat II	Page
at the current time the Chinese customers don't have loyalty to a particular brand	competition		9
the way of consuming food products is different in china compared with other countries	culture		9
it is hard to understand and predict the market fluctuations	operations		9
Chinese consumers have their own value and status systems, their own beliefs that affect the way they consume products	culture		10
western executives found that a system of sub-contracting banned in their home market was normal in China	concepts		11
through pyramid sub-contracting, profits are shared by a large number of related groups	concepts		11
the contractor actually doing the job is actually getting one third of the profit and has not been told about the required quality	concepts	quality	11
the company needs to work directly with the workers showing them how to do the project	knowledge		11
westerners are outsiders without contacts and are more open to being cheated.	culture	ethics	12
China's business environment is highly competitive	competition		12
there has been a long tradition for the government to have little to do with the implementation of commercial regulations and dispensing justice in conflict resolution	legal	history	12
litigants were expected to enforce the judgement themselves and the court expenses were heavily against the plaintiff	jurisdiction		12
the problem is that there are all in it together	culture		14
there is a common Chinese practice of submitting inflated invoices	ethics		14
in China one has to question everything	expectations	unpredictability	15
products can be very quickly be replicated by Chinese competitors	competition	IPR	16
companies are overoptimistic about financial assumptions and profits and the competition in China	expectations	competition	16
Chinese companies are very good in engineering their own solutions to particular market requirements or copy very quickly the better ideas or access technology directly through technology transfer agreements and become straight out competitors	competition		16
Chinese managers had been stealing the equipment and stealing it to other organisations associated with the parent organisation	ethics	interconnection	16
by selling stolen goods even managers can easily earn a month wage	ethics	disparities	16
illegal selling of parts and equipment to competitors results in a competitive disadvantage for the JV	ethics	competition	16
State-owned enterprises are able to sell their products at a low price because they don't properly cost their inputs	competition	concepts	17

Problem	Cat I	Cat II	Page
Distributors given exclusive rights are not proactive and only wait for the telephone to ring	expectations	culture	20
the commonest forms of competition from Chinese companies is through counterfeiting foreign products	competition	IPR	21
the successful counterfeiting sentence was only slowly enforced, esp where the manufacturers had their factory	legal	unequal	21
foreign complains about lack of profitability due to overcapacity	operations		23
Chinese policy-makers are worried about foreign domination of key industry sectors	government	fear	23
corruption is remarkable, esp. by its frequency and the involvement of officials	ethics	government	24
even through communist system education the values are remarkably similar to the traditional Chinese family values	culture		26
western managers find their Chinese staff recommending relatives for positions in the company	culture	nepotism	26
Chinese managers appointing relatives of officials to positions for which they are not qualified	culture	nepotism	26
there are huge differences from the Christian view which centres on individual redemption and faith and the Chinese values where an individual is defined by relationships with and responsibilities to his family and friends	culture		28
patronage is an commonly accepted element which is featured by the Chinese value of 'sharing'	culture	nepotism	28
westerners and Chinese have different value systems	culture		29
there is a strong value of reciprocity in China which is very differently handled in the West	culture		30
corruption in the bureaucracy is aided, and in fact made inevitable by the principal of 'entrusted' or 'inherent' power within the legal and administrative system	ethics	concepts	31
China seems as too big and diverse for centrally proclaimed laws and regulations to be appropriate in detail for every locale.	concepts	jurisdiction	32
Laws are written in the general and applied in the particular by local officials.	concepts	jurisdiction	32
Chinese see information as power and restrict it on all levels	communication	transparency	40
authorities keep information on regulations they promulgated within the bureaucracy for their discretionary application	bureaucracy	transparency	40
work groups trained by foreigners refuse to train the next work group because that might give them advantage	communication	culture	40
Chinese trainers may omit to impart crucial information to trainees, in order to shore up their own power	communication	culture	40
indirectness distinguishes Chinese communication from Western communication	communication	culture	40

Problem	Cat I	Cat II	Page
local authorities might show upset by indirect methods signalling their disapproval of things	communication	culture	41
China falls into 'high' context' type of culture, while most English speaking cultures fall into the 'low context' type.	communication	culture	42
different communication ways and sentence structures in parsing statements	communication	culture	43
Chinese aims to minimize disagreements by including possible points of view of others	communication	culture	43
westerners might not listen properly due to different communication style how to phrase an argumentation	communication	culture	43
important points a Chinese person makes indirectly in his communication and as a result, the westerners are in danger of concluding that everything is OK	communication	culture	43
For Chinese, to follow the Western order in putting their point of view would be to risk appearing rude because it would sound as if they were demanding something.	communication	culture	43
Americans are trained in public speaking skills, the stress in Chinese upbringing at home and at schools is on listening skills	communication	culture	43
westerners don't listen intently or with enough patience, quite often they will cut the Chinese speaker off before he reaches his main point.	communication	west	43
westerners must be aware of giving face to the Chinese counterparts	communication	culture	44
the way a Chinese subordinate communicates with the boss differs from comparable communication in a Western workplace	communication	boss-subordinate	44
Chinese subordinates want to be 'non-face-threatening' towards the boss, to publicly express alternative ideas is to express lack of confidence in the boss	communication	boss-subordinate	44
there is a difference in 'conceptual communication' - that is, the notion that words do not necessarily conjure up the same concept in another culture	communication	culture	44
Chinese workers expect top management to go out and talk to them, asking them about their problems	communication	culture	46
the real problem was the communication with the Chinese	communication		46
western impatience paired with Chinese communication style	communication	west	46
Chinese preference for indirect communication confuses westerners	communication	indirectness	46
distract westerners by starting to say that they want to buy one thing when they are actually interested to buy another thing	communication	culture	47
it is not uncommon for the Chinese to agree on a proposal but then to do nothing	expectations		47
the Chinese expect that the other party will read the hidden signals and deduce the actual situation	communication	indirectness	47
the Chinese have an ingroup concept - if you are a member they use the techniques of respect, mutual benefit and an emphasis of harmony	culture	communication	48

Problem	Cat I	Cat II	Page
if you are an outsider of the ingroup the Chinese communication style will be	culture	communication	48
dispassionate and rationalistic, without regarding the other partys feelings	expectations		50
nothing is as it seems on the surface			
There are always intricate reasons and underlying reasons why someone is doing something.	objectives		50
westerners need to sit down and listen and try and work out what the real game plan ist.	objectives	communication	50
westerners need to be flexible, it is very difficult to set endpoints	communication		50
managing people takes a lot of time as managers need to talk to the workers constanly	operations	concepts	50
western managers need to find out when issues are brought up if they are an issue or a non-issue.	communication	transparency	50
the chinese have difficulties dealing with each other	conflict		51
westerners can not believe everything they are told and have to find people they can trust to find out what is going on	communication	trust	51
westerners need to build up a management team who are loyal and who they can trust	operations	trust	51
you need to have systems in place to control as much as you can	operations	control	51
the Chinese will do everything to make money out of you	objectives		51
the bigger the business gets the harder it gets to control the business	operations	control	51
Many Western companies came into China drawn by a hype from media and own governments rather than convinced by facts	expectations	government	55
How to operate a venture in China is the difficult question (not how to structure the investment) as there is no blueprint.	operations		55
during the 80s and 90s many companies went into China believing that the booming economy would provide a growing market. They were led in these assessments by the hype from their own governments media.	history	expectations	55
advisers in legal and accounting know black letter laws but not necessarily what it would actually like to operate in China	jurisdiction		55
there is no blueprint for business operations in China	operations		55
strategic head office plane of the foreign partner had to be tested in the reality of the Chinese market	expectations		55
the Chinese government had oversold the opportunities for profit-making and had not undertaking detailed planning about how many international companies the market could support	government	expectations	55
Many Western companies came into a crowded market instead of being the single player as expected.	expectations	competition	56

