

COURSE MATERIAL

COMMENTS 68

REPORTS

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Riitta Windahl & Rina Bao

A BITE-SIZED GUIDE FOR FINNISH SME COMPANIES OPERATING IN CHINA



TURUN AMMATTIKORKEAKOULU
TURKU UNIVERSITY OF APPLIED SCIENCES

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FOREWORD

This study report examines some characteristics and challenges related to business relationships between Finnish and Chinese companies, covering the topics such as human resources management, Chinese law and bureaucracy, working with the government and state officials, networking, building legitimacy and partnering with local firms. In the report, Chinese business operation environment has been monitored using numerous previous studies and reports as written sources. Additionally, Finnish business managers operating in China were interviewed on location 2010–2012. Even though these direct comments in this report represent the subjective views of the business managers interviewed, their experiences may offer some valuable information to any actor planning to start a business in China. All the interviewees preferred to stay anonymous, and thus it was possible to discuss some more sensitive issues during the interviews.

This report has been generated as a part of the Rocket project, which is funded by EU Regional Development Fund and Turku University of Applied Sciences as well as several other Finnish universities of applied sciences as project partners. In Rocket, the network structure for the cooperation between universities and machine technology companies has been developed at Turku University of Applied Sciences to support global business competence development. This study concentrating in China aims at improving global business competences needed in business today – and especially tomorrow.

Turku, December 21, 2012

Riitta Windahl & Rina Bao

I INTRODUCTION

Finland and China have been enjoying a long-standing and traditional friendship. Diplomatic relations were established as early as in 1950. In 1953, the intergovernmental trade agreement was signed between Finland and China, as the first of its kind in Europe. Over the years, these two nations have witnessed a continuously consolidated political relationship and ever developing trade and economic ties. Finland has been China's largest trade partner in the Nordic region for the last four consecutive years. Finland has also served as an important source of foreign direct investment (FDI) and technology in North Europe. Meanwhile, China has been Finland's largest trade partner in Asia. (Keqing, 2008.)

By 2012, about 300 Finnish enterprises have become established in China (EK, 2012). These enterprises represent all major industries. This partnership has steadily expanded since China entered WTO in 2001. Pentti Hakkarainen from the Bank of Finland explains the main reasons for more Finnish companies entering China every year:

One thing worth noting is that for Finnish companies the most important motivation to enter the Chinese market is the size and growth of the market. Naturally, low wages also play a role, but perhaps less than people usually think. And shifting production closer to the market and having organic growth in business outside Finland is not an adverse development. It has been one factor behind the success of multinational Finnish companies and supported employment in Finland.

(Hakkarainen, 2012.)

Just looking around is not enough – the goal must be defined in detail about while entering the Chinese markets. Several locations and options must be carefully considered – wrong choices might make a business complicated.

-Interviewee

As a supplier, we had to follow the most important and powerful customers into the Chinese markets. – Otherwise we would have lost that collaboration.

-Interviewee

However, despite being a huge market rife with opportunities, China also poses quite a few challenges, especially for smaller companies. The main difficulties are related to the different economic system as well as unfamiliar business culture and communication. This report examines some characteristics and challenges, covering the topics related to human resources management, Chinese law and bureaucracy, working with the government and state officials, networking, building legitimacy as well as partnering with local firms.

2 SOCIOCULTURAL ASPECTS

Foreign firms are often disadvantaged in comparison to host firms due to gaps in understanding the host culture. People from different countries always have different traditions and attitudes towards business. If foreigners want to manage business in China, they firstly need to understand the fundamentals of the Chinese and thoroughly study the Chinese business culture.

In China, three philosophy traditions – Confucianism, Taoism and Buddhism – have dominated Chinese people for thousands of years; traditionally they are considered as philosophies rather than religions (Fang, 2006). Confucianism refers to human relationships which oriented Chinese people's thinking and way of behaviour; the main contribution is to ask people to trust each other, avoid conflict and remain harmonious with each other.

Taoism is a kind of doctrine which is famous for the Yin Yang principle of dualism. The latter (Feng Shui, which is probably the most popular belief of a Chinese businessman) is derived from the Yin Yang Eight Diagrams principle. It indicates that people's fortune is affected by their environment, and more specifically, that the position of a building relative to its physical environment as well as the interior layout and arrangement of furniture can influence the events that occur to the occupants of the building (Tsang 2004, p. 925). Many Chinese businessmen believe in Feng Shui and consider it as the main strategy for business success.

In Buddhism "the cycle of birth and death" is in focus. The avoidance of unwholesome actions and the cultivation of positive actions are deemed important here – karma specifically refers to those actions (of body, speech, and mind) that spring from mental intent and bring fruit or results as a consequence.

These philosophy traditions have been the roots of the Chinese culture, and play an important role in business behaviour and decision-making. However, it is a big challenge for the foreigners, because the unique business values and beliefs in China are fundamentally different from the ones of other countries, especially western countries. On the other hand, people in China would rather believe people more than any other contracts during the business activities. So, if foreign multinationals want to do business in the Chinese market, they need to take a people-oriented approach and establish a high level of trust relationship with the Chinese partners, which is called “guanxi” in China. (Wu, 2008.)

Culture has been one of the most important determinants of success in technology transfer from industrialised to developing countries. Knowledge transfer to transitional economies has involved extensive cross-cultural adaptation to promote organisational learning and develop specific relationships within affiliates.

Foreign affiliates in China are expected to undertake efficient organisational learning based on a good understanding about the manner and mindset of the local partners. The non-explicit nature of knowledge leaves room for numerous problems of interpretation, not only at the technical and managerial level, but also at the more global level of national culture and institutions.

Overcoming cultural constraints and nurturing a sound partner relationship is vital for the success of knowledge transfer. Buckley et al. found that while technologies were ranked highly in knowledge seeking by local partners, knowledge of a tacit nature was more important in making the transferred technologies work efficiently. Lack of understanding about the task environment, including the surrounding society’s values and mindsets, contributed to lower performance in knowledge transfer and localisation. Given the diversity and complexity of the Chinese business environment, even for explicit knowledge to be transferred and absorbed, cultural barriers have to be removed and good inter-partner relationships have to be established. (Buckley, Clegg & Tan, 2006.)

3 GUANXI AND NETWORKING

3.1 GUANXI AND MIANZI

Guanxi (personal connections) and mianzi (face) are the most prominent cultural characteristics that have strong implications for interpersonal and inter-organisational dynamics (Tung & Worm, 2001).

