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# **Dealing with the Chinese culture and its critical aspects in a Sino-Italian Joint Venture**

*Personal experience and insights in creating and managing  
cross-cultural specificities of a Sino-Italian collaboration.*

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# Dealing with the Chinese culture and its critical aspects in a Sino-Italian Joint Venture

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# 引言

随着世界经济的全球化和全世界网络的快速发展，穿过不同国家的边际越来越简单，人们能接触到不同文化的机会越来越多。实际上，飞到很远的地方如今已不再是件难事、而世界也天天继续往地球村的方向发展。在这种现状下中国扮演着越来越重要的角色，全球上跟中国没有经济交流的国家已经很少了，并且我们可以预计“一带一路”、“中国2025”等巨大政治经济项目将支持中国市场的普遍扩大从而促进世界的全球化。不仅在日常生活而且在经济交流方面，不理解别的文化的需求可能会引发出许多的文化冲突，于是人们了解不同文化就变得越来越重要。因为这么快这么多的变化每个人要适应新发展潮流，适应性就是应有的唯一最关键的特点。

首先，在这篇文章的第一个部分我将考虑什么叫文化，为什么全球上每个国家有不同文化特征呢？在这篇文章的第一个部分我将回答这些问题、描述中国和意大利文化差异对合资企业管理有什么影响。而且我将研究处理跨国文化日常管理事务的一些办法。其次，在第二个部分我将介绍合资企业是什么、创立合资企业的原因和可能产生障碍的因素是哪些、使读者了解到这种经营和法律环境的需要因素并且谈到一些管理中意合资企业行之有效的提议；第三个部分涉及到我的研究案，也就是说我在中意合资企业管理的情况下体会的事实经验。

我写这篇毕业论文是因为六个月之前我被一家意大利软件公司雇佣了，我的主要职责是负责中意合资企业项目的责任，于是我开始更加关注到中国文化的特特点、更加深入中外合资企业的管理最常发生的冲突、并试图寻找克服这些困难的最好办法。哪些文化方面最常涉及到中意合资企业的管理成功与否呢？做生意时，哪些管理策略、贸易谈判风格、哪些实施的行为对融合不同文化的过程是最有效的？我写了这篇文章的原因就是尽力追寻这些问题的答案：通过关于这个题目的存在文学的研究和通过我自己事实寻求的研究，我找出了这些问题的答案。在这篇文章中，我将叙述我自己的工作经验、我在中国负责合资企业管理的责任时应处理的困难而且我还将共享我体会到的一些排除跨文化壁垒的办法。

中外合资企业是把两个不同国家的企业融在一起的最合适，最常使用的办法之一，但是这种跨国公司在一些管理方面需要特别值得注意。按照统计，大部分的合资企业失败都是因为东道国公司和母国公司忽视文化差异的结果，所以管理者要发现到，重视不同文化的优点和缺点目前非常重要了。为什么经济交流和跨国合资企业的管理常常带来管理障碍呢？根据美国人类学家爱德华·哈尔的研究来看，世界上的不同文化我们可以分为两种：低语境和高语境文化。这两种不同文化下人们具有不同的语言、价值观、表示意见的说法和行为：高语境的人很多心里的东西不说出来，通过文化背景会传达真正的含意；在低语境文化中人们却很青睐于比较明确表示含意。合资企业的管理人员应该补充东道国和母国文化的差异，这样促进不同文化的融合：如果合资企业的两个公司文化都是低语境文化，那么产生误解的可能性不高，因为人们按他们的习惯直接打交道，可是如果语境文化不一样很有可能发生冲突，特别是有两种高语境的情况下。中国文化是世界上最有高语境文化的国家之一，最有低语境文化的国家中倒有德国和其他北欧国家，而且在这两个极的路线上意大利文化可以放在中间。高语境文化的人有很复杂的语境，比如平常说话时心照不宣，因此有可能两种高语境文化之间人们互不明白他们之间的想法，误读原来的真正含意或者无视其他人的行为。

我们每个人要发现世界上存在不同文化，每个人应该学习了解到别的国家的价值观念，语言，文化，法律和经济。为了做这个，知道了东道国的不一样文化的方面之后，人们应该从其他人的角度来看事情、放弃民族优越感。为了避免文化差异常常产生的矛盾，加强相互知识交流和提高适应性是最珍贵的成功秘诀：不同文化的融合是交互影响的过程，所以双方应该尽力互相理解对方的文化习俗。因为人们很难改变他们的生活习惯，所以管理人员必须把握不同文化的差异，并且了解到解决文化冲突的方法。虽然东道国和母国文化之间的差异可能很大，但双方不要无视这些差异而要把它们转化成为互相补充的措施，一种文化具有的特点可以弥补另一种文化的不完美方面。

负责跨文化融合的重要职责人不仅应具有整合文化的观念，而且他们要让合资企业双方所有的人员深刻理解拥有两种不同文化是两个企业在市场具有竞争

力的源泉。管理人员应该了解到，文化差异并不是一种劣势，而却是可能给企业创新动力的好机会。虽然对与合资企业的管理人来说，不同文化的冲突是一种巨大的挑战，但是要把文化差异看成是合资企业的最有竞争力的特点：对于文化矛盾的良好处理，还会带来机遇。

## Introduction

*“The future depends on man’s being able to transcend the limits of individual cultures”.<sup>1</sup>*

This quote by E. T. Hall requires us to put our attention on the important concept of transcending our individual limits and on the existence of many distinct cultures around the world. Contradicting what someone may say, this last notion is all but trivial, since as you will find in the chapters of this research, realizing the concrete presence of various cultural traits is not obvious neither irrelevant, especially when it’s needed to deal with people that grew up in distant places on the planet. In addition, this sentence requires the reader to ponder the need for transcending personal cultural limits, thus considering first of all that several limits exist. It presumes that every culture has its restrictions, and being aware of this, in a world where bounds are thinner than ever before, can actually change people’s perspective. The world is moving at fast rate, boundaries are relatively less impeding, and adaptation is the most proper strategy to surf this wave of change; the single person that can adapt to new environments is more likely to get familiar with culturally-far environments and find happiness as well as enrichment in facing cultural challenges, both in business and private circumstances.

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<sup>1</sup> Edward T. Hall, *Beyond Culture*, Ancor Books Edition, Doubleday, USA, 1989;

As a matter of facts, under the push of globalization forces in the field of economy, political agreements and connectivity resources, crossing long distances today requires an effort incomparably lower than in the past. Contextually to this homogenization of customs, touching local habits and living authentically the place we travel to, with the relative difficulties, is not an unavoidable choice anymore; experiencing local culture is often just an option for people that, in their holidays, want to encounter local traditions and specific habits: in fact, whatever place they visit they likely might as well find similar clothes to wear, commodities, food or places to live, avoiding much of the stress deriving from an adaptive approach that wants them to be flexible, if they simply don't want to.

Travelling for business rarely gives the possibility to make this choice. Albeit this tendency toward homogeneity, the existence of infinite shapes of cultures in the world cannot be ignored during professional exchanges: they still require to be conscious and proactive in approaching social interactions. The difficulty to deal with cultural typical aspects is often indicated as the reason of failure for multi-national enterprises, but the actual cause can be ascribed to scarce competencies other than to differences themselves. The encounter of many different cultures under the umbrella of business activities can be seen as a vast panorama of new possibilities and companies must familiarize with a set of unprecedented skills in order to succeed.

In this fast-revolving landscape, China remained almost inaccessible from the rest of the world for centuries: the Himalaya mountains together with the cold steppes in the North, the Pacific Ocean in the East and the hostile jungles in the Southern areas have impeded an exchange of cultural traits that were already very far from each other. Thanks to the economic growth and the leading role that China is assuming in the world pattern, the chances for Italian and Chinese managers to meet in business are much higher. What are the most relevant cultural features resulting in negotiating a deal for a company? And which skills must managers possess if they want to enhance their possibility to succeed?

This thesis was moved by the curiosity to answer these questions, while en-

larging my knowledge about how the world perception changes among different cultures, about how these ethnical structures shape the way every individual sees the world around; the reasons that pushed me in researching and analyzing the existent literature on the matter are similar to the ones that led me to study languages the first place: people are different and behave dissimilarly around the world, communication styles and cultural backgrounds are likely to influence the way people approach their daily life: which among these variances have a main effect on business behavior?