Problem	Cat I	Cat II	Page
western companies were expecting that competition would be controlled by industry sector, in fact there were no controls	expectations	competition	56
western companies found that they were one player in an overcrowded market	competition		56
China is very bureaucratic opening doors for bribery and corruption	bureaucracy	ethics	57
Unclear property rights in China (e.g. land) make operating difficult.	jurisdiction		57
western firms most of the times don't know who is in charge and who is making the actual decisions.	transparency		57
there is a Chinese desire for bribery and corruption which we found hard to handle	ethics		57
after the company established the JV the Western executives discovered that their JV partners did not have any money.	unpredictability	transparency	57
if a JV does not develop the land within a few years the Chinese government will reclaim it	jurisdiction		57
you don't know who is in charge and who is making decisions	transparency		57
Chinese say something and it doesn't mean that they will actually do it.	culture	expectations	58
we could not figure out who to talk to	transparency	bureaucracy	58
Chinese give wrong excuses for not fulfilling their obligations	trust		58
we are used to people having a common business ethic	ethics		58
they never tell you the truth	ethics		58
in China, breaking your word seems to be acceptable.	expectations		59
Chinese profit thinking is much more short-term than Western thinking	objectives		59
in China, breaking your word is seen to be acceptable	culture	ethics	59
Chinese are self-centred and short-term minded from business point of view but the political leaders seen to have a long-term perspective	culture	objectives	59
distributors have to be tightly controlled	operations		60
there is a lot of competition from local companies having a much lower cost basis than the JV	competition		60
Competition focuses in the big and wealthy cities where all foreign companies are trying to enter.	competition		60
the company's own distributors were undermining the company's reputation and relationship with the public, as well as cheating the manufacturer out of money.	operations	ethics	60
unethical practices	ethics		60
Competition from local companies who don't have the financial burden of expatriate managers	competition		60
most JVs focused on the big cities were all the international competition is	competition		60

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to move to provincial markets would stretch their resources and would not be cost-effective	distribution	profitability	60
There are high taxes and the system is not transparent	jurisdiction		61
Money collection (A/R) and long payment terms is a big problem.	operations		61
the JV is taxed on turnover but one is not sure that Chinese companies have to comply in this way	unequal	competition	61
receivables are extraordinary - people in China don't pay	operations	receivables	61
local Chinese companies are not taxed the same way.	unequal		61
It is very hard to explain the situation in China to Western head office.	west		62
common feedback from headquarters: "China cant be that bad"	west	expectations	62
the managers who are located in china brought up the problem of head office expectations a number of times	expectations		62
the foreign board has to understand that it isn't an open invitation to make money	expectations		62
big companies have the attitude that success should come to it automatically	expectations		62
Many companies have scaled down their initial investment as strategic goals cannot be met in reasonable time.	expectations		63
Chinese government directs foreign investors to non-performing enterprises.	government		63
Chinese government copies Western techniques using it in their own enterprises.	government		63
The government takes a very active role in business and standing behind JVs.	government		64
western companies expect straightforward and frank communication.	communication	expectations	65
western companies are made believe that Chinese are interested in long-term investment and the government is trustworthy.	expectations		65
Debt and high AR are a serious problem in China as companies can easily become illiquid.	operations		66
There is a lack of dependable enforcement mechanisms for legal agreements in China	jurisdiction		66
the Western business people expected trustworthy, co-operative business partners, since all were linked to government enterprises	expectations		68
Chinese partner was concentrating on maximising its own gains from the partnership	objectives		68
the Chinese partners were Communist Party managers schooled for 30years in anti-capitalist and anti-western rhetoric	history		68
Chinese partner's agenda was quite different from what they had thought it was.	objectives		68
SOEs were in deep financial trouble and desperately needed fresh capital	history		69
What was driving the Chinese side was a short-term focus on profit and lack of finance.	objectives		70
The Chinese partner did not have the cash to handle the start-up period.	unpredicatbility	transparency	70
they tried to take money out of the JV to help fund their share	expectations	practice	70



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the Chinese partner would use any reason at all to prevent the foreign executives from seeing that they could not meet their financial obligation.	hidden		70
the expatriate GM a Malaysian Chinese, was compromising and hiding it from head office	culture		70
the more defensive of their position they became, not letting us know what the real position was, the more aggressive they became and the less the initial feelings we had about them became sustainable	hidden		70
after a fight between the JV partners it is very difficult to go back from that point	trust		70
one issue that caused ongoing conflict was that the Chinese partner saw it as legitimate for them to take gain out of building the factory	expectations	practice	70
the Chinese attempted to take a commission on all activities	ethics		71
the Chinese position was that they wanted all construction contracts to go to the construction divisions of their parent company	ethics	practice	71
the Chinese side instructed the contractors to increase their price so that they could pay them a commission	ethics		71
when to foreign company insisted on giving contracts to the contractors best qualified for the job, the Chinese side wanted to take a commission form them.	ethics		71
the foreign executives believed that not only the Chinese parent company was benefiting from the commissions but also the Chinese directors as individuals	ethics		71
the problem was the foreign company could not sign a contract above a certain amount without board approval	shared		71
they set up blocks - when a signature was needed they delayed it	shared		71
although the local contractors knew the specifications stipulated in the contracts, they tries to maximise their returns by cutting back on quality - doing the rework they also cut corners	concepts	quality	72
that's one of those things they agree to on JV signing: it is another to live with it afterwards	expectations	shared	73
the Chinese side insists that it is their role to manage the Chinese relationships	ethics		73
concessions were made my the Malaysian Chinese GM allowing the Chinese partner to renegotiate the original terms on the land price and was making concessions which head office wasn't aware of	culture		73
the Chinese went all out to break the new GM through victimisation and employed every method to apply pressure	shared		74
when the foreign GM would not co-operate they would write to the CEO	conflict		74
the Chinese were vocally very aggressive	interaction		74

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it was just a standards "extract anything you can get out of the JV" mentality	objectives		74
the Chinese did not have a clue about business	knowledge		74
the Chinese claims that the foreign partner does not understand how to conduct business here	conflict	fear	75
the Chinese side wanted to transfer people from their organisation and told the Western executives at great length that they didn't know what they were doing and that their approach was wrong	interest		75
little incidents were used to make a big issue out of them emphasizing that the foreign don't know the rules, they must let HR issues handle the Chinese side and they don't understand the system	interest		75
although the price of the land had been agreed to, the Chinese partners later wanted to renegotiate it	shared	practice	75
the Chinese brought in other issue to reopen the negotiations	conflict		75
the Chinese force you to fight on so many fronts that the foreigner will lose on some.	conflict		75
the Chinese partner hadn't told the foreign partner that they had no license to do certain things	ethics		76
the Chinese used excuses were whatever came into their heads	transparency		77
the foreign partner had to make sure that government departments handling the relationships did not get bad publicity and loss of face	culture	communication	78
many Chinese have the view that foreign companies are rich, so they can pay.	expectations		79
the Chinese partner, being a very big enterprise with supply, manufacturing and marketing arms was used to using their muscle to achieve their ends	concepts	expectations	79
taking a commissions is a time-honoured commercial practice in China.	ethics	culture	81
the Western criteria , the best contractor for the job, is less common than using related contractors or in-house contractors who pay a percentage to the go-between	concepts	ethics	81
Chinese contractors are closely associated though a contracting pyramid	concepts		81
the result of the commission taking pyramid is that the contractor doing the job is being paid a fraction of the original contract price and he gives quality accordingly	concepts	quality	81
the Chinese may well say, 'this is our country - why should we tell the foreigners what we are doing?'	transparency		82
some see facilitation payments and services as the equivalent of sponsorship, public relations, marketing and advertising the developed markets in the West	ethics		83
big companies have staff dedicated to fostering relationships with the bureaucracy, but these staff always run the risk of being on the other side of the law.	ethics	bureaucracy	83
to deal with a steady stream of incidents relating to corrupt practices	ethics		84