Guanxi is an inseparable part of the Chinese business environment. It is a fundamental web of interpersonal relations permeating Chinese societies. Guanxi-based business practices can reduce uncertainty, lower search and other transaction costs as well as provide usable resources and a sense of connectedness (Wellman, Chen & Dong, 2002).

For foreign investors, guanxi relationships provide informal ways to reduce environmental uncertainty and opportunistic behaviour. Foreign entrants should mount sustained efforts to build up guanxi to give them a competitive edge in their search for an insider position in the China business arena. While it is vital to adopt the guanxi approach in their relationships with Chinese partners, foreign investors should be aware that guanxi alone cannot eliminate threats and competition. (Fock & Woo, 1998.)

Mianzi is an equally important concept in Chinese culture. It is defined as the recognition by others of an individual's social standing and position (Lockett, 1988). In Chinese culture, it is not only important to maintain good relationships but it is also vital to protect a person's mianzi or dignity and prestige. The need for mianzi is intrinsic to various aspects of personal and interpersonal relationship development in China. In the Chinese culture, saving mianzi is a shortcut to building a social network and to tap into the social resources of others. Thus, mianzi is a key component in the dynamics of guanxi.

The Chinese do not like to say no or point some negative issues out. But afterwards you might notice that nothing is in order really.

-Interviewee

As the Chinese culture is heavily influenced by Taoist principles, *guanxi* and *mianzi* are regarded to have their Yin and Yang (Durlabhji, 2004). Eagerness, aggressiveness and outcome orientation (Yang) must be balanced by longevity, coordination and people orientation (Yin) in the process of a trust building. Otherwise, either side of a relationship can be responsible for trust destruction. In extreme cases, those ruthlessly pursuing their goals without regard to what others think can be accused of being “thick face” and “black heart” (Buckley, Clegg & Tan, 2006).

Björkman and Kock (1995) stated that *guanxi* is important in China because of

- lack of codified and diffused public information
- general distrust towards strangers
- reciprocity within social relations as the norm
- the importance of trust development prior to business and information exchange, in particular in relations where illegal elements are part of the interaction.

Guanxi plays the role of lubrication in Chinese business activities and can be applied to different levels of the management practices. For instance, a good personal relationship between the top management levels can promote a more open and frank communication so that the problems can be immediately checked to reduce conflict, or the agreement can be easily reached in the partnership. A close relationship between managers and their subordinates and colleagues can act as informal mechanisms for creating ties and loyalty between employees and top managers. (Wang, 2007.)

Social relations are of high significance both in order to obtain important information and to influence Chinese decision makers. How to obtain information about possible customers and upcoming purchases is commonly viewed as a difficult task. Furthermore, due to the decentralisation of economic decision making in China, this task has become even more difficult.

A lot of information disappears, especially on its way upwards within the organisation. Problems or bad news are preferably forgotten or hidden. It is not a question about telling lies – a fear of personnel responsibility might strongly affect here.

-Interviewee

The western way to operate with a multilevel management system does not work here – the farther it goes from top management the foggier the information gets. Even crucial information can be dropped.

-Interviewee

For major governmental infrastructural projects there are sometimes official lists available from which it is possible to obtain information about forthcoming tenders. Occasionally, the Chinese buying organisation use newspaper and trade journal advertisements to spread information about tenders. Well-known sellers are sometimes contacted by prospective buyers and asked to submit price quotations for a certain order. The typical situation is, however, that Western companies have little information about potential customers. The solution is to somehow obtain access to people who possess the necessary information.

It is common in China to set a person with some right political background for projects as a leader or controller. The special competence in the field of business in question is secondary – it might take time to get the right answer in a special issue – and it might be almost impossible to get a wrong answer withdrawn.

-Interviewee

The importance of guanxi for information acquisition in marketing has also been noted e.g. by Davis et al. (1995). Concerning very large orders, it is common practice among Chinese buyers to arrange public tenders. Like elsewhere, if sellers manage to influence the specifications of the tender they are in a better position to win the final deal. How to influence the Chinese decision makers so as to win business deals is of course a crucial question. Companies that have good guanxi with the right people have a big advantage (Björkman & Kock, 1995).

3.2 DEVELOPING GUANXI

In China, guanxi most commonly exists between two people who have a common background, such as having gone to school or having studied together, coming from the same part of China, or having worked together. Nonetheless, also in China social relations can be developed through conscious efforts.

The strategy used for creating guanxi, and over time developing the relationship further, is to increase the social exchange deliberately, e.g. by visiting, giving gifts, and giving the other 'face'. Another strategy is to use an intermediary of high social status who introduces you or to use impression management – to create a powerful and attractive impression of oneself in order to increase the likelihood that the person who controls a desirable resource will grant you a favour.

It is important to note that a strong personal relationship entails an important emotional component. In the survey by Björkman and Kock, when asked about the development of social relationships, the Chinese employee answered as follows:

That's a long story. It takes you several years to really build up a good relationship with them. In the beginning, you have to pay a visit there and you can invite them to your office. And gradually you get to know who the decision maker is. Then you build up a very good relationship with them. You should know what they like, what kind of topic they like to talk about, what is their background, even what kind of food they like.

(Björkman & Kock, 1995.)

Other respondents in the 1995 survey shared some of their approaches to building a relationship: keeping partners informed about new developments in the industry; visiting each other and making telephone calls; bringing Chinese partners something that is typically Finnish or Swedish.

To provide decision makers with personal favours of different kinds is a common way to develop the friendships, but the existence of and importance of non-instrumental relationships is also important.

Western companies can get access to the Chinese social networks through

- using one's own China unit to develop and maintain social relations
- getting access to the social networks through other actors
- relying on the middle men contacting the company.

The first option is the most effective way to gain access to the social networks in China. Local presence within China brings an improved possibility to directly access the social networks that are of utmost importance both in obtaining information about potential business deals and in persuading the decision makers about the advantages in buying the product from a focal company. Direct access to the social networks is mostly handled by local employees, which brings a growing problem for foreign companies in China – the loss of the key domestic employees who take their own social network contacts with them. (Björkman & Kock, 1995.)

4 HUMAN RESOURCES MANAGEMENT

4.1 HIRING PERSONNEL

Most foreign companies choose to hire local staff for their offices and production areas in China. However, as the progress of human resource management systems has not corresponded with the rapid growth of economic development in China, many of them discovered that recruiting and retaining qualified managerial staff is different and difficult in the Chinese market (Wu, 2008). Foreign firms trying to implement an HRM system in a Chinese subsidiary also find that they must spend time to educate managerial and supervisory personnel about how to handle employees.