Beside the sparkle of interest, the necessity of a new challenging working position recently pushed me in the same direction: being busy in managing the project of a Sino-Italian Joint Venture for an Italian company implicitly required me to improve my abilities in this arena and to find out which are the essential skills to act properly. My experience on the field, albeit at its dawn, is been used as an inspiration to further consideration on the argument.

In my work of research, I wanted to explore the main topics that relates to the experience of establishing a Joint Venture in China: this business form is suitable to enhance the possibilities of creating value from cross-cultural exchange of resources, and I tried to give a sight on different themes, from the cross-cultural to legislative environment. In the first part of this work I will introduce the idea of culture, with an approach that focuses on China and compares its specificities with the ones of Italian and Western cultures; with a particular accent on the theories by the anthropologist Edward T. Hall and on the importance of context in dealing with multicultural environments, I will then analyze the aspects that characterize the communication across cultures that have distant features. Presenting the main topics of the Chinese culture that have a key influence on business behaviors, I will confront the principal peculiarities of Eastern and Western cultures and sketch the Chinese social, economic and political environment of the last decades. The central chapters will analyze the choice of business internationalization, presenting the reasons that lead a company to go abroad: among all the possible forms of investment in this sense, the Joint Venture are explained in their main features, positive and possible negative

outcomes. As with all other topic in the thesis, a particular focus will be put on China, on the legal and economic environment that will welcome managers in their first steps in the Asian giant. Considering the uniqueness of this country, several guidelines will be delineated for the successful integration of cultural traits as well as for the management processes. Although the main focus is on cultural aspects, being however relevant for the Joint Venture case and for my personal experience in that sense, I decided also to dive briefly into the complex legal pattern of Intellectual Property protection in China. In the last section of this work I wrote a direct report of what was and is my personal involvement in China in the circumstances of the project I'm taking care of, inserting some insights and reflections that resulted by mixing the first-person observations and the knowledge collected.

Talking about the most illuminating literature references that helped me in understanding this subject, Edward T. Hall's *Beyond culture* has been one of the most inspiring books I ever read and very useful to understand many logics behind cross-cultural strategies. Other interesting references are Erin Meyer's work, *The Culture Map*, based on her decennial practice on the cross-cultural business field and *Cross-Cultural Business Behavior* by Richard R. Gesteland: they both offer stimulating insights from their life experience, referring of course also to precedent traditional studies like the ones conducted by Hofstede and Trompenaars.

# Foreword

In this work I will refer to Eastern and Western population basing on an approach that considers Europe as the referring center and it's important to specify that the point of view it's the author's one. In fact, it's fair to notice that many cultures traditionally considered themselves as the center of the world, pointing at others as Western or Eastern: Chinese people consider China "the Middle Kingdom"<sup>2</sup>, and the same meaning can be found in very distant cultures around the globe, like in term "*Midgardr*"<sup>3</sup>, an ancient word used in the Scandinavian culture. It's curious to notice that the concept of East and West on maps may not be the same in different parts of the world, as well as North and South, thus dissimilar cultures may indicate each other differently basing on their point of view.

For this reason, East and West are concepts related to geographic coordinates and I will use my European point of view in order to be clear. In addition, the concept of cultural differences itself relates to the culture we are born and raise into: when differences and comparisons will be made in the following chapters, it should be remembered that they all will be conceived from the Italian-Western culture point of view. Statements in this sense are not universal, but instead relative to a comparative point of view.

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<sup>2</sup> 中国, zhōngguó, China, is a word that literally means *Middle* (中, zhōng) *Kingdom* (国, guó);

<sup>3</sup>Stefano Schembri, *East meets West, A guide to Cross-Cultural Management and Negotiations*, Amazon Fulfillment, Poland, 2016;

# The idea of culture

Hundreds of definitions about the concept of culture exist, and the most common individuate a set of values, beliefs and behaviors that are shared by a group of people, that help to better understand each other and on which every society on our planet is founded. Culture is made of every aspect that allows humans to recognize each other as people belonging to one group or to another. Thanks to our culture we can be sure that our most used gestures, our tone of voice, space and time perception, lifestyle and generally the way we do things are commonly shared, or at least understood by others. Basing on the concept that stands behind this definition, we can see culture elements as the catalysts that makes public life possible, and as a set of tools and knowledge that is passed from one generation to the other. Nobody comes to life with an innate set of values and with predefined behaviors: culture, instead, is a constant drop that shapes, from the moment we come to life to the day we depart, how a person interacts with others and that gradually makes every individual to fit into the huge pattern of society, like into a million-people puzzle.

## A systemic approach

Cultures can be practically seen as systems<sup>4</sup>, and groups, as well as every collaborative team, should try to adopt a 'systemic' workflow. 'System' is a Greek word that means '*to put together mixed elements*' and society can be seen as a place where people interacts, endlessly mixing with each other. This system-thinking is similar to the Chinese comprehensive approach to perceive and solve problems. The basic property of a system is that the output of the entire system does not equal the sum of its composing parts: this happens thanks to the fact that the parts that make a system are interrelated and depend one on another in a bond that creates value. The interaction among cultures can originate an added value, exactly the same way the

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<sup>4</sup> G.Vickers, *Human Systems are different*, Harper and Row, London, 1983;

collaboration among companies can bring new values and resources to a venture. More than that, this view of culture as a system that obtains an added value through the participation of every component is reflected by the importance that collaboration assumes in China, and in other countries focused just as much on interrelations.

## **Where does Chinese culture stands?**

In China, the shared pillars of society were built thousands of years ago and in the largest part by Confucianism and Taoism. People that lives according to Confucius's teachings believe that the whole society should be organized and held in order by the respect of five relations<sup>5</sup>: ruler-subject, father-son, husband-wife, elder brother-younger brother, and friend-friend, the only form of social interaction that can be equal. Beside of those hierarchical principles and the introduction of social dynamics, Confucianism taught Chinese people how to respect all elder people, the related rules of hierarchy and of decision-making process, basically molding every facet of the Chinese society. Reflections of Confucianism are still visible in lots of aspect of the Chinese daily life even nowadays, especially in the concept of *guanxi*<sup>6</sup> (importance of relations) and hierarchy. The system-based vision of society carries quite straightforwardly the need for integration and intelligent interaction among the parties of society -similarly to partners in a JV- in a balanced interaction among different elements: leaders and followers, creatives and technicians, arrogant with shy, male and females, traditionalists and innovators and so on. These are all the same eternal miscellaneous of yin and yang, the Taoist elements that pervades everything on Earth, that creates union and balance through dynamism and through the coexistence of differences.

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<sup>5</sup> 五伦, in Chinese wǔlùn, indicates the five cardinal relationships existent in Confucian philosophy;

<sup>6</sup> 关系 in Chinese guānxī, means “relations”, “connections” and it refers to the economic advantage of knowing people in the political and economic environment, so that it’s possible to get advantage from them through an exchange of favors. See Chapter “Relations” for further explanations;

On the aspect of collective relations stands one of the most basic differences between people from Italy and China, that is the big gap in the idea of individualism and collectivism. Chinese people tends to see themselves as a part of a huge organization, a single component of a society that comes always first: even business contracts refer to the aim of improving the country economic condition and evolution; in our culture, instead, we are inclined to think the individual as more central than the group; more than that, in our conception usually the group should first of all serve the individual: even if this was more visible in the origin of Mediterranean societies, the collectivity should mirror the effort of any individual participating actively to the system by allocating personal rights and duties; if this doesn't happen, the single person has the power to question that and very often the individual even feel the urge to go and change the way things are going; besides, people are taught to wonder why things are how they appear, to question the state of things and to create interrogatives if something is considered wrong; a very different approach from the Chinese one that usually accepts and adapts itself as the flexible tree to the stormy wind.