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there is no relationship between price and cost	expectations	concepts	84
the entertainment and the deals that are done by the Chinese are more extensive than foreign-owned JVs are prepared to go to	concepts	ethics	84
the operations manager organised local Chinese workers in a revolution against him	interest		85
hung long banners denouncing all Western imperialists around the factory walls	history		85
even MOFTEC government officials were arrested by the authorities for taking commissions from facilitation work	ethics	government	86
it is proving to be a difficult assignment to recover money when the aunt is at a high level in an internal security division of government	jurisdiction	relationship	86
they used false invoices and were splitting the profits	ethics		86
"if you not import your copper through us, you shipments will be delayed"	ethics		87
quite often you find out that digging deep into who is this agent, who is supporting him, it will be some branch of the military	government		87
factory manager were buying plant and equipment simply because it was a way to pick up extra cash from the machinery manufacturers	ethics		87
our biggest problem is getting paid for what we have delivered	operations		88
accounts receivables are about 250days	operations		88
threatening legal action is just a waste of time	jurisdiction		88
my company is not profitable but I am rooted and I cant get out, it would cost me too much money to close it up	profitability		88
we will be never be able to make any money in China	expectations	competition	88
on paper it made good sense. But we spent no time looking at how we would run the business once we'd invested our money	expectations	operations	88
lavish entertainment is a sign of status and affluence in a society where many have been traditionally living in poverty	culture	history	89
although the government and the Public Security Bureau are committed to fighting these corrupt excesses , it is a difficult task when government officials and managers of public organisations are participants.	government	ethics	90
getting justice through local officials proved to be a long and difficult process in a number of criminal offences against overseas Chinese	government	ethics	90
China is no longer the controlled society westerners experienced in the communist period	expectations		90
because of the significance of entertainment in facilitation, large Western companies have facilitations departments, so-called government co-ordinations departments.	culture		90

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all the guanxi in the world wont get you payment unless you have a strong commercial basis	relationship		91
the structure is oriented towards the Chinese and they know it	concepts		91
westerners and their parent organisations are not integral parts of the Chinese community where values and goals are shared and where obligations have been built up over a long time-frame, they are not included in the Chinese community of trust.	trust		94
Lack of trust opens the ways for duplicity in the treatment of outsiders	trust		94
people who are Sino-centric, who will put their needs above those of the JV	interaction		95
all the Chinese lied to us and they would lie and lie and lie to cover up	interaction		96
that is why a lot of people take about the losing face thing. Everything is a constant test of strength	culture		97
a foreign party will have to find out who is related to whom and who owes whom a favour	transparency	concepts	97
doing business in China is not all nice and friendly and kissing	conflict		98
things can be done in China, but the only way you can have real satisfaction is to be very prudent	leadership		98
it a possible that a foreign party will get false documents presented, they can produce anything you want and they can change the dates or change the stamps.	unpredictability		99
there is a Chinese custom of keeping damaging information from themselves	culture	communication	99
there is no open-problem solving approach expected by Western JV partners of their Chinese partners	concepts	conflict	99
there is a secretiveness about Chinese actions and agendas	objectives	trust	99
it is common observation that Chinese staff are skilled at telling Western managers what they want to hear, rather than the truth and fabricating illogical excuses in problem situations	communication		100
collectivist societies are low in trust between people who are not family and friends	trust	culture	100
Chinese are pragmatic, meaning that they make the best of any situation.	culture		100
Chinese have not been brought up with the belief in 'truth' as an absolute, and 'untruth' as a sin.	culture		100
members of collectivists societies are very sensitive about having their mistakes publicly noted.	culture		100
The Chinese view of their history with the West is being reduced to semi-colonial status prior to the communist revolution and victory.	history		101
There is antagonism, fear and suspicion in regard to foreign business	history	trust	101

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Coupled with the antagonism versus foreigners are the exclusiveness of in-groups in Chinese society and hostility towards out groups	history	culture	101
individual members of the Chinese side are under pressure to meet the objectives of their side are under pressure to meet the objectives of their side. Anyone who breaks ranks can easily be labelled a traitor to Chinese interests.	shared	culture	101
Chinese are concerned that foreign products have taken away market share and harmed the reputation of Chinese brands	fear		102
Chinese believe that the preferential treatment given to foreign-invested enterprises has put China's national enterprises into an unfavourable positions.	fear		102
Chinese believer that pivotal industries such as automobiles and communications are already monopolised by multinational companies, and chemicals and electronics are increasingly dominated by multinationals	fear		102
Chinese criticise that JVs accept favourable treatment without fulfilling their required social responsibilities.	unequal		103
as part of a JV the Chinese want to share management equally, regardless of their equity level.			107
shared management is a potential time bomb	shared		107
two partners are involved in a struggle for power	shared		107
naturally each partner attempts to implement the agendas of their parent organisation	shared		107
When Chinese JVs were established, Chinese managers despatched to them from the parent believed that foreign participation would be short-term.	expectations		108
Chinese managers believed that everything would be better in a JV	expectations		108
Chinese believed that Western management know-how could be easily learned overnight and advanced technology could be applied at once	expectations	technology	108
in the past 30 years the Chinese have repeatedly been told that they are their countries masters, the owners of enterprise and in the position to have the final say. In a 50/50 JV they no longer have that position.	history		108
when the Western managers began they did not know that the market was highly competitive and was to become increasingly so over time	competition		109
the Western company had been told that once they had improved the product would sell on its own	expectations		109
the Chinese side had expected that the foreign partner would do well automatically.	expectations		109
both sides had expectations that were impossible to meet	expectations		109
in the JV nothing was be possible to be kept confidential	shared	practice	109

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the state wanted returns as quickly as possible, before we had established the business and sales	government		110
Chinese directors wanted to buy local plant and thus keep the money in local Chinese factories.	local		110
although we would have preferred to buy locally, we could not find local equipment suited to a modern plant	local		110
there was a bad hostility from the Chinese side	fear		111
over the years the Chinese partner real agenda emerged and it was too different from the foreign company's.	objectives		111
The Chinese wanted to have quick returns and management control.	objectives		111
expectations on both sides that were unrealistic	expectations		112
Chinese managers who saw their past prestige and power being undermined	shared		112
different agendas on both sides	hidden		112
Chinese expected foreign companies to invest large amounts of money that would save state-owned enterprises from heavy debt burden	expectations		112
Chinese wanted to maintain high staffing levels and social welfare support	objectives	shared	112
Chinese managers were directed to carry out the government policy of 'localisation' - that is, to give maximum opportunity to local industry to supply foreign invested companies.	local		112
their parent company had its own distribution system which worked on high volume, small margins and no brand awareness	concepts	knowledge	112
the foreign manager had to cope with the expectations of his HQ, best practice production, which implied a substantial reduction in the workforce, marketing based, brands, building market share etc	expectations		112
the irreconcilable agendas were expressed through divided loyalties among staff, suspicion and distrust.	objectives		112
Chinese people just did not want to pay for a foreign product when adequate and cheap local products were available. This led to poor financial outcomes, resulting in recriminations from Chinese board members.	competition		113
they saw it as a betrayal of their trust in the foreign company's ability to make profits.	trust		113
many things happen that do not appear to conform to Western logic and over which a foreigner has little control	expectations		113
westerners are not familiar with rules	hidden		113
western managers experience high stress levels and frustrations	expat		113
unpredictable nature of management problems	unpredictability		113

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dispatches and deliveries were delayed due to the attitude of the local people who wanted to protest about noise or traffic or some other uses related to the factory - to demand monetary compensation	operations		113
Chinese partner concerns with matters on their side to the exclusion of the Western partner's interest.	objectives		113
the Chinese directors had made promises of a dividend to the local government and the Party	hidden		114
that the company had serious debt was secondary to the pressures on the Chinese side to appear profitable by distributing a dividend.	hidden		114
One of the major challenges for an expatriate manager is introducing Western workplace culture	culture		116
workplace culture inherited from the SOEs	culture	workplace	116
Staff trained in the SOE culture was used to management by Communist Party cadres, rather than by professional business managers	history	workplace	116
there was a reward system unrelated to performance	history	workplace	116
once the quota was reached, employees had nothing more to do.	history	workplace	116
the state enterprises had financial structures that had nothing to do with market forces	history		117
technical and management skill levels lower than Western managers expected, even among university graduates	expectations	skill level	117
expatriate managers charges with effecting culture change is difficult when the ratio is 3:350	operations		117
the Chinese ripped off our parent company right from the start	hidden	objectives	118
there has been a lot of corruption	ethics		118
it is hard from the to realise that they have no longer lifetime employment and lifetime security	HR		118
other problem areas are quality issues	quality		118
productivity issues	operations		118
customers demands about delivery	distribution		118
it is very hard for them to break the mould of the past , of the last 30 years	history		118
the shop floor felt intimidated by the older style, senior management	relationship	operations	118
Chinese managers feel they have lost their authority and status, it has created friction between the senior level of Chinese management and the expatriates	HR	shared	119
they are afraid of making the decisions.	bureaucracy		119
they have never had that responsibility in the past because the operations manager made all the decisions and disciplined the workers.	HR	operations	119