To hire a good supervisor is probably the most important task in recruiting personnel. A good supervisor makes sure that workers are taking care of their job and that information is at least somehow being delivered.

-Interviewee

The Chinese prefer to leave the decision making for their supervisors and thus, avoid all the responsibility related. A risk of losing face is too high in case of a wrong decision.

-Interviewee

Several surveys suggest that developing an effective work force in China may be the greatest challenge facing foreign invested enterprises (FIEs) today. This challenge arises from four concerns: (a) selecting local people who have the potential to succeed; (b) providing the training and learning experiences they need for development; (c) retaining the best employees; and (d) managing day-to-day work relationships.

Until relatively recently, the government assigned all graduates to particular jobs when they left school. In this situation, the assigned job was considered lifetime employment. In response to such fixed arrangement, firms tended to view employees strictly in terms of costs rather than any benefits they might confer, which made additional skill acquisition and training uncommon.

Employment security has always been of paramount concern for most workers in China, particularly those from the more isolated non-coastal regions. The turmoil of the past century added to the emphasis on job security. Similarly, because of the society's collectivist nature, most individuals are not willing to take risks and stand out from the group. In the West, risk-taking is often viewed as a learning experience if it does not turn out well. In China, however, such failures can be very destroying for one's career and life. These characteristics influence the nature of appraisal and reward systems.

The importance of *guanxi*, or "connections", in Chinese culture also plays a role in HRM. Good personal relationships between managers and subordinates can promote better communication in the firm and help to manage the web of relationships with entities outside the firm. *Guanxi* influences who will be hired, and can prove troublesome for foreign firms that do not understand its implications.

In addition, a Chinese company is characterised by a high level of hierarchy. Decisions, including human resource issues, are top-down and dominated by the preferences of management, with little integration between departments and input from direct supervisors. Little regard is given to the selection process, performance appraisal or motivation. Foreign firms can expect most local employees to be unaccustomed to a formal HR function. (Ahlstrom, Bruton & Chan, 2001.)

The Chinese are used to having very hierarchical organisation structures and all the information and discussion must proceed according to the official hierarchy. As a supplier you are not able to jump over some hierarchical levels if you want to get things done.

-Interviewee

Workers on each level want to be noticed and want to tell their opinion about the issue at hand. We have to get used to these maybe unnecessary comments and statements from numerous different people involved – no matter the need for an opinion or statement.

-Interviewee

Many managers find it difficult to hire people with the conscientious, proactive and creative approach to work that is valued in the West. Chinese employees often avoid problems until they are impossible to ignore. When problems are finally addressed, solutions are based on precedents and usually involve a reference to authority. The tendency to avoid problems and the lack of creativity has been attributed to various facets of the Chinese culture, including traditional socialisation practices where obedience, impulse control and acceptance of social obligations are encouraged, while independence, assertiveness and creativity are not; the Chinese education system, where students are taught what to think, not how to think; the hierarchical society of China, where status and precedent must be respected; and experience in state owned enterprises, where managers made few decisions and were rarely held accountable for results. (Ahlstrom, Bruton & Chan, 2001.)

The talent here can be understood as the young people who are upward, progressing, professional and efficient. Over the past few years, China has witnessed millions of university graduates each year after the universal access plan was proposed. However, there are disadvantages for the talent pools in China in general. First is the disproportionately high number of art studies graduates – a lot of young people choose art as their major, since the process of achieving it is much easier, and because it includes higher management opportunities. Secondly, due to the Chinese education's emphasis on theory, art or science graduates seldom have opportunities to practice their skills and get experience in team work. Hence, the young graduates who get high grades and win scholarships in school actually cannot always perform well in the job.

Chinese workers do not like criticism at all – especially public criticism should be used very carefully. Also the feedback given by e-mail e.g. for all the team members might be taken as a personal disgrace or shame.

-Interviewee

After two official warnings, the guy must be sacked – it works as an example or warning to other workers.

-Interviewee

It has been estimated that less than ten per cent of Chinese job candidates, on average, would be suitable for work in a foreign company in nine occupations: engineers, finance workers, accountants, qualitative analysts, generalists, life science researchers, doctors, nurses, and support staff (Wu, 2008).

4.2 RETAINING EMPLOYEES

With the shortage of qualified and experienced staff in China, it is difficult to engage local employees in the beginning, and many multinational companies have used an expatriate top management team to establish their operations, because they are more familiar with management techniques and methods used in the multinational companies (Qi & Lange, 2005). However, many companies have faced a high failure rate of expatriates. Most expatriates have returned earlier or have a poor job performance in China.

There are many reasons for the expatriate failure, but the main reason is culture shock. Many expatriates get lost and become confused and anxious in the new country because of unfamiliar situations and different cultural norms and values.

Expatriate failure would bring about many negative results for multinational companies. First of all, the work productivity and efficiency of expatriates would be abated. Owing to the uneasy feeling in the host country, expatriates would not exert their efforts to achieve excellence during the working time. They would become unenthusiastic, absentminded and abandon the working responsibility in their current position. They might resist training the Chinese local staff and not be motivated to help local managers prepare for their new jobs. As a result, the local staff would gain little chance to progress and become qualified, which would consequently worsen the Chinese talent shortage for multinational companies.

Apart from this, expatriate failure would lead to real costs for companies, including both direct and indirect costs. It is reported that the expatriate compensation packages are typically much costly than using local work force.

For example, an expatriate manager in China typically receives at least three times more (and in some cases, ten times more!) than a local manager in total salary and benefits. Therefore, the expatriate programme does not improve the situation on the tight talent market of China and it also causes financial pressure for companies. (Wu, 2008.)

Selecting new employees is as important in China as it is in anywhere else, but the steps in the selection process might differ. Because the quality of Chinese high schools and higher education institutions may vary a great deal, the key task is to identify a pool of qualified workers. To attract numbers of quality employees, especially in the case of a factory or large retail outlet, many foreign firms use agents from Hong Kong or some of the bigger cities in China to locate workers who meet the key criteria and possess the needed skills. This can be time-consuming, but it is helpful in putting a suitable work force together.

It is quite easy to find employees for routine tasks. But real professionals might be hard to find and keep. And “expertise” might have a different meaning here – sometimes it is question about some skills in English language only. A trial period is a must.

-Interviewee

The role of Chinese networking, *guanxi*, plays an important role in staff hiring – not only concerning senior managers, but also lower-level workers. A candidate’s connections could be internal, such as knowing someone else in the firm, or external, such as having a reference from a trusted outside party.