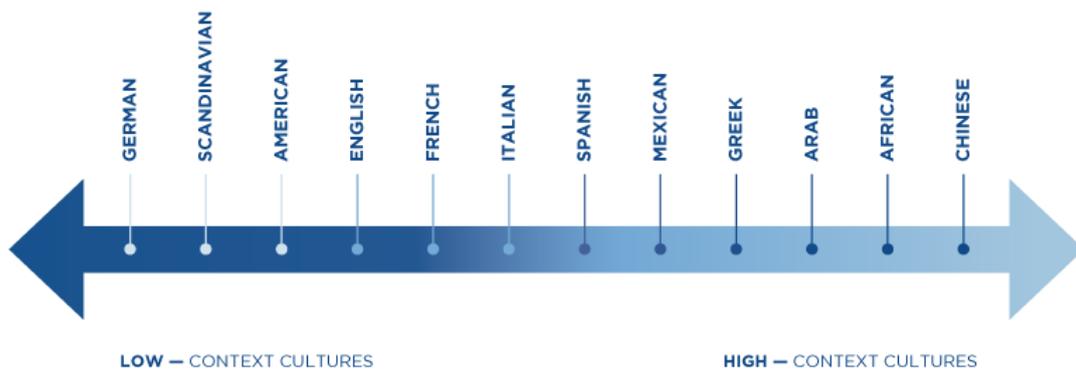
According to another interesting theory by P.A. Herbig, societies are inclined to be more individual or collective-based according to their ancient heritage of resources and people: countries historically long on resources didn't need the help of the community and developed a sense of competitiveness, while populations with a lot of people and short on resources had to aggregate and put their efforts together in order to survive, thus placing the collectivity before the individual.

# The importance of context

According to the anthropologist Edward T. Hall, cultures around the world can be divided into two vast kind: the ones defined as high-context cultures and the ones characterized by a low-context. These two set of culture contexts can be considered as the extreme poles of a chromatic scale where every culture can shift along in its position, nearer to the low or to the high pole depending on relative point of view. In general, although features of every culture may vary also internally and keeping in mind that they're always evolving, we can nevertheless point out several common characteristics to the two kinds, as reassumed below:

- **High-context cultures** (Latin America, Middle-East, Southern Europe, Asia etc.):
  - The biggest part of the communicated information is delivered by the actual context of the situation and passed on to the counterpart implicitly, people are used to read through the lines;
  - People require to create lasting bonds and firm personal involvement also when talking about business, trust has a crucial role and friendship comes first;
  - The presence of informal groups made by people who trust each other and are bonded with relations leads to the existence of insider or outsider of the group, translating into people that can be trusted and people that cannot;
  
- **Low-context cultures** (Northern America, Northern Europe, Australia etc.):
  - Messages are delivered with plain and direct means; no implicit communication is used, people intend what they say;
  - People are not usually identified with their business behavior, they tend to create bonds only with a strict number of friends and there is

- seldom identification between business and private life, so that commercial partners may seldom meet up and may not share a relation;
- Existing no relationship-based groups, it's also less frequent to point out group insider or outsider, no much difference is perceived between known and unknown people;



Picture 1. Low and High Context Cultures, from *Southeastern University Online*<sup>7</sup>; as anticipated before, the picture shows clearly that countries like Italy or Mexico, taking their place around the middle of the scale, owns both low-context and high context features.

In high-context cultures, environmental details, relations, language nuances and expressions are often more important than words, are to be interpreted and can carry lots of different ambiguities; things are often left unsaid and body gestures with eye-contact do the rest. This translates, on the marketing field, in a focus on colors, sounds, visuals and images, and less importance given to the written aspects: the customer of high-context cultures is attracted by subtle vibes, links to traditional values and unspoken meanings.

In those countries, as in China for example, relationships are incredibly important, and much time must be invested into building them; the focus is on people and on the on-going relations, without them no profitable partnership can be

<sup>7</sup>[https://online.seu.edu/high-and-low-context-cultures/;](https://online.seu.edu/high-and-low-context-cultures/)

achieved. Agreements' foundations are mainly built on impressions and relationships, on trust, and only in a second step they are written. The written deals are secondary to the relationship, we can say that they are the candy on top of the cake, not the core of the partnership. For example, if during a formal collaboration the Chinese party has difficulties in respecting what's written on the formal documents, the other party is expected to understand, to change the written detail in order to help the counterpart and to keep on collaborating. If this doesn't happen, the Chinese party can feel abandoned and a lack of trust may occur. Since in Italian culture, that has a lower context than the Chinese, what's written in the contract must be respected, a similar request may appear ridiculous and create misunderstandings; if people are not conscious of cultural differences, a mutual lack of knowledge can also lead to the end of the collaboration. Basically, the human side is much more binding than the formal contract. Italian contracts, and generally European and American ones, usually contain every little possibility to preserve each party's condition: the more a contract is complete and detailed the more the parties can be sure about their business; in China, where the business identity coincides with the personal one, people lean on individual's relationships to build commitment and thus to be sure about their future collaboration's success, instead of on paper provisions.

In low-context cultures, people tend to communicate directly and to be very open to group outsiders. When talking about business, a strong relationship between parties outside the venture is not required: people can carry on a nice business partnership without getting along outside the project and relationships can be maintained also by seldom meeting the counterpart. In low-context cultures the environmental context of communication is less important than the message itself, and the contractual aspect assumes a crucial relevance: if in China the contract is only a starting point and a formality for a well-rooted partnership among friendly people, in low-context cultures the contract is very important to preserve each party and every provision must be precisely respected.

Between low and high context cultures there may be frequent misunderstandings also for the misreading of certain concrete communication gestures, for

instance: doing the “ok” sign with the first and second finger can be normal in the US but can be interpreted as an insult in Brazil; the famous “victory sign” made by the second and third fingers may be commonly understood and accepted in the UK and in the Anglophone countries but only if the palm of the hand is facing outward; the simple gesture of nodding with the head for expressing “yes” and shaking head to say “no” may be confused with the opposite meaning in Bulgaria, as already noted by Charles Darwin<sup>8</sup> in 1872.

A high-context culture is the world for the tacit and the implied, the low-context world instead can be reassumed in the sentence “*say what you mean and mean what you say*”. The culture context can be so important to shape also the language forms: high-context cultures are the ones where languages are constituted by the lower number of terms and vice versa: English, whose culture is quite directly high-context, counts around 615 thousand<sup>9</sup> words; Italian, around the mid position between low and high-context, enumerates from 215 to 270 thousand<sup>10</sup> words, while Chinese, whose culture has one of the highest context in the world, includes a number of characters varying from around 60 thousand to more than 80 thousand<sup>11</sup>. Fewer words require the interlocutors a higher effort to read the insinuated meanings in a communication that is made both of non-verbal and secondary connotations of words; languages with higher lexical disposal mirrors a much higher possibility to avoid misunderstandings and to be clear. This is why to get the meaning of many Chinese words and sentences you’d also need to know and analyze the context.

High-context cultures as the Chinese tend to pay attention to the contextual communication, not only when talking but also when listening: this can lead to misunderstandings since a low-context communicator may express himself very clearly

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<sup>8</sup> Charles Darwin, *The Expression of the Emotions in Man and Animals*, 1872;

<sup>9</sup> Oxford English Dictionary;

<sup>10</sup> Tullio De Mauro, *Grande dizionario italiano dell’uso*;

<sup>11</sup> *The Chinese Word Sea*, dictionary printed by China Friendship Publishing Co. (中华字海, 中国友谊出版公司);

and plain, but the high-context interlocutor can grasp different subtle meanings from the way the message is delivered, the postures, the tone of voice and so on. I would like to report an example of this misinterpretation circumstance from Erin Meyer's brilliant work<sup>12</sup>; she presents a brief dialogue between a Spanish and a Chinese manager that perfectly reflects the need to be aware of cultural differences:

Mr. Diaz: "It looks like some of us are going to have to be here on Sunday to host the client visit."

Mr. Chen: "I see."

Mr. Diaz: "Can you join us on Sunday?"

Mr. Chen: "Yes, I think so."

Mr. Diaz: "That would be a great help".

Mr. Chen: "Yes, Sunday is an important day".

Mr. Diaz: "In what way?"

Mr. Chen: "It's my daughter's birthday."

Mr. Diaz: "How nice. I hope you all enjoy it."

Mr. Chen: "Thank you. I appreciate your understanding."

What is the result from such a dialogue? Nobody went to welcome the client. Each of the managers thought the other had understood: the low-context communicator exposed his request for Mr. Chen to be present in the flattest possible way, while the high-context Mr. Chen showed his need to be at home with the family for

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<sup>12</sup> Erin Meyer, *The Culture Map, PublicAffairs* Erin Meyer, The Culture Map – Decoding how people think, lead, and get things done across cultures, Public Affairs, New York, USA, 2015;

an important moment, sure that the interlocutor would have understood. Both characters in this case show a mistake not only in expressing themselves, failing to adapt to the other's culture, but most of all in listening carefully. We have already stated the importance of active listening, and here's the deal: the Spanish manager should have known that behind the Chinese manager's "*Yes, I think so*" a subtle "*No*" was hidden and forgot that Chinese people tends to avoid refusing with a simple "*No*" in order to preserve the relationship. On the other side, the Chinese counterpart interpreted the sentence "*I hope you enjoy it*" as the confirmation of the chance to celebrate his daughter's birthday, while probably it was only a demonstration of kindness by the Spanish.