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he blames it on something that had no relevance whatsoever	communication	culture	120
things which take a minute or five minutes at home take an hour or two days here	communication	indirectness	120
here we need two operations managers on duty to cover 20 hours	operations		120
head office wants to have only one expatriate responsible for productions	west	HQ	120
the work gets not accomplished on time	operations		121
Chinese are very good in blaming someone else	operations	HR	121
things were stolen	ethics	HR	121
it is very rare to find people who make decisions for themselves	decision		121
there is a resentment between old and young shift managers	HR	operations	122
No one likes the people we employed after the JV was formed	shared		122
all the old people have power, the shift managers never tell you when an old employee has done something wrong	HR	operations	122
when the company first came in, it tried to throw money at the existing employees thinking it would motivate them. It did not work.	HR	leadership	122
that is how they show their concern: they go and find another job	HR		122
they are happy in what they are doing because it is so much better than what they used to.	HR		123
the scrap rates are very high	operations	HR	123
they have an unusual consumer attitude. If they go to a shop and buy five things they expect that two will not work.	expectations		123
the equipment is too sophisticated for the workers - they went from a bicycle to a rolls-Royce over night	knowledge		123
they are more interested in our social welfare than in getting the plant operations	shared		123
we had a lot pf problems because they see expatriates as an very expensive item and they feel that they can do the job themselves without the expats	shared		124
the Chinese partner at this plant has too much to say	shared		124
the personnel department reports to the Chinese deputy GM and not to the expatriate GM	shared		124
the market hasn't expanded according to expectations	expectations		124
we came to help them improve the business to the extent that they sit back and let you do everything	shared		124
we have the feeling that things are going better now but it doesn't show in the figures	profitability		124
we are getting the blame. We have had some of the Chinese hierarchy come down to get us to change some of our ways and do some things differently.	shared		125



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sometimes we sit down at the table and all the foreigners sit on one side and all the Chinese on the other	shared		125
I think the Chinese deputy GM are saying to the Chinese staff: "the foreigners are no good- listen to us"	shared	trust	125
trust is a big issue. They don't trust us.	trust		125
They see us as being temporary employee here, earning a lot of money.	disparities	trust	125
they think we are here to cause them trouble and grief, and to feather our own nest.	trust		125
it is public knowledge how much the expats costs the organisation. Our living standards are high compared with theirs.	disparities		125
the language barrier is difficult because we can not thrash over something	communication	language	125
there are many things that go on in here that are for Chinese ears only.	transparency		125
there are many times the interpreters would like to tell us things, but they know that we are here for only 2 years. They are under pressure from their side.	hidden	communication	125
the one day they are mad at us and the next day they thanked us for getting the productivity up	interaction		126
we are a lot more up-front. We don't understand that way the Chinese do things.	concepts		126
They are always very nice to your face, but behind your back they say whatever they want.	hidden		126
being in a JV is our biggest problem	shared		126
we cannot dismiss personnel	HR	operations	127
at the end of it you might be able to get rid of them but you have to highly compensate them	HR		127
the only advantage of having a Chinese JV partner is that they handle relations with the local government.	concepts	bureaucracy	127
there is a budget for taking Chinese officials for dinner twice a month	concepts	bureaucracy	127
expats have to struggle with ignorance in their own head office	west		127
due to the market the sales have not improved significantly. The Chinese therefore start to question the usefulness of Western management and the cost of expats	disparities		128
some companies had to disguise the expat cost factor	disparities		128
they do not understand that for the Chinese managers interpersonal issues may be the main issues	relationship	leadership	129
indirectness is the natural communication style of the Chinese because they belong to the group of high context cultures	communication	indirectness	129
facts with negative implications for their own status within their group are suppressed	conflict		129

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foreigners not understanding the rules of face, cannot be relied upon to exercise discretion.	communication	trust	129
Chinese conclude that the safest route is to dissimulate, to hide damaging information	conflict		129
decision-making in China has to take into account the relationships between people.	decision		130
Chinese avoid open conflict and loss of face by using a pragmatic strategy - white lies.	conflict		130
there are dangers in using a style of supervision that is based on democratic Western models	leadership	concepts	130
western people believe in self-reliance. They don't know a bout Chinese laziness and slave characteristics.	leadership	concepts	130
The westerners probably cannot feel psychologically comfortable if they are too hard on us. Hey are too kind and too nice and there is too much democracy.	west		130
a lot of problems come from a lack of management strength	leadership		131
the foreigners cant speak the language so they cant talk to us directly	communication	language	131
there is a lot of stealing. The guards just sleep in their work time.	ethics		131
when the shift managers give overtime to certain workers there is a commission for the shift managers.	ethics		131
the middle managers block all information to the foreigners	communication	information	131
the problem of small numbers of expats managing a large Chinese workforce	disparities		132
it is hard to find highly skilled workers and managers in China	HR	staff	133
train, train, train is the motto of most companies in China that are serious about quality production	knowledge	quality	133
some ordinary problems that occur because of low skill levels and unfamiliarity with Chinese thinking about tasks they are assigned.	HR	staff	133
low level of technical knowledge	HR	staff	134
hidden agendas on the Chinese side	hidden		134
check everything as much as you can	concepts	operations	134
one person does the work the other checks	concepts	operations	134
problems of trust	trust		134
problems of training	knowledge	HR	134
problems of staff turnover	operations		134
the foreign partner has control over them, which is not the case with all the other Chinese employees	shared		135
managers are working only when you are there, when you leave they get someone else to do their work	HR		136
quality problems	operations		136

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huge turnover of people	HR		136
you must make sure that the GM is not seen as someone who is dictatorial	leadership		136
if they hate you they will not let you know what they are feeling, but you will feel it	leadership		136
that would be another reason for them not to respect you	leadership		137
if by being a diplomat you show too much patience and weakness, you are never going to get an outcome	HR	leadership	137
for some expats it is impossible to predict Chinese behaviour or to understand motivations of the Chinese	unpredictability	culture	137
you tell them one thing and the do another	HR	knowledge	137
staff don't arrive at work at the assigned time, but wander in anything up to two hours	HR		138
staff requires strict supervision	HR		138
low skill levels of staff and total lack of experience of Western quality	knowledge	quality	138
I spent most of my time concentrating on catching the faults before they became disasters	operations		139
they just don't understand that the equipment cost so much	knowledge		139
western managers often find that Chinese staff devises the 'wrong solution' to problem when they are actually thinking they are self- reliant.	knowledge	HR	139
The 'wrong solutions' are usually because Chinese simply haven't had the experience of advanced machinery.	knowledge	HR	140
the problem of the 'little chiefs' created by the training programs is a natural outcome of the Chinese social structure.	culture		140
education is prized because it is short in supply, thus leaving many people doing menial tasks	HR	interaction	141
there are symbolic presentation form subordinate to superior which are rather different in form and expectation compared with Western countries	communication	boss-subordinate	143
western managers need a fine line between being dictatorial, which is not well tolerated but local staff and needing to show strength in order to maintain discipline	leadership		143
the Chinese have a certain perception the way a boss should treat them, and when this is transgressed, westerners can feel the hostility of people	leadership		143
on the one hand the boss must give directions, supervise closely and maintain discipline; while also, on the other hand, establishing a warm relationship	leadership		144
company structures in China are hierarchical with clearly delineated power and responsibilities. If you use less clearly defined methods, nothing is achieved	concepts		145
time was being whittled away by trivial things.	communication	time	145