Reference letters from someone important carry more weight in China than in most other places. Not only is *guanxi* with an influential person important in China, but also the person making the recommendation has staked his reputation with the company in question and will be embarrassed or lose face if the employee does not do a good job, particularly in a supervisory position. The result is that the hired employee is motivated to perform well to save face for the recommending party. In addition, given the level of interference foreign firms can face in China, the selection of employees with strong local connections can also help overcome any potential problems that might arise with officials.

Because of the varying quality of education, school transcripts and diplomas are usually seen less reliable and less important, except in the case of managers. A better practice is to arrange interviews to see how people conduct themselves, especially those that must regularly deal with customers, suppliers, and regulators. English skills are important for a higher-level staff; however, it is often difficult to determine actual proficiency. Students who show 12 years of English studies on their resumés may not be able to use English to any practicable extent. References from trusted parties can be of help in this regard, as well as conducting an interview completely in English.

Certificates of applicants are not always real. It is somewhat acceptable to try one's luck with false documents. Especially people from countryside might be too eager to get a job in the urban area. They might have sold everything they had already to arrange a trip to a city area.

-Interviewee

Additionally, if the employee has international experience, it helps a lot with his integration into the multinational company and interaction with expatriate managers and clients. This experience could be foreign friends or connections, or activities that involved foreigners. Studies show that such people are more trainable and adopt company policies and values more easily. (Ahlstrom, Bruton & Chan, 2001.)

Companies must be careful to tailor the training of new hires to the local conditions. For example, Chinese employees are accustomed to a lecture format that encourages quiet note-taking and listening. Moreover, Chinese students are normally discouraged from expressing themselves in class on an individual basis. Nor are they used to responding aloud to questions, especially off the top of their head. The training should be adapted to this. Although Chinese employees do not react the same way as those in training classes in most western countries, this does not mean they are not listening or learning.

Typically we have to train our workers by ourselves – qualified enough labour is not usually available when it is needed.

-Interviewee

To succeed in this environment, it is best to give employees some assignments to prepare before the training session so they can first think about them themselves. They will then feel much more confident and can gradually gain

confidence in extemporaneous exercises, building on things they have already worked with and understand better. It is also useful to form groups in the training sessions, then direct questions to the groups rather than to individuals, since many Chinese people feel uncomfortable about individually promoting their ideas in public. Persistence in this endeavour is key to making sure that people do not tune out, or get singled out and lose face.

During training sessions that are conducted in English, it is important for the trainers not to use English slang, jokes, contemporary phrases, or uncommon words and expressions the employees are unlikely to be familiar with. In training employees, the manner in which ideas are presented is also important. For example, keeping topics in chronological order is very helpful, because it is consistent with the grammatical structure of the Chinese language in which ideas, cause-and-effect declarations and actions are typically presented in time order.

Young generation is somewhat easier to handle – they have not yet learned that Chinese working culture and are ready to learn new things.

-Interviewee

It is also helpful to include a person who speaks Chinese as a co-trainer, particularly one with some business education. Such an individual can translate ideas accurately and help explain things if questions arise. (Ahlstrom, Bruton & Chan, 2001.)

Before the economic reforms of China, retention was not a major issue for the country, because employees were rarely given permission to leave their companies. But with the reforms freeing up the labour market considerably, firms can no longer count on work force loyalty and stability. In many foreign firms, the retention of managers and professionals has proved to be a major problem.

Retaining well-trained and strategically important employees, particularly at a skilled or managerial level, is a vexing issue for foreign firms in China.

A level of salary for real experts has increased and might be even higher here now compared with the European level. For instance, professional workers on a supervisor level can set their price now. And they are after the better options all the time. Some of them would, however, try to come back later

when they find out that workers are quite well treated in the Finnish and other Nordic companies. But mostly they are not taken back – just to show the other workers that there is no use leaving the company.

-Interviewee

In addition to the salary, certain benefits and perquisites are also highly valued by employees in China and are practical tools for retaining a good work force. For people coming from the inland provinces, housing is quite important. This is because if they move to a new city to work, housing can be difficult to find and quite expensive. Sometimes firms also subsidise the purchase of an apartment, requiring that the employee remain with the firm in order to keep that benefit.

Another retention method that can be used is to hire family members of current employees. In China, people have a strong commitment to family, stronger than to an organisation or the community. Firms can take advantage of this commitment to build a more loyal work force. For example, by hiring the wife of a current valuable employee, a firm can increase the loyalty of the couple toward it. The reason is that in Chinese culture the family is responsible for the conduct of its members, and individual wrongdoing causes the loss of face for the entire family. Thus employees can be expected to be diligent in performing their jobs to avoid embarrassing other family members in the firm and the boss who hired them, solidifying the bond between employee and company. Because immediate family members will likely prefer to remain working together, this can also reduce the persistent problem of employee turnover in China.

Chinese society is very much networked and linked – family, working community, university and so on. If you are not networked yourself, getting the contacts and becoming acquainted with people, your business will not thrive here. It is highly valued here that you have known someone for a long period of time.

-Interviewee

Managers also use the promises of job security as a major means of retaining employees. HR managers see this as very effective partly because of the tradition of lifetime employment in China. Foreign firms sometimes promise job security in exchange for lower salaries, especially during economic

downturns. This proves beneficial because of the obtained reputation as a steady employer who kept people during bad times – reputation that will likely help to retain quality employees during the good times.

4.3 MANAGING WORK RELATIONSHIPS

Developing an effective work force also requires effective management of day-to-day interactions to minimise the conflicts and negative perceptions often arising from cultural differences. For western managers, these difficulties arise from different values (e.g. individualism versus collectivism); different norms governing social interaction (e.g. failure to understand the Chinese concern for face); different communication styles (e.g. high-context vs. low-context), and different approaches to conflict management (e.g. relationship-oriented vs. task-oriented). (Ahlstrom, Bruton & Chan, 2001.)

You have to be ready to make compromises all the time, no matter how ridiculous an issue might be in question. There must be high tolerance to local habits and beliefs. For instance, according to a Chinese belief, “moving air” is healthy and that is why the windows should always be open. It does not help to explain that the air inside is filtered, and thus, much healthier than air coming from outside! Maybe you can agree on the closed windows during the coldest winter and hottest summer days.

-Interviewee

Most FIEs try to minimise these problems by offering cross-cultural training to help their expatriate managers understand and accommodate cultural differences. Some companies also employ a cultural interpreter – a person experienced in both cultures who can help each side understand the other’s point of view.