## **How to deal with high-context**

As we can understand by the last example, focusing on what people mean instead of on what people say is crucial when dealing with high-context cultures like the Chinese. Since putting into practice this behavior can be very hard for a low-context person that is not used to read through the lines of a conversation, asking questions whenever needed can be a practical method to avoid mistakes; also, as suggested by Erin Meyer in her book, instead of asking "*Yes/No*" questions, try to request an open answer. Knowing the counterpart's high-context culture can also prevent the low-context part to assume that the partner is deliberately being misleading, that can translate into lack of trust and criticizing opinions towards the Chinese partner. Do not adhere to first-glance opinions, be patient and ready to clarify ambiguities if you want the cross-cultural venture to succeed.

## **How to deal with low-context**

On the opposite side of the negotiation table, the high-context culture representative should not be disappointed by the direct and flat behavior that can come from an American or sometimes an Italian manager: instead of perceiving it as rude, arrogant and unconventional, the cross-cultural communicator that knows who is dealing with can recognize the cultural topic of giving direct feedback even when negative, recapping everything and schematizing all the information, speaking fast, gesturing and so on. For example, the Chinese manager, as well as Indian or a Japanese, can be almost offended by the use of reviewing the topics discussed at the end of the meeting and it may consider useless to recap by an email, since there should be trust between partners and written documents are not necessary. Beside the possibility to review things many times and to ask direct questions to the counterpart, the high-context Chinese partner dealing with an Italian lower-context negotiator should also try to avoid giving implicit, unspoken answers, taking the courage to make things clearer even when in his culture this can be perceived as useless or even rude.

## **How to deal with heterogeneity**

Adapting to the local culture is a clear need to success in cross-cultural business, and this may require the ability to switch from one communicating style to another. What happens very frequently is that the venture team is created both by low and high-context people, and adopting a plain, pure and clear low-context communication style is the best strategy to avoid misunderstandings. For the presence of many shared hidden details, high-context cultures are very hard to be deciphered and when two or more high-context people from different countries are in the same team, the likelihood of misjudging to happen is the highest: the number of variables to account in reading through the lines is multiplied, and the message from one side can be decoded in the wrong way from the other high-context partner.

A common ground on which cultural differences can coexist should be created by starting with being crystal clear on respective business behaviors to each partner, and adopting a unique process that can't be misunderstood: introducing the use to say things explicitly to the low-context side, asking the high-context culture people to avoid direct criticisms in front of the group, explaining that reviewing and writing down the to-dos and the discussed topics is a common practice in low-context culture to be sharp are some of the communication strategies to make an heterogeneous group work properly and smoothly.

# Cross-cultural Communication

Communication is a process that involves verbal and non-verbal aspects: the formers are for example the tone of voice, pace, intensity and loudness as well as the expressions and meaning nuances; the non-verbal communication is transmitted through eye contact, physical gestures, space proximity, colors and odors, movements and face expressions.

Communication in cross-cultural situations can be very tough, both for the language-barrier and also for the contextual environment. Basing on the influence that the environment has on the correct delivery of a message and on the success of a negotiation, high-context cultures and low-context cultures have completely different styles of approach to communication and to business negotiation. Taking China as an example, to interpret the meaning of an important message, the non-verbal aspect has much more importance than the verbal one. What is not said it's important as much as, if not more, than the things are said explicitly. The use of humor can be very dangerous if jokes, sarcasm and satire are not understood in the same way among different cultures; people speak and pause differently around the world, Italians are used to interrupt each other while in China this practice it's definitely not polite: people should listen kindly nodding and it's even better to wait a couple of seconds before speaking when someone finished talking. As the Greek philosopher Epictetus said, people have two eyes, two ears and only one mouth so that they can listen twice as much as they speak. This sentence should make us consider the need to listen before talking and learn before acting every time we happen to deal with cross-cultural situations; the same goes for starting a new business collaboration with a partner that is culturally far from us: before getting concrete and diving inside the venture, be sure to learn how to swim in the new waters.

Information flows also through friends, relationships and the position in the group. In high-context cultures the superiors are considered responsible of the subordinates' actions, thus in business projects, decision-making process can appear sometimes irritatingly slower to the eyes of low-context people; on a more practical

communication aspect, Westerner people tend to refer even to higher-in-hierarchy managers directly with the name, while in China, subordinates refer to superiors with their surname preceded by the title or usually with the title held in the hierarchy position. Personal relationships for this reason assume a huge importance, since they help the messages interpretation and back-up the low value of the written or verbal form of communication. Earnest negotiation occurs only when the other party is trusted and reliable. Groups are easily created in high-context cultures and collaborating with people that are perceived as 'outsiders' is not a comfortable situation.

Difficulties in language interactions are the most evident in cross-cultural business management, but they're not the only ones: non-verbal communication is much more important, especially in high-context cultures like the Chinese one. Up to seventy percent of communication is non-verbal and if there's not coherence between the verbal and the non-verbal message the latter has more chance to prevail; when communication mistrust occurs, a non-verbal clash is produced by lack of knowledge about the other's cultural background. When doing business abroad, and therefore also when living our daily life in China, a vision that enlighten the differences between 'our team' and 'your team' in managing a JV can lead to disastrous results for the business activity, particularly in case of a long-period collaboration. This happens because in this country the team-work and collaborative sense of work is very strong and rooted in the population.

# The importance of non-verbal actions in China

Negotiation in China typically requires small and significant actions that can make a substantial difference: gifts, for instance, have a precise etiquette that changes from one culture to another. Space proximity, gestures, clothing, work environment, eye contacts, pointing fingers and hand gestures are crucial means to the aim of delivering a message properly. In Italy it's awkward if the boss gifts a bouquet of roses to a woman in the team -especially if they're red-, as it can seem he's hitting on her, while maybe in the U.S. this is not a particularly noticeable fact. In China, people shouldn't give clock<sup>13</sup>, as the counterpart will perceive it as a wish for death; no pears<sup>14</sup>, shoes<sup>15</sup> or blades<sup>16</sup> should be carried at a friend's house because they recall an idea of division and separation; the white color is also associated with mourning, while red instead is the color of luck, wealth and prosperity. Numbers can carry also a secondary meaning, for instance, the numbers eight<sup>17</sup> is connected to the idea of good luck, wealth and success, while the number four<sup>18</sup> is to be avoided for its assonance with the word 'death', or again the number two hundred fifty<sup>19</sup> has also a second meaning of idiocy and it should be avoided when negotiating prices.

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<sup>13</sup> In China, the word for clock (钟 zhōng) and the word that indicates "the end of life" (终 zhōng) have the same pronunciation, thus "giving a watch as a gift" equals "say the last goodbye to a dying person" (送终, sòng// zhōng);

<sup>14</sup> The Chinese word 梨 (lí, pear) has the same pronounce as 离 (lí, "to part from", "to leave from"), thus recalling a bad sense of separation;

<sup>15</sup> The Chinese word 鞋 (xié, shoes) is pronounced as 邪 (xié, evil), thus is connected to a negative meaning if given as a gift;

<sup>16</sup> Every object connected to the idea of blades can refer to the meaning of cutting, interrupting the relationship;

<sup>17</sup> The number eight 八 (bā) is the luckiest Chinese number for its assonance with 发 (fā, develop, expand);

<sup>18</sup> The number four (四, sì) is thought to be of bad luck for its assonance with 死 (sǐ, death);

<sup>19</sup> The number two hundred fifty (二百五 ěrbǎiwǔ) is a colloquial way to indicate "a stupid person", "an idiot";

## **Process and content in negotiation**

During all kind of negotiations, two main aspects coexist: the negotiation process and the negotiation content. When negotiation parties have the same cultural background, the process is usually the same, and no particular problems are perceived in understanding each other behaviors while negotiating: if two German people have to discuss business, they can directly sit at a table and, as soon as an agreement is found on the content, parties can consider having closed the deal. When cross-cultural negotiations occur, the content aspect is less relevant than the other: the process of negotiation can represent a very tough obstacle by hindering the delivering of the substance, thus adaptation is much needed to succeed. Continuing with the same example, if the German person has to negotiate with a Chinese counterpart, directly sitting at a table to hit the topic without knowing each other first will not be equally successful. The negotiating style that can work perfectly in our country must change according to the business partner's way to do business: timing, hierarchy perception, patience and slow-pace debating are only few of the characteristics to be owned when experiencing business in China. No prejudices or assumptions can be made about the other party.