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there is a huge amount of time taken in recruiting staff and in inter-departmental disputes	HR	conflict	145
there is a Chinese tendency to tell the boss what he wants to hear	communication	boss-subordinate	147
Chinese people, when give a decision task, are more positive about the outcome than westerners	culture		147
Chinese teaching style is based on models that students then emulate. This contrasts with Western education in which students are valued for their own opinions.	concepts		147
western judicial systems use confrontation, Challenge and debate to reach a solution.	jurisdiction	concepts	147
Chinese systems use meditation, conciliation and guided solutions.	ethics		148
falsification of statistics is still happening			
western managers were used to democratic decision-making, consultation, delegation and self-reliance. There is a lot of evidence that this Western style is not successful in China.	concepts		148
westerners need to redefine the takes of a GM in China.	leadership	expectations	149
Close supervision is the key among them.	HR	operations	149
the JV had skilled people but not those they needed.	knowledge		149
hands-on management consumes a lot of time. Very few head office executive offices understand this.	HQ	expectations	149
the Western managers have to deal with the pressures from his own head office	expectations	west	150
the HQ expectations are based on an unfair comparison. It is like to compare a high school sprinter with an Olympic champion.	expectations	west	150
some companies have also confided that their choice of manager was inappropriate because of the managers inability to relate well to the Chinese and this this caused business problems.	west		151
the foreign company needs to find managers who bring Chinese employees to a higher level through a sympathetic regards for the local culture.	leadership		151
only a fraction of people and machines were actually running	operations		152
a Chinese deputy GM will split the staff	shared		153
managers spent little time with the workers and they did not know what was going on. When problem arose they could not handle it.	operations		154
There is a language barrier and a method barrier to managing in China	communication	language	154
in the past the power used to go off regularly	infrastructure		154
we only employ people who have not worked in SOEs. They do not have a bad work habit.	history	HR	155

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Chinese often have bad relations among themselves.	relationship		156
If they have friends working in the same department, they cannot discipline them.	relationship		156
communication causes a lot of headaches	communication		156
you need to talk to the people directly, otherwise it is likely that the manager will tell a totally different story.	communication		156
they just report 'sick' and their mum and dad will look after them. That is the effect of the one child policy.	culture		157
you come out of the meeting thinking that there are no problems. Three days later everything collapses around you.	communication		157
if the staff does not like you, you have got trouble	leadership		159
Chinese directors dominated the board, and meetings wasted valuable expatriate time.	shared		160
pressure to appoint Chinese deputy GM which will split the worker loyalty and end up in conflict management	shared		160
they are reluctant to take responsibility for a decision that could result in a negative outcome.	decision		163
people are used to the command-and-obey model of management	communication	HR	163
communication cannot be accomplished so fast because of faulty English language skills and the Chinese preference for indirectness.	communication	indirectness	164
it is a state-owned economy and the government believes it can interfere in the operation of your business at any time for no reason whatsoever	government	unpredictability	169
we would like to be left alone to run our business and pay our taxes according to what we are agreed to do	tax	unpredictability	169
the bureaucracy has the ability to unilaterally impose something on a business, retrospectively and you have no right of redress	bureaucracy		169
the bureaucracy is business	bureaucracy		169
my view is that the whole of China is bureaucracy. We are selling to government departments, and we interface with the bureaucracy in customs, employment and in many other areas.	bureaucracy		169
surveys conducted by the United States-China Business Council (95, 96, 98) found that 'government interference' was key problem for foreign-invested businesses.	government		170
information about proposed regulatory changes is rarely available to foreign enterprises, although such changes can have a huge impact on their operations and profitability.	government	transparency	170
the further away from Beijing, the less people worry about laws suddenly passed by the Central Government	concepts		171

Problem	Cat I	Cat II	Page
the Central government has a horrible tendency to suddenly pass a law without any system for imposing it, making it work, checking on it.	jurisdiction	unpredictability	171
the VAT fraud is still going on, even though they have executed people	ethics		171
Governments lack of consultation with private business and a concern that a lack of infrastructure to implement the law fairly across all businesses can disadvantage foreign corporations	government	transparency	171
local companies find a way to manoeuvre around the law	jurisdiction		171
in the face of policy-making from the top, Chinese people have traditionally clustered together in self-protective and self-regulating groups based on a shared industry like guilds and chambers of commerce or associations	history		172
commercial disputes among members were adjudicated within the guild	history		172
foreign investors must deal with local governments whose officers exercise discretion in the interpretation of laws and regulations	local	jurisdiction	175
local laws are often inconsistent with central laws and there are differences in legal interpretation and administrative directives.	local	jurisdiction	175
the problem raised by foreigners in the inconsistent enforcement of laws and regulations	unequal	jurisdiction	175
if you have JVs in different cities you will find different treatment, different procedures, different rates applying in the areas.	unequal	jurisdiction	175
there is a misconception that china is a unity rather than a geographically and politically diverse collection of provinces	expectations		175
there is a misconception that the Chinese legal system is somehow similar to Western legal-political systems	jurisdiction	concepts	175
the laws are broadly drafted at the central level, but the rule-making and implementation based on those laws is left to the discretion of the lower levels of the bureaucracy	jurisdiction	local	176
provincial governments have both administrative and legislative power	jurisdiction		176
the Organic Law of Local People's Congresses and Local People's Governments allows enactment of laws 'according to concrete local conditions and actual needs'	jurisdiction	local	176
the country is too big in terms of both population and territory and too diverse in terms of both folkways and customs for the central Government to enact any uniform and clear-out ordinance on the whole nation	concepts	local	177
exceptions are allowed in almost all Central government regulations	jurisdiction	local	177
local government power always need to be factored into the forecasts and projections			
foreign companies make in China	local	unpredictability	179
falsified projections by new taxes and levies imposed by local and municipal authorities	tax	unpredictability	179

Problem	Cat I	Cat II	Page
special taxes are only levied to certain enterprises and not across all JVs	unequal	tax	180
Chinese officials expect JVs to fund social security, retirement, medical and housing programs.	expectations		182
individual bureaucrats take on great significance for business	bureaucracy		185
the government environment has a lot of grey areas	government		186
people in the government who think they have jurisdiction over something but really don't, but they will try and say they do.	government	transparency	186
companies need to bargain about taxes and levies	tax		187
all negotiating and discussing is very time consuming. They have many people in the government looking for revenue-generating activities to support housing or some other project.	government		187
tax and revenue-sharing systems are not governed by uniform rules established by law and enforced but the courts.	tax	jurisdiction	188
there are many complexities with different treatment given to different enterprises depending on the ownership	unequal	transparency	188
local enterprises are able to negotiate special tax reductions with their governing bureaus	local	concepts	188
tax, a fundamental instrument of government, is an area in which discretionary treatment is entrenched	tax	concepts	188
there are major differences in granting tax exemptions and privileges or the authorising of alternative methods of computing profits and depreciation of fixed assets	tax		188
negotiate fines and there is always a fine	tax		189
everything is negotiable	concepts		189
Chinese believe that a large company from overseas has lots of money and the tax department want a piece of it	expectations		189
many Western managers feel that fines and taxes are primarily directed against foreign-invested enterprises.	unequal		190
local supplementary fees increased by 100 to 200% and the number of bureaus collecting them doubled	tax	bureaucracy	191
sudden appearance of numerous new charges	unpredictability	jurisdiction	191
it was common that even after tax had been paid, an extra tax charge would be levied at the end of the year.	unpredictability	unequal	193
the reason for extra tax charges would not be known to the business people levied	tax	transparency	193
Chinese entrepreneurs protect their business by linking themselves to local bureaucrats in patron-client ties.	concepts	bureaucracy	194

