

Chapter 2

Australian Businesses in China: Strategies to Overcome the Cultural Gap

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ABSTRACT

This paper identifies a main barrier when doing business with China, the cultural gap, and provides the strategies that companies can use when entering the Chinese market. This empirical study examined 40 Australian organisations in their activities when entering the Chinese market. Alarming after 30 years of attempting to do business in China, companies are still not addressing the issue of cultural differences. Companies are also caught by surprises due to lack of preparation how large the cultural gap is between Australian and Chinese business culture. The findings of the study have important implications for businesses considering entry to China, and for Australian businesses already doing business in China. The strategies investigated include human resource strategies, dealing with Chinese staff, relationship building, getting outside support (employing consultants), learning about the culture, and adapting to the culture.

INTRODUCTION

Since the open door policy in 1979 China has seen an influx of capital in the form of foreign direct investment (FDI) (Yeung, 2000). In 2005 and 2006, China received 70 billion worth of FDI (Davies, 2007), and is becoming one of the world's prin-

ciple destinations (Bellabona & Spigarelli, 2007). According to the Department of Foreign Affairs and Trade (DFAT), China has become Australia's 21st largest investment destination with \$3 billion being invested by Australian businesses in 2006 (DFAT, 2007). However, China is not a straight forward market to invest in (Chung, 2008). Among many influencing factors, the cultural differences have been a challenging area for foreign investors.

DOI: 10.4018/978-1-4666-0276-2.ch002

Previous research by Chung (2008) has identified that a key reason for business failure is not recognising the cultural differences. This paper addresses the questions:

1. *What is the cultural gap that Australian businesses experience when entering and operating in China?* and
2. *What are the strategies that Australian businesses can use to overcome the cultural gap?*

This paper will first investigate the cultural distance by examining literature in the area, and then examine the strategies Australian businesses use to decrease the gap, through an empirical investigation.

EXAMINING THE CULTURAL GAP

Cultural gap as a term has been used widely in describing the distance between elements of two different cultures. In this paper we discuss the lack of understanding of Chinese culture by Australian businesses when dealing with Chinese and hence the gap of knowledge. Psychic distance was initially introduced by Nordstrom and Vahlne (1992) as the “factors preventing or disturbing the flow of information between potential or actually suppliers or customers”. Psychic distance is defined as “a firm’s degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there” (O’Grady & Lane, 1996, p. 330). The psychic distance concept has been operationalised in the following way by O’Grady and Lane (1996): this includes the level of economic development in importing countries, the difference in the level of economic development in host countries, the level of education in importing countries, the difference in the level of education, difference in business languages, difference in culture and local language, and existence of previous trading chan-

nels (O’Grady & Lane, 1996). Psychic distance is influenced by differences in the culture and language of the home and target countries (Kogut & Singh, 1988). Therefore the larger the cultural differences between two cultures the larger the psychic distance.

Researchers have suggested that entering countries that are “psychically close” (meaning have smaller psychic distance) reduces the level of uncertainty firm’s face in the new market (Johanson & Vahlne, 1992); and for countries that are “psychically close” it is easier for companies to learn (Kogut & Singh, 1988). When investing in foreign countries, companies perceive less risk when the psychic distance is smaller and greater risk when the psychic distance is larger. Therefore companies tend to start their international experience in countries where the psychic distance is close first and then venture into those which are larger.

THE DISTANCE BETWEEN AUSTRALIAN AND CHINESE CULTURE

Hofstede (1984, p. 21) defines culture as “the collective programming of the mind which distinguishes the members of one human group from another. Given this definition, the programming of the mind determines the differences of behaviours which are generally formulated over a long period of time under the influence of cultures. Previous research by Chung (2008) has identified there is a large cultural gap between Australian business and Chinese business.

China has a distinctive cultural difference that they are described by the Chinese government as “a market economy with socialistic characteristics”. It is the only one in which both past and present worlds exist. Its characteristics of a centrally planned resources allocation combined with a degree of free market is unique to any western understanding of markets.

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