

# Mitigating the Risks of Cross-Country Business Dealings: A Cultural Perspective

By Sandy Chong & Guy Callender

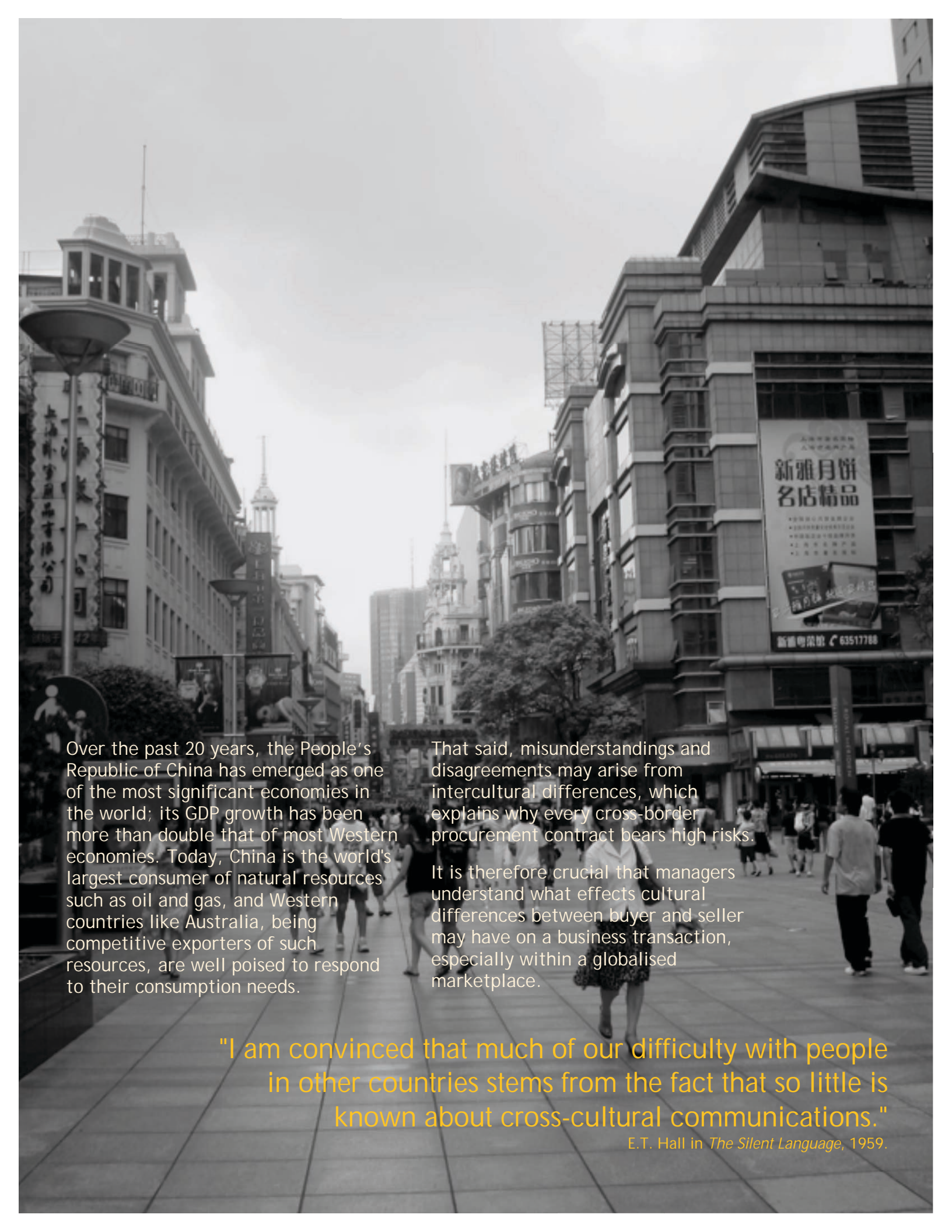


In this series, we take a peek into the norms of different cultures and suggest how these norms may affect business practices in the respective cultures. Procurement managers involved in cross-country negotiations often find that cultural differences may put the success of contractual arrangements at risk. Yet, a better understanding of these differences may help one to preempt and mitigate any confusions and misunderstandings early in the business transaction.

Part I

## CHINA





Over the past 20 years, the People's Republic of China has emerged as one of the most significant economies in the world; its GDP growth has been more than double that of most Western economies. Today, China is the world's largest consumer of natural resources such as oil and gas, and Western countries like Australia, being competitive exporters of such resources, are well poised to respond to their consumption needs.

That said, misunderstandings and disagreements may arise from intercultural differences, which explains why every cross-border procurement contract bears high risks.

It is therefore crucial that managers understand what effects cultural differences between buyer and seller may have on a business transaction, especially within a globalised marketplace.

"I am convinced that much of our difficulty with people in other countries stems from the fact that so little is known about cross-cultural communications."

E.T. Hall in *The Silent Language*, 1959.





The purpose of this article is to help businesses understand the Chinese culture better. To put things into context, selective elements of the Chinese culture are compared against the Australian culture.

Certainly, the views provided here do not reflect the Chinese culture fully, but the broad overview will provide procurement managers with meaningful insights about the challenges of cross-cultural contract negotiations.



# CHINA

Confucian philosophy forms the basis of Chinese culture. The ideals of the great 6th century BCE thinker permeated throughout China since the Han Dynasty, amongst other philosophies like Taoism. Today, researchers have noted that many behaviours and values of the Chinese are deeply rooted in Confucianism and other ancient Chinese philosophies.