## Cultural negotiation approaches

Researches in literature have individuated mainly two different approaches to negotiation, the win-lose and the win-win approach. The first one is likely to be adopted between parties that do not share a strong relation and that have not a long-time perspective in collaboration and for this reason it's more typical of low-context cultures. This approach considers that the target is a fixed limited amount of resources that are to be allocated only to one side (that wins) and nothing remains for the others (that loses). A win-win approach is more likely to be adopted by China and other high-context cultures, since to maintain a good relation for future success it's better to allocate target resources to both contending parties. Negotiating under this approach is not seen as a battle but as a chance to gain mutual advantages by collaborating instead of competing.

### No ignorance admitted

Communication and interaction among members of the same team, when composed by the two partnership parts, may present several cultural elements that deserve attention. Communication is a both spoken, physical and symbolical process. Groups made by Chinese and Westerners work quite differently, for the presence of the group and the role of the individual inside it are not corresponding. Individual identity is very strong in most of the Western cultures: in Italy, most people are taught to value their singular identity, cultivate it despite it goes against the grain -and sometimes people are taught to do so; Chinese people instead value the group above the individual and the idea that the group has about the individual covers a huge relevance. Therefore, the concept of 'losing face'<sup>20</sup> is commonly estimated as crucial in China.

For all the reasons above, when managing a Chinese team in a Sino-foreign JV and generally in every cross-cultural communication process, the knowledge about

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<sup>20</sup> The concept of 'losing face' refers to the problem of losing its position and reputation inside the group. For further explanations see Chapter "Losing Face";

the other's cultural background must fulfill the differences in interpretation. People that grew-up in a low-context environment can fail to catch ambiguous meanings, while high-context individuals, on the contrary, can perceive that the low-context people are not giving clear-enough messages, since they give importance mainly to the verbal channel. Low-context cultures, on the other hand, express themselves in a very direct way, speaking of what's good and wrong in the very same way, in front of people as well as in private situations; they differentiate the business and the personal life, are flatter in hierarchy and suffer less the outsider-insider group divisions. The written word has a binding value and the relationship among parties takes a second position. Most of these characteristics are symptoms of rude and arrogant behavior in a culture like China, and they're one of the biggest barriers to the entrance in the Chinese market for someone that is not aware of their existence. Since many diversities can impede the correct manage of people in a heterogeneous team, no ignorance is admitted if success is wanted.

# Globalization and Cultures

In recent years, due to globalization and a nonstop mixing process among cultures that has no precedent in history, cultures of different countries around the world are slowly smoothing and diminishing their extremes, getting to know deeper each other peculiarities. Looking at different cultures under this perspective offers us the possibility to note that it's hard to recognize precisely what's peculiar of who; as observed by the German philosopher Peter Sloterdijk<sup>21</sup>, we passed a long time living inside cultural cages that are being removed by the internet and new travel routines: today's world is becoming a general melting pot of cultures under the push of globalization.

The IT innovation, together with WTO and others political-economic agreements, is gradually smashing all boundaries. This phenomenon of our culture changing very quickly is helped also by increasing ways and opportunities to cross longer distances on our planet with much lower effort. Evident changes have taken place in the time gap that goes from one generation to the next. Xibao Zhang in his research offers us an interesting perspective that refers to a logic quite different than the usual one that opposes two opposite poles: in his view, exactly as the Yin-Yang relation existing in the Chinese Taoism, cultures around the world are always mixing, revolutionizing and renewing themselves in an ever-lasting process that tends to a heterogeneous balance. *“Culture in reality is an organic, dialectic synthesis of both dimensions; it is a process of dialectic transformation between the Yin (stable) and the Yang (dynamic) dimensions, which gives it a certain degree of stability on the one hand, and momentum for change on the other.”*<sup>22</sup>

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<sup>21</sup> Stefano Schembri, East meets West, A guide to Cross-Cultural Management and Negotiations, Amazon Fulfillment, 2016, Poland;

<sup>22</sup>Xibao Zhang, *Culture Emergence in International Cross-Cultural Management Contexts: The Different Roles of Values, Expectations, and Contingencies*, MBA School of Business Information Technology Business Portfolio, RMIT University, July 2008;

*"It should be pointed out that, even though the Chinese society and Chinese organizations are generally highly status-conscious, there is a trend toward less status differentiation, especially among young Chinese professionals."*<sup>23</sup>.

Beside the changes that come from intercultural mixing, cultures change also inside themselves, as an intrinsic renovation movement. What is the leading push to this inside-originated alteration? The answer is straightforward and deeply connected to the meaning of culture as well as with the nature of collaboration: interactions among people. People interact every moment with each other, most of times consciously and often unconsciously, but they ceaselessly exchange views and habits, influencing and helping the evolution of everyone's life and attitudes. Culture changes as well in the generational turnover and this phenomenon has far from random characteristics: in fact, cultures with new features from two different contributors possess elements of both cultures assembled in a new mix and with a new perception. It contains at the same time renovating and traditional forces, similarly to what happens with the DNA inherited by the newborn from his parents<sup>24</sup>.

Only with reciprocal knowledge we can overcome the so-called 'cultural-shock' that almost everyone feels when arriving in a foreign country: unconsciousness about cultural differences will make people feel disoriented and shocked as soon as they reach a new environment, the more culturally far the more shocking. People that thought their reality could have been the one and only all around the world will inevitably feel like a fish that realize the existence of different environment and cultures only when it's put in the open air<sup>25</sup>. For this reason, realizing the characteristics of our own culture is as important as learning to recognize the other's distinctiveness: it helps to reflect on its limits and features.

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<sup>23</sup> X. Zhang, *ibidem*;

<sup>24</sup> X. Zhang, *ibidem*;

<sup>25</sup> F. Trompenaars, C. Hampden-Turner, in *Riding the Waves of Culture: Understanding Diversity in Global Business* wrote: "A fish only discover its need for water when it's no longer in it. Our own culture is like water to a fish. We leave and breath through it" (McGraw-Hill, New York, 1998);

# Chinese culture and business ethics

Scholars in literature have discussed business ethics arguing that the new market economy in China has brought to the surface the problem of ethics in Chinese society, leading to a diffuse immorality that was unknown before. Moreover, a business culture where there is so much distance between top positions and lower ones is often seen as a fertile soil where a bad kind of *'guanxi'*<sup>26</sup> can grow. The practice of *'guanxi'* can be seen in this case as a sort of nepotism and a concept quite near to corruption, especially for people with a low-context culture. From an historical and traditional point of view, during the past centuries business in China is always been seen as a corrupted and immoral activity: the merchant class was the lower one in the hierarchical society, simply for the fact that merchants do not produce anything, they exchange products for money, while peasants and artisans enrich the whole society with their work. A major contribution to the change of opinion on business life models in China had to be attributed to the influence of Western economic models that entered China since the dawn of the XX century. The importance of making money through commerce acquired much more relevance than it had in the past, and together with the new model of economic life that was just initiated, a whole new set of values and attitudes invaded China, sometimes clashing against the fundamental characteristics of its culture. In the next paragraphs the main features of Chinese society will be briefly described in their qualities and implications on business behavior will be enlightened.

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<sup>26</sup> "relations", "connections", see note n.6;

## Collectivism

In each society people grow following individual goals or more collective tendencies basing on the belonging culture: an individualist culture teaches individuals to pursue they own initiatives, to recognize family as a small group limited to parents with siblings; people are taught to develop their own view of the world and to take decisions about their own life: choosing the job, choosing who to marry and where to live and so on. In a collectivist society like China, family in the first place is a cohesive group that protects its component from the external members, the family thoughts are accepted and shared and approval from key-members is still much valued for important decisions like who to marry or what job to choose. Outside the family environment, people in collectivist societies are allowed to speak up their point of view only if requested, and criticisms are to be exposed only in an indirect way, in order to avoid the individual to lose credit in front of the group. While working inside an organization, an individualist person would use its skills to challenge himself, to stand out of the crowd with his own initiative, while a collectivist society member will consider his skills as the way to contribute to the team, in a form of dependence to the company itself. Individualists' goal is their own wellbeing and society is seen as an environment that can offer the right tools to reach one's own aspirations. Individualists are often empowered by the organization they work in to take important decision on behalf of their group, while in China or in Japan it may be disrespectful to reach an agreement without having the confirmation of the whole group, thus it's very unlikely that a Chinese businessman joins a meeting without being accompanied by other members. Also, for the participation of a team of people to the negotiating table, discussions can take much longer than meetings in individualist culture.