Problem	Cat I	Cat II	Page
in return for benefits from the profits and skills of private business, bureaucrats provide access to information about policy thinking etc.	bureaucracy	transparency	195
local protection can be imposed by setting up 'inspection stations' on the provincial borders to block the entry of competitive products	protection		195
provincial authorities also protect foreign industry by giving preferential treatment to foreign partners an erecting tariff barriers against foreign companies located in other areas	protection		195
In the West, the legal system is the foundation upon which trust in commercial relationships is built. In China, trust in commercial relationships is not built on a legal foundation but through specific ties to individuals.	jurisdiction	concepts	195
ties based solely on commercial considerations are the weakest. The strongest and most productive ties are those produced by birth.	relationship	concepts	196
it is difficult for foreign businesses to handle their relationships with officials as the locals do, because of the different structure of the companies.	relationship	concepts	197
many Chinese-style business relationships would contravene corporate governance requirements.	relationship	ethics	198
at the municipal level there might be 20million people under the control of the local major - he is like god.	concepts	government	198
the structure bears no relationship to anything you can call logic. Ever. You have the most illogical groups of corporations, all cross-linked, that you never see in the West.	transparency	concepts	199
there may be dates in your contract but the chances happening are pretty remote to get infrastructure like power and water on time.	expectations	operations	199
You have to watch like a hawk through the building program and take action yourself, otherwise your plant might sit there for a year without being able to run.	operations	bureaucracy	199
to start up a company you need maybe 140 chops put on documents to show approval. If you miss out on one, you can not run your operations.	bureaucracy		199
people get moved around in the departments. You have got to work out on a day-to-day basis who is important to what.	transparency	bureaucracy	201
before considering a major investment site, foreign companies need to invest a lot of time in understanding the local system	expat		201
Foreign companies have to learn about the power-holders and the linked between different parts of the bureaucracy and about what mattered to them.	bureaucracy	transparency	201
bureaucracy doesn't make for preferential treatment. That is why knowing the actual local situation is so important	bureaucracy	transparency	202
difficult experience of sharing JV management	shared		202



Problem	Cat I	Cat II	Page
difficult and unpleasant process of buying out the JV partner	shared		202
Risk-averse is a common description given by Western business people to Chinese bureaucrats.	bureaucracy	decision	204
risk-averse behaviour results in decisions being postponed or passed up the hierarchy.	bureaucracy	decision	204
Communication from the bureaucracy to business is not always very good	bureaucracy	communication	204
matters not relevant to a particular department can be put aside and forgotten, and you may not be told that this is what has happened.	bureaucracy		204
proactive action is necessary to progress matters through the bureaucracy	bureaucracy		204
bureaucrats make their decisions based on rule books. When Western companies approach in a different way, the bureaucrat is faced with a problem: it is not according to the rule book and he might become responsible if something goes wrong	bureaucracy		204
Chinese administrators have to balance the sensitivities of different departments because jurisdictions overlap.	jurisdiction		204
Bureaucratic complexities are hidden from Western business people.	transparency	bureaucracy	204
westerners must understand the process, who is behind the process, who has the authority and the chops to keep the matter moving.	transparency	bureaucracy	204
there are a few published regulations available to the public. This forces people back on to relationships to find out how to expedite matters.	jurisdiction	concepts	204
it was all written down, but nothing happened. It was just delayed and delayed.	bureaucracy		204
Rather than reject the application and send it back, she just let it sit on her desk	bureaucracy		204
We found out that we are now part of the administrative responsibility of another district	bureaucracy		204
all department present their own problems. You have to learn how to get around them: whether it is relieving them of having to make a decision or implying that it has already been decided.	bureaucracy		204
relationships in the approval process are almost as important as relationships in a business deal	bureaucracy		204
you can't be heavy handed. The people approving things have a lot of power.	bureaucracy		204
many things depend on the interpretation. It is knowing who has the authority to interpret	bureaucracy	jurisdiction	205
you have to ask yourself how to remove a bureaucrat from a traceable responsibility.	bureaucracy		205
you need to see lots of people and other companies to find out who chops their approvals. It is a lot of hard work.	bureaucracy		205
Departments tell you to come back another time. You have to be very persistent.	bureaucracy		205
you also have to watch out for people having the authority NOT to sign the approval	bureaucracy		207

Problem	Cat I	Cat II	Page
you have to work with various ministries to get your product approved	bureaucracy		207
what Western manager find different from their dealings with the bureaucracy at home is the lack of helpful attitude	bureaucracy		207
information is not freely given unless they have good personal relationships	bureaucracy		207
the Chinese bureaucracy is personalised as opposed to impersonal	bureaucracy		207
because a westerner is not familiar with the rules of bureaucracy ,means that there are hold-ups	bureaucracy		207
Chinese government departments have an abundance of workers to check all forms thoroughly. This, coupled with the national preference for attention to detail, ensures that discrepancies in documentation will be spotted.	bureaucracy		207
even a stamp crossing a line on the document can result in non-approval	bureaucracy		208
matters may cross the jurisdiction of a number of departments and it may not easy to track down which departments are involved and who in those departments is responsible	bureaucracy		208
Chinese bureaucracies are staffed with large numbers of functionaries. People lower in the echelon dare not make decisions that are the preserve of their bosses.	bureaucracy	boss-subordinate	208
it is necessary to track the chain of command to reach the person who makes the decision	bureaucracy		208
their attitude towards regulations is, "I wont provide any assistance because it gets me into trouble."	bureaucracy		208
dealing with the bureaucracy you cant expect a Western response. A Western response might be a five minute response but in China you get frustrated after the third week.	bureaucracy		209
westerners go to the bureaucracy with the wrong attitude. They don't acknowledge the different system and they have to know and understand the system.	bureaucracy	west	209
they start applying Western standards and when they do not achieve what they want they can get very dogmatic.	bureaucracy		209
we discovered that we did not have the right cards to work there, but we have got all the stamps and all the authorisations.	bureaucracy		209
sudden change of regulations	bureaucracy		209
to get approval to build, the Chinese design institutes have to chop the drawing to indicate that it is their drawing.	operations		210
it can be up to 22 authorities involved to get a preliminary approval for the plant design	bureaucracy		210
design institutes are highly technically oriented and very high and strict on environmental matters, especially with westerners, in regards to fire regulations and earthquakes	operations		210

Problem	Cat I	Cat II	Page
if you go to a design institute with a proposal it is quite possible that they will say "Sorry, that is impossible to do." They are so used doing things according to their code.	operations		210
you don't get ever total approval. You get permission to build, but when you have finished building you need to get the drawings chopped again.	operations		210
you need to talk to them as equals and friends trying to reach a logical conclusion which is going to satisfy both the authorities and your own situation.	bureaucracy		211
there are key persons who want that everything has to go through them	bureaucracy		212
bureaucrats get frustrated by dealing with foreigners who don't know what they are talking about	bureaucracy		212
when you try the Western way there are all sorts of walls build up. You need to do it the Chinese way and give them the indication that you are willing to deal in the Chinese way.	bureaucracy		212
westerners need to acknowledge the differences in the procedures	bureaucracy		213
westerners need to acknowledge that they are outsiders and unknown	bureaucracy		213
westerners need to accept that bureaucrats are risk averse	bureaucracy		213
westerners need to accept that things take time	bureaucracy		213
westerners need to prepare for minute examination of technical details and documentation	operations		213
westerners need to talk around the regulations with different authorities	bureaucracy		213
westerners need to make a personal approach to people with status in the hierarchy	bureaucracy		213
westerners need to recognise the frustration which non-Chinese speaking foreigners cause for the Chinese	bureaucracy		213
there are said to be 11 million bureaucrats and they control many essentials for business	bureaucracy		214
their co-operation is worth fostering	expectations		215
assumptions held in the West cannot be automatically applied to China			
western managers have to know the local, unwritten rules if they are to negotiate successful outcomes.	hidden		215
especially language problems hinder that Western managers join networks and build personal relationships to learn the unwritten rules of the local business community.	communication	language	215
Most Western managers exclude themselves from Chinese life. Their living standards and recreational interests are foreign.	west	integration	215
most Western managers are transients, sojourners, seen by the Chinese as only passing through. This makes the issue of trust in business relationships difficult to achieve.	relationship	west	216
westerners can feel excluded by the Chinese.	interaction		216