Many Chinese enterprises use non-systematic performance appraisals. Traditionally, each individual or group is judged as successful or unsuccessful based not on well-defined criteria but strictly on a manager’s or government official’s opinion. Consistent with the more collective nature of Chinese culture, the best appraisal approach is group-oriented; in this way employees feel better about group evaluation and it tends to build a sense of camaraderie among different departments.

The Chinese are willing to do only the right things and to fulfil all the expectations set for them. Especially all public criticism is absolutely unbearable and something to avoid. Losing face in some way is one of the worst things that might occur. That makes it quite challenging for a supervisor to give feedback.

-Interviewee

It is not only losing face that might cause problems, but also giving face. Praising a single worker in front of other workers might make him/her neglect everyday tasks and start bossing around. I did it once and it took several months to get that worker back to his real job tasks.

-Interviewee

Appraisal methods should be adjusted to fit better with the central Chinese values of “face” and “harmony.” These values may complicate the direct feedback process between managers and subordinates. The Chinese communication style is indirect, as people try to minimise the loss of face and preserve harmonious relationships. Managers must be careful not to reprove subordinates or colleagues publicly. If this is done in the presence of others, it can cause that person to lose face and may harm the internal management processes.

The compensation and benefits system of the employed is another factor that has influenced the human resource management for multinational companies in China (Tian, 2007). The dominant purpose for local Chinese qualified staff to leave their company is to find a better paid job. The recent economy boom has led to the growth of the wage rate in China and this trend is expected to continue.

Headhunters might be quite a nuisance. They can come outside the company premises and wait there for the workers, especially the key people. You might be forced to put an end to this kind of open fishing.

-Interviewee

In multinational companies, the salary of employees, in particular the wage of a Chinese managerial staff depends on their performance which means there is not much compensation and benefits for Chinese staff. A related consequence for this pay system is an increasing number of job dissatisfaction with the

qualified and experienced staff. Watson Wyatt conducted a Worldwide's 2006–07 Work China Employee Attitude Survey in 100 companies in China to investigate the employee's attitudes towards their payment; the latest result showed that only 23 per cent of employees are satisfied with their compensation and benefits (Leininger, 2007).

On the other hand, Chinese staff could get a variety of compensations and benefits in domestic companies, especially the qualified managerial employees. The state-owned enterprises of China were the main competitor which had occupied most qualified Chinese employees. The large number of foreign companies and the rapid growth of salaries in China has brought about a reform of the pay system in the state-owned enterprises. Besides the basic wage, the qualified managerial staff has welfare entitlement and is paid a variety of social insurances. It includes, for instance, media insurance, unemployment insurance, working-related injury insurance, bearing insurance, endowment insurance and house fund.

Employees are motivated and treasure their stable incomes and social welfare; they struggle hard to increase their productivity which could help them survive and remain in the company. Many foreign multinational companies have realised this issue and are planning to establish a reward and pay programme to attract qualified Chinese staff. (Wu, 2008.)

Another thing worth noting is that foreign companies should avoid paying base salaries that are much higher than in the firms in the surrounding market; pay inequity is a major concern for the Chinese government, because it places the state and local enterprises at a disadvantage for attracting workers and is contrary to the egalitarian philosophy espoused in China.

A number of firms in China have already introduced performance-based pay systems. Commonly, bonuses are equal to one or two months of salary and are given at the end of the year, sometimes tied to profitability or other productivity measures. Another useful reward method is to send employees overseas for training. If that proves expensive, closer locations such as Hong Kong, Singapore, or Shanghai may suffice. (Ahlstrom, Bruton & Chan, 2001.)

5 CHINESE LEGISLATION AND OFFICIAL CONTACTS

5.1 PARTNERING WITH LOCAL FIRMS

Partnering with local companies is a common means adopted by most western companies entering the Chinese market to learn the new business environment for the first time, while they implement their international expansion strategy. Moreover, partnering is effective for when the companies expect to become quickly involved in the internationalisation process through leveraging the other companies' resources and competencies.

Finding the right partner for cooperation may be beneficial for both partners involved, because the two partners are then able to consolidate their market place, strengthen their core competency, gain access to new markets, save costs and gain complementary resources. However, driving the partnership strategy for achieving the business goals is not an easy job, since it is quite common that many partnerships are dissolved for various reasons before they achieve the desired targets, especially when the partnering process is carried out in a cross-cultural context.

In China, you must be an important and valued partner. Otherwise you are ruthlessly thrown out, thus giving way to a more important collaborator.

-Interviewee

The Chinese partners value competence and a speedy response to their inquiries. All delays are interpreted as lack of interest and they pay attention to other actors instead.

-Interviewee

At the same time, even after a partnership has been formed, the partnership may be dissolved or fail because of lack of cooperation and trust, inadequate advance planning, too many detailed negotiations and too little managing

of the actual alliance, lack of organisational capabilities and resources to manage cooperative relationships, strategic mismatch, size mismatch, cultural mismatch, change in strategy of one partner, and wrong choice of partner or wrong initial strategy (Koze & Lewin, 2000).

Business culture and contracting is especially interesting in China. A signed contract means the beginning of negotiations for them. If there are some inconvenient sections or terms of contract in the signed paper, it can always be further discussed or the whole contract can be dismissed.

-Interviewee

Huge differences in the political and economic structures in China make it difficult for many of the smaller Finnish enterprises to benefit from the new market. Therefore, partnering with local firms would be probably the best practice as the first step to learning the valued experiences of business development in China.

From the Chinese perspective, the primary objectives for opening China up to foreign investment are to bring in foreign capital, advanced technology, management skills and urban construction, and generally to catch up with the developed countries. Preference is given to foreign projects consistent with the long-term development plans of the Chinese national economy, and priorities assigned to specific sectors such as machinery and electronics, export-oriented products, import substitutes as well as communication products, energy and transportation.

A quality of a proto or a sample does not guarantee the quality of a final product. The first shipment can be quite all right, but after that everything might go awry. There should be a control system going on all the time and on each level.

-Interviewee

There should always be at least one Finnish supervisor within the Chinese unit to make sure that everything works according to plan.

-Interviewee

Three different types of partners can be defined. The first is the “nut and bolts partner”. The primary function of this partner from the western companies’ point of view is to help solve the problems of access to land, resources,

labour, government, distribution or other factors. The usual quid pro quo is technology transfer or training of skills. Economist Intelligence Unit (EIU) notes that these tend to be set up with a short-term focus, and problems can arise once the immediate problems have been solved. Nevertheless, this can be an ideal type of partner for a first-time entrant.