Collectivists' aim is to serve the targets of the organizations: the company defines the individual goals, and not the contrary. Team rewards are more valued than individual prizes because by helping the group also the individual will have positives outcomes.

Many experiments were conducted to prove the different idea that the collectivity and the individuality spheres have in high or low context cultures, and one of the most influential is the one made by the psychologist T. Masuda: he showed Easterners and Westerners the same picture representing a person in the center that stood smiling while some people all around looked at him with anger or sadness; while Westerners considered the smiling person was happy, thus giving no much credit to the people's feelings in the background, the formers affirmed the contrary, assuming that the condition of people around has an influential role in affirming the individual state of happiness. Another interesting and very simple study offered people from a collectivist society as China and others from an individualist society the possibility to choose among four red pen and a green one: Easterners picked the red one in order to conform with the others and Westerners more often chose the green one.

These kind of studies shows a general tendency of collectivist people to focus on environment and the relation with others while individualists concentrate on the single aspect and give relevance to the singular component. Reflections of these behaviors towards the external world can be found in the process adopted by people to take decisions and also in the way they negotiate: Chinese people require the whole team to evaluate the decision in order to be sure that the evaluation involves every component, thus it can be needed to convince every person inside the negotiation team in order to proceed with the choice. More than that, Chinese people in a negotiating process will look at the whole scenario before passing after, considering the future political-economic consequences on relationships, environment, and human resources, while Westerners will be more centered on one aspect at a time.

# Shame

The concept of collectivity focuses on the group instead of on the individual as happens in individualist societies. Inside a group of people, the idea and the role that others associate to the single component is much more valuable than in individualist cultures, where the single person can find intrinsic values also in the inner self and not necessarily in the social acceptance. From these presumptions it's possible to realize that the concept of shame assumes a paramount value in the Chinese society and it can be connected to the ideas of face, relations and trust that will be later deepened. While in Italian and Western societies the concept of guilt is deeply rooted inside our being, in Asia a misbehavior or a mistake will likely be considered terrible only when others come to know it took place and they will likely not be ashamed of it if it remains secret.

In Italy, as in the largest part of the Western world, breaking a rule can be followed by feelings of remorse and can lead to a behavior that seek forgiveness and 'salvation'. This is mainly due to the cultural heritage of the Christian belief that God is watching all humans and each of us will be judged someday, remanding to the concepts of original sin and celestial punishment. On the other hand, in China, the worst penalty is the social disapproval, and this works as a mean of social control as much as Catholicism or other religions do in the rest of the world.

The idea of shame has a deep connection with the one of honor and social position in the group that will be analyzed in the following chapter; if a member of a family does not respect the rules and is caught stealing in a shop, shame will be on the whole family and not only on the individual. In the same way, admirable actions and righteousness of one member can bring recognition to the entire house. This behavior of social responsibility is common also inside companies, where the individual deeply inherits the company culture and whose mission is to achieve personal success by increasing the reputation of the organization. For this reason, and also for the significant strict relation between personal life and business behavior, the results in the company environment assume a relevant value.

## Losing Face

Italians, as well as most of Western cultures, value the sincerity of someone that straightly says what's in his mind, even consider malicious and untrustworthy one that is not used to say thing openly, face to face or in front of the group, or that is always hiding his feelings. In China things goes very differently: complaining about something in front of the group, make one's own interest openly, admitting not to be able to pursue a task or telling something negative about an aspect connected to one's social identity is considered a shame and, for this reason, to be avoided. '*Losing face*'<sup>27</sup> refers to something that causes a loss of importance, of value, of status inside the society or inside the belonging group (where the group is friends, classmates, company team and so on.). Connected to the importance that the group has in Chinese society, losing position and social credit can have negative impacts on the individual. To make an example of how this concept of façade affects daily life, Chinese people would better say 'yes' to a request of completing an important task that they're actually not able to finish than risking disappointing the other part by saying 'no' and thus 'lose face'; in daily-life, systematically refusing cigarettes, wine, food or help offered by a friend is felt as a lack of respect and trust - not knowing this is another frequent cause for the failure of business negotiations; while a person from a native low-context culture as an American, or for some traits an Italian, to the offer for some food would straightly answer yes or no basing on its hunger, a Chinese person would refuse at first and accept only if asked again: this is intrinsically very polite in Chinese culture and accepting at the first request would be felt as arrogant and rude.

This can lead to conspicuous delay in project works where teams share the

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<sup>27</sup> 丢面 (diū miàn) means literally "to lose face" and it refers to every social behavior that make a person to lose respect and consideration inside the group; logically, also the opposite form exist 给面子 (gěi miànzi), meaning "give face to somebody", "show due respect for somebody", together with lots of similar shapes around this concept;

different steps of a precise task. In my experience in dealing with the venture Chinese team, I don't recall our business partner in China ever told us a simple 'no'; what I do remember instead is a list of euphemistic sentences like *'This point will need further discussion'*, *'We need to discuss this with the team'*, *'This may be difficult'*, or *'We understand, but...'*, and so on. This sort of answers can create expectation for positive results in the mind of a low-context culture person, for the use to say things clear and straight. In truth, it's not wise to be a hundred percent sure that the Chinese team has everything under control and will conclude the demanded task, or disappointments and time losses are to be expected. In our culture we usually do what we say, and this is almost a promise that we will do so, while in China there is no way to be sure about it. There's no lack of sincerity in this behavior, instead there's always the will of doing the best to satisfy the other party's request, just avoiding to openly disappoint it. Lying in an Eastern country like China can be considered a social way out to avoid saying an uncomfortable truth. If lying can prevent someone from *"losing face"*, when the truth comes out to light and circumstances are understood there's no disappointment but instead agreement that it was the right choice. In Italy and in more low-context cultures though, truth is believed to have an intrinsic positive meaning and, in the end, always gives back good consequences.

# Hierarchy

Hierarchy is one of the concepts that can be considered at the core of Chinese society, in everyday life and consequently also in doing business. All around the world a pattern of informal and formal cultures can be recognized, where China is definitely a formal country while Italy has way more informal behaviors. As we've seen in previous chapters, this can be linked to a specific philosophical and historical background. In this case a cultural clash is more probably to be perceived by the culture with a higher perception of hierarchy, simply for the fact that they perceive some behaviors as unpolite or arrogant or rude. The perception of power distance is linked to the hierarchy concept: in a flat society where the power is questionable and subject of people's free judgement, as typical of low-context cultures, less importance is given to the higher hierarchy positions, communication is freer, and roles are more flexible. In China, where the context is complex, and the power distance is emphasized, higher positions are not questioned by lower ones and the environment may be perceived formal and pompous by a person that is used to an informal society with more flat relations.

The manager of the project, thanks also to the higher hierarchy position held in comparison to the operating team, must instruct other components with the most possible detailed steps. In a situation where a problem is to be solved, Italian people are more likely to expect an employee to show creativity and to possess the ability to find a solution, instead of waiting for instructions from above. Problem solving skills is an increasingly requested characteristic for young people that wants to find solid job positions<sup>28</sup>. More than that, when it comes to managing people of Chinese culture, the project manager or the directors must lessen the common tendency to talk directly about what's wrong about a certain topic. For the issue of losing face we referred to above, and for the fact that in China it's very uncommon to separate busi-

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<sup>28</sup> Richard Reis, *How to think like a programmer - lessons in problem solving*, Medium, 2018  
<https://medium.freecodecamp.org/how-to-think-like-a-programmer-lessons-in-problem-solving-d1d8bf1de7d2>;

ness from individuality, a businessman should never complain about partner's business behavior or capabilities: if this can be partially and lightly accepted in private, with the only consequence of changing the balance inside the personal relationship, if done in public it can be taken very badly. This translates into the necessity to find a very cunning and smart way to say things, never discerning the individual from the group, being pro-positive in the feedback, not too harsh, and avoiding public stages.