Problem	Cat I	Cat II	Page
The physical appearance of foreigners among Chinese is very obvious.	disparities		216
Chinese society consist of very large numbers of people living closely, working closely and who have a strong sense of 'Chineseness'.	culture		216
Any stranger who cannot speak the language of the local community is largely excluded.	language	interaction	216
The Chinese language is unrelated to any Western language and presents a special barrier.	communication	language	216
most Chinese had little contact with westerners	interaction		216
western people are easily identified as outsiders	interaction		216
westerners are under scrutiny from Chinese managers and employees.	interaction		216
Locals will soon not the strength and weaknesses of the foreigners and use them for their advantage	interaction		216
the points of cultural difference cannot be lightly dismissed	culture		216
the learning in China is China-specific with very little transferable to a wider global business context	west		216
Chinese live in a strong, all-embracing culture, confident in its values. This can make for resistance to Western methods and Western goals.	culture	conflict	217
Power holders in the bureaucracy are responsible for the local economic well-being and social stability.	bureaucracy		217
There is a strong tendency to favour Chinese business, much of it happens secretly.	protection		217
local tax bureaus will exclude foreign accountancy firms by recommending to local and foreign businesses former government employees now running independent tax companies.	local	tax	217
No foreign company can ignore local power holders and their interests.	protection		217
The market has not been as welcoming as expected.	competition		217
many Chinese prefer to buy Chinese goods, and their lower prices make them attractive	competition		217
in JVs, Chinese partners are not always willing to share benefits and adopt capitalist thinking.	shared	objectives	217
western executives did not foresee how strongly Chinese expectations and customary practices would influence the transfer process.	expectations		217
the relationship between a foreign company and its Chinese employees is also shaped by Chinese custom.	culture		218
Chinese employees expect a foreign company to look after them in a total sense.	expectations	relationship	218
western manager have had to exercise strict control over assts and address an avalanche of petty theft.	operations	ethics	218

Problem	Cat I	Cat II	Page
Chinese staff places high expectations on foreign companies on personal and family benefits: housing, medical, retirement, education, travel, opportunities for promotion and income.	expectations	relationship	218
Chinese turn the relationship with the company into a moral issue with concomitant disillusionment if the company fails their expectations	expectations	relationship	218
the boss-subordinate relationship reflects the whole style of power relationships in Chinese society: directive from above with punitive discipline for the disobedient	relationship	boss-subordinate	218
the discipline father figure present but distant seems to be the most successful model	leadership	boss-subordinate	218
the power relationships in China run counter to all the current Western theory and practice on workplace relationships: participatory, democratic and with a large margin for the exercise of individual initiative	relationship	culture	218
making assumptions from the directive boss-obedient employee model that Chinese employees are dependent and compliant is far from the truth.	expectations		218
A Western executive's inability to control the workforce leads to chaotic work practices, low productivity and a company that is effectively out of control.	operations	relationship	219
government law-making has been unpredictable	jurisdiction	unpredictability	219
the local bureaucracy is neither impartial nor distant	bureaucracy		219
the principle of local benefit dominates administrative decision-making.	local	protection	219
officials have discretion over issuing of licenses and permits, customs clearances and taxation.	government	concepts	219
the officials formulate and administer rules and regulations, and have the discretion whether or not to enforce administrative and court judgements in commercial disputes.	government	concepts	219
decision-making based on black letter laws and regulations is not clear and transparent	jurisdiction	transparency	219
unlike in most Western democracies, the power of Chinese officials transcends the purely administrative.	government	concepts	219
western executives have found China a nominally united country with strong local loyalties	expectations	protection	219
western executives must deal with a multiplicity of local regulations and taxes, as well as highly protectionist and competitive behaviour towards other localities	protection		219
using expertise or products from other areas of China is vehemently discouraged.	protection		219
Moving into another locality is difficult by the localities' protectionist policies.	protection		219
the unexpected often catches Western executives unprepared.	unpredictability		219
Risk minimisation concerning power, water supply and transport are essential.	infrastructure		219

Problem	Cat I	Cat II	Page
China's market who are unprotected by sovereign guarantees, find debt a serious management problem.	operations		220
Court judgements to recover debt cannot be enforced in many cases because Chinese businesses have moved into other accounts	jurisdiction		220
it is a long business tradition in China to keep two or three sets of accounts to avoid tax and to keep information on the business within a trusted circle.	concepts	history	220
the tightness of the official-business linkage is reinforced by an official's inadequate public sector salary which is mightily improved by the profits from business.	concepts		220
although many characteristics of Chinese business derive from the socialist period, they are uncannily reminiscent of Chinese business before 1949, when business and bureaucracy were intermixed.	history	bureaucracy	220
there are always new entrants to the market	competition		220
Chinese market has exploded since being opened up, you can find a rush on Western side and greed on Chinese side.	expectations		C1/3
in China most prices are inflated due to haggling tradition	culture		C1/3
Deception of strangers is a common business tactic	ethics	communication	C1/3
Chinese and westerners have different ethical business traditions.	ethics		C1/3
Chinese enterprises have a short-term profit making focus	objectives		C1/3
Chinese have a lack in focusing on quality and focusing on customer demands.	operations	quality	C10/11/12/1 3
The skill level is often too low for the introduced high technology.	knowledge	technology	C10/11/12/1 3
Work approaches are often unstructured and undisciplined	knowledge		C10/11/12/1 3
Command and control structure is top down in China, westerners believe in leadership	culture	workplace	C10/11/12/1 3
Socialist enterprise culture is based on command economy and political control	history	concepts	C10/11/12/1 3
The general education level is very low.	knowledge	HR	C10/11/12/1 3
There are old power networks in China, leadership is based on seniority and age	culture		C10/11/12/1 3
The Chinese supervisory- subordinate relationship is based on fear and respect/ penalties and rewards	relationship	boss-subordinate	C10/11/12/1 3

Problem	Cat I	Cat II	Page
Even for minor decisions staff waits for instructions	communication	boss-subordinate	C10/11/12/13
There is a distrust in young expatriate managers	trust		C10/11/12/13
There are often sudden changes in legislation	jurisdiction		C14
there is a lack of consultation between government and businesses before decisions are made	government	communication	C14
Poor enforcement mechanisms across all businesses	legal	government	C14
Top-down legislation has problems to keep up with rapidly moving economy and infrastructure	legal	government	C14
There are differences in the legislation between central and local level	jurisdiction		C15
National taxes are levied locally	legal	concepts	C15
There are overlapping jurisdictions of local bureaus for taxes, fines, regulations	legal	concepts	C16
One can find retrospective, excessive and ad hoc taxation	jurisdiction		C16
Local business avoid transparent accounting in fear of being taxed	tax	ethics	C16
there is unequal power between officials and public, embedded in a tradition of local 'tax bullies'	equal	history	C16
There is an 'inherent' power of officials	government	history	C16/17
There is a lack of commercial and legal infrastructure	jurisdiction		C16/17
State-owned enterprises are run by bureaucrats	bureaucracy		C16/17
Bureaucrats are risk-adverse, slow, hidden decision makers, status conscious, and little proactive in nature	bureaucracy		C18
Chinese companies have limited purchasing power	operations		C2/5
Government supports local companies	government		C2/5
Chinese companies have a lot of excess capacity	competition		C2/5
Problems of counterfeiting and smuggling	competition	IPR	C2/5
Chinese have a trader nature with small commissions	concepts	history	C2/5
There are weak compliance mechanisms in China	jurisdiction		C2/5
There is a 'family fist' ethics and business practice in China.	ethics	culture	C4/5/12/13
Reciprocity is an important element of traditional Chinese business behaviour	relationship	culture	C4/5/12/14
Officials have control over licences, permits, land, etc which are essential for operational business	government	bureaucracy	C4/5/12/15
Personal morality is considered as the controlling mechanism	culture	ethics	C4/5/12/16
Chinese high context communication affects argumentation and meeting style	communication	culture	C4/5/12/17
In the Chinese hierarchical system Information is perceived as a means of power	communication	concepts	C4/5/12/18