The second type is the “well-off godfather”. These are more powerful partners and the EIU identifies them primarily as government authorities, such as different Chinese industrial ministries. Slow and bureaucratic, these partners are also very powerful and have access to resources. Their primary contributions are during the start-up phase and as powerful “godfathers” who can help sort out problems down the road. They normally take minority stakes and have little direct involvement in the day-to-day management.

The “four hands on the wheel partner”. This is a more strategic partnership in which the Chinese partner is interested not just in technology transfer but also in building its own strategic position. Not surprisingly, this type of partnership is believed to have a higher chance of survival. (Wang 2007.)

5.2 RESOLVING BUSINESS DISPUTES

Although resolving business disputes can be a slow, frustrating process anywhere in the world, in China the process is particularly onerous. The difficulties that FIEs face when resolving legal disputes in China grow out of their very different traditions of dispute resolution. Unlike the West, China has only recently developed a system of commercial dispute resolution where an independent third party (i.e., a court or arbitrator) makes a binding decision.

A Chinese worker has extremely good rights – at least while working in a foreign company. Best practices from different countries have been collected together for the workers, but not many rights are given to foreign companies operating in China. For instance, it is almost impossible to get rid of a worker unless there is not any criminal activity involved. Even crime can be very difficult for a company to prove at a local court. Your proof might not be valid there.

-Interviewee

The judicial system is still in its formative stage. Courts in China might be painstakingly slow and Chinese judges might be particularly ill-equipped to handle complex commercial disputes. The judiciary is composed primarily of officers retired from the People's Liberation Army who have no legal training, but were chosen for their political correctness and personal loyalty to the Chinese Communist Party (CCP). Moreover, corruption is rampant. As a result, most FIEs in China prefer arbitration to litigation to resolve commercial disputes.

It is very important to include everything essential in the contract with a sub-supplier. Further, you must be careful with technical drawings and blueprints and so on – they should not be left anywhere if it is not absolutely necessary for the procedure. We always have our own personnel showing the documents and then taking back all of them, too.

-Interviewee

Although FIEs are often pressured to name a domestic arbitration authority, such as the China International Economic Trade Arbitration Commission (CIETAC), most FIEs prefer to use an international arbitration panel, such as the International Court of Arbitration at the International Chamber of Commerce sitting in Paris. Of course, an FIE may find itself dealing with the Chinese courts if it has trouble collecting its arbitration award. When all of the opposing party's assets are in China, the award must be enforced in a Chinese court. (Weldon & Vanhonacker, 1999.)

5.3 PROTECTING INTELLECTUAL PROPERTY

Protecting intellectual property is another of the vexing problems many managers in FIEs face. For example, the Software Publishers Association and Business Software Alliance believe that 90 per cent of the business software used in China is derived from pirated copies. In other examples, Heinz found that a factory in China had copied 36 different Heinz food products; managers at SC Johnson estimated that two-thirds of the products in China bearing the SC Johnson trademark are counterfeit goods; and Procter & Gamble found that the company they hired to package their goods had sold their packaging

materials and design templates to pirate firms (Houdard, 1998). Overall, in a survey of 96 European companies with investments in China, 50 per cent said they had experienced product rip-offs.

Pirating and copying start immediately you come here. An exactly same kind of factory as ours was built here only 300 metres away from our factory. I can see it from my window. Another factory like ours is now being built on the neighbouring site!

-Interviewee

Copying or pirating is a big problem here. For a customer – especially for a western operator – it is extremely important that they can be sure about security issues. That is probably the main reason to choose a Finnish supplier operating in China, instead of a local one.

-Interviewee

Although China has acceded to a number of the more important international intellectual property treaties and recently adopted its own laws governing patents, trademarks, copyrights and commercial secrets, the commitment of China to enforce all this is still unclear. Some managers believe that pirates go unpunished because they have connections with local officials. Others believe that pirates benefit from a general disregard for the legal rights of foreign trademark and copyright owners.

They might just pick up your logo and start producing products under that. Stolen logo – even registered trademarks with a seal and everything! It is illegal but the local and state authorities are not very eager to take any actions to stop that.

-Interviewee

Many companies have taken to protecting important technology by transferring only the technology needed to run the venture and keeping the next generation of technology at home. In addition, many companies now avoid joint ventures and form wholly owned subsidiaries in part to prevent leaks. (Weldon, Vanhonacker, 1999.)

5.4 THE ROLE OF THE PARTY AND THE GOVERNMENT IN CHINA

The Chinese government has long played two incompatible roles in its economy: an industry regulatory role and an ownership role in state-owned enterprises (SOEs) (Buckley, Clegg, & Tan, 2005). Since the transition from a central command system to a market economy, the Chinese government began to reduce its role in running business entities. The Chinese government still influences the decision making process of SOEs through its control of key resources and its power to appoint and dismiss managers. Moreover, it retains powers to change the rules of the business system and to differentiate its policies towards firms of different categories (Child & Tse, 2001).

A key problem is that both central and local governments perform regulatory and participating roles that are not always consistent with each other. Foreign investors therefore need to maintain communications with the different levels of government to be well informed of the changing rules and policies. Given China's lengthy history of bureaucratic control, foreign firms have to be aware of the rules governing the interaction between foreign invested firms and the government.

Foreign managers need to recognise the systemic and cultural factors that cannot be overly challenged. Typical Confucian values, such as respect for age and hierarchy, avoidance of conflict and need for harmony, and protection of "face", must be taken as central to managing interactions with the local and central governments (Fang, 2006). As the policy outcomes and the regulatory processes are largely determined at local levels through bargaining between the foreign investors and the local government authorities, foreign managers may find it in their own interest to cultivate the personal relationship of their enterprise with relevant Chinese officials to create a facilitating environment and to obtain an optimal result from bargaining. (Buckley, Clegg & Tan, 2006).

Local and central authorities tend to be involved in large-size investment decisions. The approval of the State Planning Commission or its local units may, for instance, be necessary. The Ministry of Foreign Trade and Economic Co-operation (MOFTEC) grants import licenses and (possibly) tariff exceptions. Often it is necessary to obtain the approval of the Ministry to which the end user belongs. Local governments may strongly influence

investment decisions made by organisations within their geographical area. Local regulatory bureaus, known in China as "Mothers-in-Law", may also have a say over matters within their regulatory area (Child and Tse, 2001).

The financing of business deals may necessitate bank guarantees by a Chinese bank, or the financing may be obtained from foreign financial institutions such as the World Bank or the Asian Development Bank. In large deals, a Chinese tendering organisation is usually responsible for handling the arrangements in the open or invited tenders. Domestic Chinese expert organisations often play an important role. Design Institutes may be responsible for approving technical solutions, or even do the design works themselves. Finally, agents and middle men of different kinds may be involved. (Björkman & Kock, 1995.)