## Relations

Relations and connections are the core idea behind the '*guanxi*' concept: business and good relationships are impossible to be separated, good friendships are necessary to get success in life, in business projects and in managing a JV. The need to build strong relationships is related to a long-term view that values future results more than immediate profits.

In Italy it's possible to have good business intercourse even without meeting, business can start and be carried on via email, meetings can occur occasionally, or even once or twice per year; this kind of business relationship is categorically impossible in China, where dinners, informal meetings, gifts, messages and shared experiences strengthen the bond both from a human and from an economic point of view. Besides, a business relation where the personal intercourse influences positively the business in our country is likely to be considered bribery or at least as a non-ethical business affair. Actually, this border is very thin also in China, and corruption is still one of the most suffocating threat the government has to deal with (the country ranked 77<sup>th</sup> among 180 countries in 2017 on the "Corruption Perceptions" scale by Transparency International<sup>29</sup>). The use of *guanxi* to better the role inside an organization and inside society of skilled and professional people can be commonly accepted, while it's seen as corruption when incompetent individuals are

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<sup>29</sup><https://www.forbes.com/sites/ralphjennings/2018/03/15/corruption-in-china-gets-stuck-half-way-between-the-worlds-best-and-worst/#6637062373d1s>;

favored.

Gifts under these circumstances assume a dominant role and are almost required when building relationships. Every time one of the partners is visiting the other, gifts should be carried and exchanged, as a sign of reciprocal consolidation. That's particularly true for the operating teams: people inside the two teams should be connecting to each other and bonded by the exchange of symbolical objects like branded gifts from the partner company, cultural and local typical products and so on. The idea of exchanging gift is related to the cultural concept of '*favor*'<sup>30</sup>, which holds different meanings related to the giving and taking gifts to build social relations: after receiving a gift one is expected to return the same favor. The use to exchange gifts is recalled in the ancient Chinese saying "*give a plum in return for a peach*"<sup>31</sup>, and it must be pointed out that younger generations are perceiving the sum of these affecting rites both as a nice positive tradition and as a redundant, hypocritic affectation of compliments that are void of any real feeling<sup>32</sup>.

Being cut out of a relationship, and losing *guanxi*, may mean to lose the participation in that organization, even if not formally. A dinner among commercial partners, i.e. a very common situation for businessmen in China, is an appointment that a businessman cannot miss. If it's not possible to join the business dinner, this businessman would better inform them previously that he'll not be present, so that they'll not organize, and their disappointment will be lower.

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<sup>30</sup> 人情, *rénqíng*, human feelings, social relationships and favors;

<sup>31</sup> 投桃报李, *tóutáo-bàolǐ*, lit. "toss a peach, get a plum", indicates people exchanging gifts;

<sup>32</sup> Stefano Schembri, *East meets West, A guide to Cross-Cultural Management and Negotiations*, Amazon Fulfillment, 2016, Poland;

# Trust

The concept of trust is at the base of every personal interaction by which society is composed. Living in a high-context society or in a low-context society, in both cases relationships are built on a solid mutual feeling of confidence. In business relations the notion of trust refers to the existence of reciprocal confidence that the counterpart will act in honesty, and for high-context cultures like China it comprehends also the personal connection between people. This aspect is fundamental in China since it's at the base of the process that creates relationships: when the Chinese partner says '*I trust you*', she's pronouncing much more than just a polite sentence, she's saying that the business relations can possibly have a bright future because they're backed-up by a solid personal relationship, that she have deep faith that the foreign party is acting fairly and according to the interest of the venture, that the two parties belong now to the same entity, ready to help each other out in hardships. In China, trust is needed if there are cultural conflicts to be solved, and consequently, it influences positively alliance results. The close working relationship and frequent interactions between partners in equity-based alliances conduce naturally, if successful, to the building of trust. The different approach towards trust and the losing face problem can generate a different information exchange pattern inside an organization that mixes different cultures. In a high-context culture trust has a leading role in building relationships and in separating insiders from outsiders.

Many experts have underlined a correlation between the relevant role of trust among people and the existence of institutions that are not able to grant the required security for business transactions: where the role of institutions is able to safeguard and fill citizens with confidence, people are surer that they can start business projects even without knowing each other well, while in countries where business transactions are not properly guaranteed by the existing regulations, people tend to be comfortable with deals that involve reliable partners. Trust is a way to ensure the company position in the contract and to have more confidence in future outcomes.

# Time

Time is a concept that can vary a lot among different cultures and travelling in different part of the world is a concrete way to realize it. Some cultures have been defined by E. T. Hall to have a 'monochronic' conception of time: people in these cultures are obsessed with timelines and punctuality, they do not easily forgive delates, time dictates the daily routine and fixes the agendas; time is the paradigm to select priorities, and thus to name relevant and irrelevant tasks, and in which order they should be faced. On the other side are 'polychronic' cultures, where people don't focus as much on deadlines but more on the task, time is perceived as a circular element where the course of things can be interrupted, and everything is part of a homogeneous entity. Monochronic time leads people to think individualistically while a polychronic approach to the concept of time is more inclined to the group participation. The concept of time in the Chinese society and specially in the way they do business is very different from the European and from the way Westerners are used to think about it: the latter are deeply concerned about scheduling properly all the appointments and also the business deadlines that need to be met, even inside the road map of every single project, of every single meeting. Chinese people instead are less focused on respecting time-previsions and are more task-oriented. This is also the reason they put so much effort in building relations before the contract is signed. Parties in China can negotiate to reach a JV agreement for a very long time, averagely for two years<sup>33</sup>. This happens because the most crucial aspect to be sought is that parties can trust each other and base their future business on a solid relationship. If a business meeting will take longer than expected parties will not be surprised since they trust the other party and they know that first of all good relationships are involved. Being time such an intangible constant, it can be valued differently inside the same country: in Italy for instance, people can point out quite a difference between the North and the South, where from a 'monochronic' point of view, everything seems delayed.

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<sup>33</sup> Paul A. Herbig, *Handbook of Cross-Cultural Marketing*, Routledge, 2013;

# Italian Business culture

Italy is a country whose culture has plenty of features that can be ascribed to a mix of different culture traits, resulting from a tradition deeply rooted in past millenniums and from one of the richest historical and art backgrounds in the world; for this reason, drawing a clear picture of Italian society is quite hard, but it's possible to individuate the main noticeable characteristics. Although there are some qualities that can be considered common to every Italian area, regionalism peculiarity is an accentuated phenomenon, especially if we consider the most palpable differences existing between the North and the South. The North is traditionally more industrialized, services and infrastructures are more developed while people are colder in their manners: the more we reach the Northern areas the more people take Swiss or German cultural traits. The South Italy has a prevalence of agricultural environment, lower wages, fewer work opportunities and people tend to have much more a high-context social approach than the Northern compatriots; for instance, religion and family -a term that comprehends even far relatives- are aspects much more cherished in the South than in the North. Education quality is also unequal in these two areas: this is important since Italians have a cherished opinion of academic achievements and in the work environment they tend to award who possesses high-level diplomas.

## Family hub

The family usually has a crucial role in Italians' life, symbol of unity and bond to the tradition. Italian culture has the concept of relationships and family at its core, similarly to the Chinese one; this concept shapes an economic pattern in which the majority of enterprises are family-run, thus relations take a relatively high role. As in China, Italian families have been tendentially patriarchal for centuries, and only in the last decades they shifted towards a more egalitarian role. The concept of trust, sincerity, loyalty and respect are all evident fundamentals in keeping a good business and personal relations. Basing on the culture context model, Italy is a country whose culture can place around the mid position between the two poles, slightly tendent to the high-context extreme, inheriting from its glorious past both low and high-context features. For instance, the approach to business meeting is often informal and inclined to the simultaneous building of solid relations. Most Italian small-medium companies are family businesses carried on through generations; for people that work in a familiar environment, family is not only the nest where they learn to live but also the structure that guides them in valuable choices, both in personal and professional life: values such as respect, honesty, reliability, sincerity and honor are inherited by past generations and reflected into business life. The high level of craftsmanship can have its basis in the obstinacy and artistic entrepreneurship that characterize Italian people: they are used to feel committed to the cause of their company if the managers are charismatic enough to make them feel belonging to a close group, leveraging on the importance of family. Family is a culture hub, and family approval is traditionally desired by Italian people, thus companies should try to inspire its people to seek endorsement inside the organization by following this path.