## Adapting to Environments

- Relationship with nature

One of the key teachings of ancient Chinese philosophy is that one must be in harmony with nature, rather than strive to have a hold over it. The widespread practice of *Feng Shui* in China is a case in point. Australians, on the other hand, often demonstrate an abiding sense of domination over nature.

Chinese people also tend to avoid risks and uncertainty. This is reflected in their management styles - the need for adequate and careful planning. In China, the tried and tested methods are highly valued for they guarantee future success. This phenomenon is slowly evolving, nevertheless. With an economy greatly impacted by globalisation, Chinese entrepreneurs are embracing more risks in order to survive in the international marketplace.

In his 2006 pledge, President Hu Jintao reinforced the country's commitment to make China "an innovation-oriented society in the 21st century" (said during China's National Science & Technology Conference in 2006).

- Nature of human activity

船到桥头自然直  
(chuan dao qiao tou zhi ran zhi)

This is a Chinese idiom that literally translates as "the boat will be straightened on its own when it gets under the bridge", i.e., the future will work itself out. This school of thought is deeply ingrained amongst the Chinese, who tend to take a longer time to reflect, plan and adapt to new situations. In most cases, maintaining the status quo is preferred.

- Dealing with logic and reality

In business presentations, Chinese tend to begin with an in-depth analysis and explanation before arriving at their conclusion in the end. The reverse is frowned upon as it implies that there is no room for evaluation and open discussion.

## Social Integration

- Human nature

人之初,性本善  
(ren zhi chu xing ben shan)

中国



These were the opening words of an ancient Chinese scripture ("The Three Characters"), which reflects the belief that human beings are kind by nature. This is often interpreted in a social context, but in a corporate context, Legalism (another ancient school of thought) overrides Confucianism. I.e., it is believed that law in itself possesses a virtue that sets it above any other human principle and thus should be applied without exception.

In Australia, however, 95% of all religions were Christian denominations, which generally believed that man are inherently sinful.

#### • Human relationships

The Chinese culture is generally socially oriented, which is exhibited by the people's tendencies to avoid punishment, embarrassment, conflict, rejection, ridicule and retaliation. Correspondingly, harmony, self-discipline, moderation, and teamwork are highly-regarded, so as to create a positive atmosphere. This is unlike the general Australian population which is more task oriented.

The Chinese term 关系 (guanxi) is widely known amongst those who have business dealings in the Republic; it literally translates as "relationship". To the Chinese, establishing "guanxi" is of utmost importance, as it is a way of developing a network of contacts, from whom favours are expected, and to whom favours are done.

#### • Hierarchy

姜还是老的辣  
(jiang hai shi lao de la)

Confucius' idea of respect for tradition, ancestors and elders best explains the hierarchical emphasis found in Chinese societies. The above traditional Chinese saying translates as "the old ginger still tastes better". Where two people of the same ranks are compared, the older one should receive greater respect. This notion was prevalent previously, but globalisation and the permeation of Western culture has started to weaken

such ideals.

Australian society recognizes hierarchies as well, but pays limited respect to senior colleagues. Seniors are usually addressed by their first names, and badges of rank are often what matter. In fact, there is evidence of negative attitudes toward older workers.

#### • Collectivism

The family and social contexts (i.e., societal roles and relationships) often define an individual, according to Confucianism. The former Chinese Communist leader, Mao Tse Dong, was a firm champion of the slogan:

团结就是力量  
(tuan jie jiu shi li liang)

That is, "unity is power". This ideal is still embedded in contemporary Chinese management philosophy.

Western cultures like in Australia show strong support for individualism, though. There is usually much focus on personal progress and performance.

## Space, Language & Time

Studies have shown that the Chinese people's deeply rooted family values, and their communal living experiences contribute to their preference for physical closeness. This is in contrast to Australians who, having grown up in houses on large pieces of land, are used to large spaces.

In China, silence is often considered an important part of language. The above saying literally means "silence is gold" - which lends support to the idea of "do more, say less".

There are generally two types of time management styles: Polychronic (multi-tasking) and Monochronic (doing one thing at a time). The Chinese tend towards the former style, and are also strict on keeping with time commitments and schedules. Similarly, Australians regard time as a resource to be used effectively.

## Concluding Remarks

It is indeed difficult to reflect the full scope of the Chinese business culture in this article. Yet, this information may be useful for managers involved in the contract formation process. The broad views presented aims to provide meaningful insights for managers and researchers in the field of global sourcing and contract formation.

There are certainly many areas of uncertainty when negotiating contract terms between buyers and suppliers from different cultures, all of which create confusion and misunderstanding at the contract formation stage.

That said, more refinements are required in future studies to paint a more comprehensive picture of a culture - whether Chinese or Australian - and show how it is relevant to contract negotiations.

Looking ahead, a comparative cross-national study is currently being planned. This will include in-depth interviews and focus groups with senior executives from China and Australia who are responsible for global sourcing and contract formation. ■

This article is an abridged version of the following conference paper:

Sandy Chong, Guy Callender, and Xiao-Zhou Huang (2007) *A Study of Contracting Risk Associated with Sourcing by Organizations of Different Cultural Origin: Perspectives from the People's Republic of China and Australia*. In: 16th Annual International Purchasing and Supply Education and Research Association Conference. Bath, UK.

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