Problem	Cat I	Cat II	Page
Chinese differentiation in their ethical standards if it is regarding an insider or an outsider	ethics	culture	C4/5/12/19
Problems and difficulties most of the times are communicated disguised	communication	indirectness	C4/5/12/20
Communication is often indirect, incomplete, misleading and comes with unpredictable keeping face issues	communication		C4/5/12/21
Communication depends on the hierarchical level of the Chinese counterpart	communication	boss-subordinate	C4/5/12/22
There is a lack of experience to communicate in Western way	communication		C4/5/12/23
The market in China is highly competitive	competition		C5/6
There are lots of bad business practices	ethics		C5/6
the government has a hands-off tradition in commercial litigations	legal	government	C5/6
many agreements are not doable due to debt of companies and withdrawal of government support	government		C5/6
inadequate enforcement mechanisms	jurisdiction		C5/6
There is a lack of enforcement mechanisms to collect debt in China, debt collection agencies are not allowed either.	jurisdiction		C5/7
State-owned enterprises follow social welfare responsibilities but not profitability.	concepts	history	C5/7
Credit terms in China are long-term, manufacturers tend to finance the whole value chain from purchasing to selling.	operations		C5/7
Chinese JV partners have different and hidden agendas, expectations and priorities	objectives		C6/8/9
Often there are power struggles on the Chinese management side	conflict		C6/8/9
Dishonesty, aggressive and emotional attacks are common.	culture	communication	C6/8/9
When it comes to 'shared' decisions expatriates are often excluded.	shared		C6/8/9
Chinese managers have often a communist background and get external pressure.	history		C6/8/9
Chinese managers are unfamiliar with Western business practices and priorities	knowledge	HR	C6/8/9
JV shared management is a common problem all over the world	shared		C6/8/9
There is generally a low trust in outsiders.	trust		C8/10
Deception is considered as acceptable to gain strategic advantages.	ethics	communication	C8/10
To be straightforward is difficult as 'losing face' is unacceptable.	communication	indirectness	C8/10
There is a historical mistrust in foreign business investment.	trust	history	C8/10



## Appendix G. Communication Assessment Worksheets

### Level I: Communication

Level II	Level III	Level IV	Level V	Explanation	Resolution I	Resolution II
Style	Indirect	keep face	avoid open conflict	Chinese avoid open conflict to maintain face.	communication	rules of face
Style	Indirect	keep face	use pragmatic strategies	In order to maintain face Chinese tend to find pragmatic solutions rather than right or wrong.	communication	rules of face
Style	Indirect	keep face	giving face in discussions	Discussions can be lengthy and appear to be fuzzy to keep leeway for face keeping.	communication	rules of face
Style	Indirect	keep face	understand the rules of face	Chinese are afraid that westerners do not follow the rules of face keeping	communication	rules of face
Style	Indirect	keep face	keep off damaging information	Chinese hide and keep off damaging information not to risk face.	communication	rules of face
Style	Indirect	cannot be relied upon		Chinese are afraid that westerners do not follow face rules and hence do not rely on them.	communication	rules of face
Style	Indirect	time consumption		Chinese communication is very time consuming.	communication	rules of face
Style	Indirect	not upfront		Chinese communication is rather indirect and not upfront.	communication	rules of face
Style	Indirect	no open problem solving		Chinese do not use an open problem solving approach.	communication	rules of face
Style	Indirect	important points are made indirectly		Chinese communicate important points indirectly.	communication	rules of face
Style	Indirect	authority disapproval can be shown indirectly		Even authorities can signal their disapproval by indirectly.	communication	signs
Style	Indirect	westerners concludes everything is OK		Chinese communication style leads to Western assumption that all is OK.	communication	

Level II	Level III	Level IV	Level V	Explanation	Resolution I	Resolution II
Style	conflict	minimise disagreements by including possible points of view of others		Discussions are lengthy as first all possible point of views are taken into consider	communication	
Style	conflict	can be very aggressive		Westerners are often surprised by very aggressive and confrontational attacks by the Chinese.	communication	signs
Style	conflict	suppress damaging information		Chinese tend to suppress damaging information to maintain face and harmony.	rules of face	
Style	conflict	emotional attacks		westerners are often surprised by very aggressive and confrontational attacks by the Chinese.	communication	signs
Style	incomplete			Chinese communication tends to be incomplete for tactic, power or face keeping reasons.	communication	
Style	unpredictable			Chinese communication tends to be unpredictable for tactic, power or face keeping reasons.	communication	
Style	negotiation	misleading	different tactics	Chinese communication tends to be unpredictable for tactic, power or face keeping reasons.	communication	
Style	negotiation	flexibility required	hard to set end points	Chinese way of communication and decision-making is different.	communication	organisation
Style	conceptual communication	words have different meaning		In Chinese words can have a different meaning and tends to be more conceptional rather than direct.	communication	
Style	own point of view comes last	westerners cut off		westerners do not understand the Chinese way of communication and misinterpret or miss important points.	communication	
Style	own point of view comes last	westerners get impatient		westerners do not understand the Chinese way of communication and misinterpret or miss important points.	communication	

Level II	Level III	Level IV	Level V	Explanation	Resolution I	Resolution II
Style	own point of view comes last	westerners do not listen intently		westerners do not understand the Chinese way of communication and misinterpret or miss important points.	communication	
Style	own point of view comes last	western way is considered as rude		westerners do not understand the Chinese way of communication and misinterpret or miss important points.	communication	
Style	westerners can not believe everything	trust		Due to the Chinese way of communication (tactic, power, face) by leaving out important points it is hard for westerners to build trust as in Western culture people tend to feel cheated.	communication	
Style	affects communication and meeting style			Chinese way of communication affects their style of meetings which westerners are not familiar with.	communication	
Style	lack of experience to communicate in a Western way			Chinese lack experience to communicate in a Western way and use their way of communication.	communication	
Boss subordinate	symbolic presentation is different			Different symbolic representation of superiors leads to various misunderstandings, wrong assumptions and mistrust.	organisation	organisation
Boss subordinate	expectation to get asked and not to report			Subordinates to not report problems openly and expect to get asked by superiors	rules of face	organisation
Boss subordinate	illogical excuses in problem situation			westerners are faced and do not understand illogical excuses of Chinese in problem situations.	rules of face	
Boss subordinate	tendency to tell boss what he wants to hear			westerners assume open and objective reports of their subordinates.	communication	organisation

Level II	Level III	Level IV	Level V	Explanation	Resolution I	Resolution II
Boss subordinate	dependency of hierarchical level of counterpart			Chinese communication style varies a lot depending on the hierarchical level of the counterpart.	communication	organisation
Boss subordinate	based on fear and respect/penalties and rewards			western wrong assumption of participation and leadership style.	communication	organisation
Boss subordinate	subordinated are indirect not to threaten face of boss			westerners assume open, objective and direct reports of their subordinates.	organisation	organisation
Boss subordinate	even for minor decisions staff waits for instructions			westerners assume that subordinates will make decisions on their own and work accordingly.	organisation	organisation
language	Barrier	exclusion of westerners		Lack of Chinese language skills excludes westerners from communication with Chinese.	learn Chinese	
language	Barrier	no direct communication		Lack of Chinese language skills: westerners cannot communicate with staff directly.	learn Chinese	
language	Barrier	no learning of unwritten rules		Lack of Chinese language skills: westerners do not learn the unwritten rules.	learn Chinese	
language	Barrier	no spontaneous discussions possible		Lack of Chinese language skills makes spontaneous discussions impossible.	learn Chinese	
language	Barrier	no forming of personal relationships		Lack of Chinese language skills do not allow forming of personal relationships.	learn Chinese	
language	very hard to learn			The Chinese language is very hard to learn for westerners.	learn Chinese	
language	different sentence structure and phrasing statements	don't get the real message		Chinese language has a different sentence structures and phrasing of statements.	communication	
language	different sentence structure and phrasing	westerners might not listen properly		Chinese language has a different sentence structures and phrasing of statements.	Communication	