5.5 GOVERNMENT SUPPORT

Government support can decide the success of foreign invested firms in China. To ensure government support, some foreign companies prefer to make central and/or local governments direct stakeholders, sometimes even with majority equity.

Chinese government support has been selective but nevertheless powerful when the foreign company falls into the designated priority categories of the host local governments. The importance of government support indicates that foreign investors must pay particular attention to macro-environmental factors when doing business in China (Yip, 1995). To seek government support, foreign invested firms should endeavour to set up personal relationships with government officials and offer legitimate support to give *mianzi* ("face") to government – for example through subscription to various social and charitable programmes supported by the government.

Foreign investors should treat the government as an important partner instead of a rival when operating in China. Relationship building with the government in China is essentially a two-way process based on effective communication. Former government officials or relatives of current officials are often recruited to ensure access to key government officials so that an active communication channel can be maintained. Visits by CEOs to China are always an opportunity to promote good relationships with the government.

Therefore, high profile meetings with top government officials are seen as a must. Commitments from both sides regarding ambitious new investment plans and further government support are often declared after meetings of this kind.

As a result of these efforts, companies can create a favourable environment for doing business, a strengthened capability for localisation and a growing customer base in their respective markets. Good *guanxi* with the government in China also means creating a favourable operating environment by avoiding excessive government interference. It is an important strategy for foreign invested firms to elicit the favourable implementation of laws, rules, regulations and policies from local authorities and to establish good personal relationships with strategically-located individuals in business, government and bureaucracy. This is because they may be able to influence the outcomes of possible future questions and disputes in favour of the enterprise. (Buckley, Clegg & Tan, 2006.)

Nowadays the Chinese are not necessarily so interested in taking over the businesses any more. Instead, they are pleased to have functioning companies going on and offering jobs and wealth to China.

-Interviewee

Although the local government can be very good in helping firms get established and growing, private firms find they can also be quite intrusive. Government shareholders may be passive at first, but once a company succeeds, significant interference might follow.

5.6 CORRUPTION

Corruption in the huge bureaucracy that governs China might be one more problem for managers in foreign invested firms. The official salary of the civil servants has traditionally been quite low and compares unfavourably with the earnings of successful entrepreneurs, the salaries of FIE employees and, naturally, the income of corrupt civil servants. Taking bribes is one way to reduce the disparity. Although the CCP is concerned about corruption and is cracking down on it, they also need a loyal and obedient state bureaucracy to run the country (Ma, 1998). A complete crackdown could alienate the bureaucracy and be counterproductive. As a result, the CCP tries to contain

corruption by manipulating who gets caught and determining what types of offences are actually prosecuted – and as it is, demanding bribes from FIEs is not a primary concern.

For managers working in FIEs, corruption typically takes one of these forms: demands for the payment of unauthorised fees; payment for services that should be provided as part of a job of a civil servant; or a payment or kickback for awarding a business contract. Many foreign business people resist these demands, because they increase the cost of doing business, because they violate business ethics in other parts of the world and because it is illegal for Chinese officials to make these demands (Ma, 1998).

There is some evidence that foreign business people can reduce the extent to which corruption affects their businesses. In response to their protests, some cities have streamlined inspection and approval processes, and several now issue a list of legitimate fees and ask FIEs not to pay any others. In addition, some cities have established complaint centres for FIEs and hold regularly scheduled meetings with municipal officials. Other cities have developed investment zones with their own administrative agencies, where the bureaucracy is smaller, more efficient, flexible and honest.

6 BUILDING LEGITIMACY

6.1 A TRADITIONAL VIEW OF FIRM LEGITIMACY

The term "legitimacy" commonly refers to the right to exist and perform an activity in a certain way (Suchman, 1995). The legitimacy of firms in an industry has historically been viewed from the macro level, where the industry both seeks and is impacted by socio-political and cognitive approval from society and its institutions (Aldrich & Fiol, 1994). Socio-political legitimacy stems from the approval of the general public, key opinion leaders or government officials. Cognitive approval is based on the spread of knowledge and general acceptance of an enterprise and its activities as well as some acceptance from the culture at large. Lacking legitimacy, the ability of organisations to pursue their goals and accumulate resources is reduced.

Firms are legitimised by their environments if they survive and prosper. Firms can, however, also proactively build legitimacy to enhance their long-term growth prospects. This is vital for private firms in emerging economies, where protection given to private property might be quite weak.

It is true that the support for private enterprises is increasing in emerging economies such as China and Russia. However, the past opposition to private property continues to have an impact since the ownership of property in China can sometimes be unclear (Wu, 2008). For example, many private businesses in China were founded during the early reform period before it was legal to possess private property. These firms have none of the required documentation technically legalising their operations. Other more recently founded private firms started when it was legal to have private property, but bypassed many of the various bureaucratic regulations for such businesses, sometimes mixing the assets of state and private entities as the firms grew. The fear held by these private enterprises is that if the government challenges the firms' right to exist, their assets can be appropriated and they can even be driven out of business.

In the absence of stable legal arrangements, legitimacy building becomes crucial for private firms in China. Thus, facing residual hostility in China, and what is often an unclear legal status, private enterprises can help to legitimise their commercial activities through image building, networking, and developing close connections with the government, particularly the local legal regime and power structure.

Until the 1980s China's central government played a role in nearly all aspects of the economy. With the economic reform initiated in 1978, China began to move toward a more market-oriented economy while retaining a number of elements of state control (Pei, 2006). Since that time, the central government has sought to devolve regulatory oversight to local and provincial authorities. By the late 1990s, private property had been legalised to coexist with the state-owned segment of the economy – however, it still lacks the full legal status and protection that state assets and state-linked enterprises have (Huang, 2005). This has resulted in ideological conflict, with some in the government attuned to the market economy and others still emphasising a very active role for government in the day-to-day affairs of businesses.

To prosper in such an environment, where the rights of private enterprises still remain a question and interference in company activities is quite common, firms have been observed using specific strategies individually and collectively that seek to establish their legitimacy and manage the present influence of the government officials in China (Ahlstrom & Bruton, 2001).

6.2 SELECTION OF ENVIRONMENTS

A firm can establish its legitimacy through its selected environment by arguing that its activity is beneficial to the area, for example, by providing employment or by bringing in new technology (Suchman, 1995). Such legitimacy can be significant for firms in China. For example, in western China, there is high unemployment and poverty. Private enterprises often build their legitimacy by selecting to expand or locate to those areas. A related option not readily available in most developed economies, but utilised by private firms in China, is the takeover of ailing SOEs. By doing this, a private firm can bring new resources and know how to help the SOE stay in business and prosper.

Regulatory legitimacy will be achieved in the selected environment if the enterprise enters a setting where a certification they already possess is required. A difficult problem both for organisations and consumers in emerging economies is to determine whether a product has the characteristics that the firm producing it says it has. For example, in recent years many organisations in China have sought the ISO 9000 certification (Ahlstrom & Bruton, 2001). This certification is required by many firms and government agencies in China to be considered as a possible supplier. The certification indicates the firm's status as a quality manufacturer. Other China-specific awards, such as the "Gold Medal" quality award and other service quality and safety awards, play a similar legitimacy-building function. They get a great deal of publicity in China in the general press and indicate to consumers, prospective employees and organisations that the business is a qualified producer or service supplier, and fulfils the product and safety regulations set by the Chinese government and large state-linked firms.

Exercising normative conformance to the demands of a local environment is often done through establishing *guanxi* or connections with important individuals. *Guanxi* is regularly mentioned as something firms doing business in China must have (Peng & Luo, 2000). Hiring or working closely with local respected advisors who are in good standing with the government, party cadres, local village committees and the judiciary can help to confer legitimacy – particularly during disputes over firm resources, land ownership, employment issues, the payment of tax as well as commercial and legal issues. Connections with key individuals are still quite important in China, particularly for firms entering a new market or region. *Guanxi* with key officials and other connected individuals in China will continue to be an important source of legitimacy, though perhaps less important and durable than in the past, and perhaps less valuable than having obligations from a government body through a purchase of SOE assets or by hiring a large number of unemployed in one region (Peng & Zhou, 2005).

6.3 COGNITIVE AND REGULATORY CONFORMANCE

Institutional theorists have observed that organisations in uncertain environments often pursue legitimacy by associating themselves with well-understood and accepted entities. In China, some private enterprises try not

to look like a successful private business but instead seek to look like a state-linked firm (Ahlstrom et al., 2000). This provides the evidence of their fulfilling of the socialist market mandate important in China. One such method still used in parts of China is to register as a township or village collective firm with the agreement of the local government. These “concealed” private firms, sometimes included with a group of firms known as “red hat firms” (so-called because governments or state officials are brought in as investors) can be insulated from some governmental interference.

A company who has had high-level government officers pay a visit may be more favoured by local officials – after the locals learn of those central and provincial government visits. This is why it is common for Chinese firms to have pictures of high government officials visiting the firm on display in the lobby of the firm headquarters. Sometimes promotional company videos are made featuring central government officials’ visits to the firm. Many firms believe they will receive preferential treatment, particularly in terms of bank loans and government support, if they can demonstrate connections with the top officials and principles of important state enterprises.

In emerging economies, rules and regulations and their enforcement are more capricious than in mature economies. It is possible for various levels of government to have competing and contradictory rules. Thus, private firms in emerging economies must deal with unpredictable government officials at various levels that are able to interpret (and reinterpret) regulations to extract resources from them. The lack of status and legal protection leaves private firms vulnerable to much interference from government officials and the judiciary. Guanxi with certain officials provides a firm some protection from ambiguities in the law (Tung & Worm, 2001). For example, if there is a relationship with the managers of a firm, officials and judges will frequently interpret the rules and regulations from the perspective of the firm.

The relationship provides the opening for the regulator or government official to be educated based on the needs and nature of the firm. Thus, if there is a relationship, the firm does not have to conform to the regulators’ perhaps unusual interpretations of the laws or regulations. Instead, there is an opportunity for the firm to shape the regulations to the firm’s needs. This may not be an option for many private firms, since they may not have had time

to build *guanxi*. To deal with such coercion, private firms may try to co-opt influential local officials to ensure that their interests align with those of the firm.

One means to obtain *guanxi* with government units is to have them as shareholders who contribute lands, capital or some other assets. This investment allows the government officers to have one or more board seats. Another method in order to avoid the vagueness of the laws and regulations in China is to give a partial ownership of a private firm to the senior local cadres in exchange for political protection and favours. For example, it is reported that owners of private firms in Wenzhou in eastern China gave firm shares to senior cadres in exchange for protection from government interference. Similarly, a private firm's formal profit sharing with city officials is described in the province of Hainan. A second co-opting method is to hire key officials or their relatives (Ahlstrom et al., 2000). Such individuals usually keep their government jobs and are given an office at the firm to share a certain human resource and strategic decisions in accordance with government mandates.

6.4 MANIPULATING EXISTING ENVIRONMENT

Interfirm linkages, such as trade associations, play a key role in organising activities that establish an industry's legitimacy in mature economies (Aldrich & Staber, 1988). In China, the role of trade associations may be even more important. In more developed economies, trade associations augment the existing voice of individual firms – facilitating the voice that individuals in private firms already have. However in China, when trade associations represent private industry to government agencies, they may be the only voice that the private firm or individuals have. In fact, all trade associations are organised and monitored by the CCP, and play some semi-official functions. Through these associations, firms can establish a communication channel with officials. Some firm owners might be selected as representatives at the city, provincial or national level.

In China, the enforcement of laws and regulations can be rather arbitrary and subject to a number of pressures outside of the direct legal and judicial proceedings. For example, judges in China mostly respond to pressure from

local governments or the CCP. If any disagreement exists between the CCP and the law in question, judges will generally try to follow the party policies. Although the constitution of China stipulates that political parties, the armed forces and state organs must abide by the constitution and the law, judges and other officials must consider party policies as well as the views and needs of local governments in the adjudication and enforcement of the law. Therefore, many private firms, in favourably manipulating the cognitive milieu of their environment, try to emphasise that their actions (or those of all firms in their sector) are aligned with local government rules and regulations as well as CCP imperatives for developing China. As a result, charitable giving for local developmental purposes by private firms is common and visibly promoted.

Several private firms regularly meet with local officials to discuss local development issues, including lending parts of their workforce to help landscape local grounds or plant trees by the roadside. Whereas firms used to be assigned fees for this sort of activity, and sometimes still are, private firms are reported being quite proactive in this area to show how they are in accordance with regulations and the formal developmental goals of their region. Many foreign firms have followed the example and recommendations of their alliance partners and work to make themselves aware of and align themselves with local government goals, often through visible charitable giving and, increasingly, sporting event sponsorship and contributing to local sports facilities. (Ahlstrom et al., 2008.)

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