## Business Behavior

Being Italian culture much focused on people, team work is searched by companies as a required skill, together with problem-solving and active participation. Hierarchy is sort of a constant background guidance that lead the individuals' direction, although personal resourcefulness and entrepreneurial spirit are awarded as well. Managers in Italy should focus on building a solid operative team that is deeply interconnected and on exerting at most his charisma maintaining a firm authority. Due to the importance of the group, decisions are reached keeping into consideration that dissensus from a few elements can undermine the unity of the team.

Italians are used to speak their hearth frequently and they're taught to express their idea in a quite direct and sincere way, and this is evidently a characteristic typical of a low-context culture; Italians like to talk about their insight, their personal life and family, past experiences and future aspirations; business professional behaviors often show emotions and passion, very differently from what happens in China; albeit there's no culture where the public personal negative feedback is seen positively, criticism is frequently considered an input to build a better self, especially when it comes from a person that is higher in hierarchy and recognized as deserving this role, or of course when it comes from a trusted person. Also, for a long tradition of cultural relevance attributed to loquacity, the ability to speak in front of other people and assert personal opinions with success is a must-have skill in Italian business.

People cherish punctuality, but it is not a strict norm, especially in the South; due to the major focus on people, more importance is given to the human reasons that may obstacle the effort of being on time. In the same area, as it is well-known around the world, it's particularly accentuated the custom to gesticulate, albeit we can say that it's quite common also in the North. Italian people like to spend leisure time with their business partners and, likely to what happens in China, business lunches or dinners are frequently used to investigate the possibility of personal connections. It's better to avoid talking about business topics while eating: Italians tend to give much importance to the mealtime and to enjoying good food and wine.

Emotions can be showed also in the business environment while it'd be less trustworthy someone that is always hiding personal opinions, ending with being considered sly and mischievous. Since written agreements are important to preserve the position of every party, managers should be present with frequent follow-ups and persuasion in keeping the business relationship alive and well; at the same time, the personal presence and verbal opinion exchange are much appreciated, sometimes even required to give trustworthiness to the deal. In the same way to what frequently happens in China, the agenda is seen under a comprehensive perspective, and all business aspects are interrelated, not individually faced as in other more task-oriented cultures.

Italians appreciate a nice personal appearance and well-cured manners, value fashionable styles and good first impressions. Learning Italian language can result as a barrier to foreigners for its grammar immense difficulty and variety, but luckily English language is averagely known by business people. Non-verbal behaviors and body language are vehicles of an important slice of the communication process and widely used. Italian people are well updated about the new possibilities of the current technological era, and both private citizens and companies are currently looking with curiosity at novelties from all around the world. The Italian life-style embrace enjoying simple pleasures and with an enthusiastic, positive approach that usually can be found also on workplaces.

## The Made in Italy

Italy's economic core is a vibrant sector of enterprises that, despite their size is averagely medium or less, attracts an interesting number of global companies that want to do business in this country. Basing on the 2017 report of the Italian Industrial Federation<sup>34</sup>, Italy is at the seventh place among the most industrialized countries in the world, and since 2010 internationalization grew by a yearly 3.2%.

Italy is a small country compared to others, and yet Italian products can be found almost anywhere. More than that, made in Italy items are estimated and synonym of excellent quality in lots of sectors. The Made in Italy embraces many industries, just as German mechanics and Japanese electronics do: it is not only fashion clothes, but also food and wine, interior design and small mechanics; the Made in Italy is one of the most vital part of the Italian economy, its energies come from the local SMEs and industrial districts and spread in the whole worldwide market. During the 60ies the Italian government focused its growth on typical industrial divisions like metallurgy, chemical, industry and so on, while the most traditional part of the Italian production, including textile, agriculture and small mechanics, was overlooked and disregarded: it was kind of Italian government was afraid of being recognized ad leading a country of small artisans in the fast-developing industrial world. Artisans though never gave up their ancient knowledge, some small familiar enterprises became SMEs and even international companies in some cases; other enterprises were born from the acquired know-how of previous employees that started with courage new activities on their own. They all contributed to build the bold and plentiful meaning of Made in Italy in the world, as a label of exceptional quality, tradition and life style.

This almost self-made development of the Italian artisan segment couldn't be possible without a never-ending strive for innovation and search for innovative technologies, without the attempt to be always at the technical and technological

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<sup>34</sup>Confindustria, Report on Industrial Scenario (Rapporto Scenari Industriali) 2017;

avantgarde, thanks to the attention they have given to core aspects like R&D, adaptability and resilience.

# Why China

Even if there are several fundamental internal requirements for a firm to extend its business to China, while deciding whether or not to enter a new market the target country has to be attractive, i.e. stable, open to foreign investments and growing in its economy; generally speaking, retailers are naturally attracted by a stable political and economic environment, but we can point at two main reasons why they may want to join China as a new market:

- 1) the first cause is the maturity of a market that shows high-spending behaviors by customers and a fairly developed retail system;
- 2) the second reason is that the attracting market still offers quite underdeveloped retail operations and a middle class that is getting richer day-by-day and that shows a broad margin of growth in the future.

Among all the impulses that made the Chinese economy to boom there are all the advancements made in trade agreements, the gradual reduction of obstacles to imports and the liberalization of sectors like the distribution system to foreign investors. The deregulation, the macroeconomic stability and the overall development of legal and infrastructural framework plus, and most of all, the entrance in WTO in 2001, attracted foreign direct and indirect investments in China, thus contributing to augment local average incomes and standards of living as a consequence.

In the process of opening China to the world, the local governments certainly covered a role as important as the one held by the central one: each firm that intends to open a store in a Chinese city must undergo not only the main regulatory authority but also the local government policies. In most cases, companies must adapt to local governments' requirements and chose the location in the city where there are less bureaucratic burdens: one of the most famous examples in literature is the one by the American company Wal-Mart, that couldn't enter the Shanghai market as desired first but obtained the sustain of the local government in Shenzhen instead.

Foreign firms in China must find special ways to deal with local entities: for this reason, we have seen that a peculiar aspect that businessmen should possess to get success in China is the '*guanxi*'. Being an exchange among people that know each other or that are being introduced each other by a trusted intermediate, in doing business the role of trust and relations is crucial, perhaps in China more than everywhere else in the world. *Guanxi* is the key to personal and business relations: if in the West people tend to get the business done and then celebrate the success or just relax all together informally, in China businessmen first meet and get to know each other in the leisure of an informal meeting, usually a business dinner in traditional or high-end restaurants, and they get to talk about business in the same occasion or even later. Under this light it's clear that relationship marketing assumes a critical importance for the expansion of retail activities in the Asian economic giant. It can be very important to join conferences and business fairs, not only because it's possible to listen and learn something by immersing in an unfamiliar environment, but also and most of all to make connections and get to build the first branches of our network. If new in the market, being introduced to a potential customer by a well-affirmed personality is already a big step in China. To achieve this goal, Chinese people are naturally more inclined to trust Chinese businessmen, even if they were not born and raised in China indeed: this is why having studied Chinese culture, understanding differences and also speak the local language can be -and usually is- crucial. Showing respect for the hierarchy, for eldest people, being humble and proactive, talking of one's own expertise and previous successes without showing off are only a few of the possible ways to break the ice and lead to an initial exchange of information, just a hint of a possible interest for future deals. For someone who doesn't know cultural peculiarities and is not used to adopt a Chinese way of seeing things, embarrassing moments are surely to take place.

Except for local governments regulations and benefits, in deciding the location of the future internationalized business the firm must consider also cultural, social and economic conditions: due to the amplitude of the territory and of the market, China still contains a huge diversity in cities' infrastructures development, markets maturity, consumers' behavior, people's incomes and overall subcultures, even

if the country is making very big steps forward to even these disparities. Many big companies that first entered major cities' markets, like Beijing and Shanghai, later moved into different second-tier cities or even country-side towns with a diverse market opportunity. In a certain way it's like inside the Chinese territory it's possible to meet completely different economies as it happens in the rest of the world from a country to another.

## China Progress – Historical Insight

Since the rise of the leading power of Mao Zedong and the Communist Party in 1949 when the People Republic of China was born, this country has been searching for progress and growth, even during the first years when the government most impellent target was to avoid people's starvation; just got through a social war that involved Chiang Kai-Shek Nationalists and Mao's Communists, and always greedier for a development that could favor the gaining of a place among the world most powerful countries, China's leading party decided in the first place to follow the URSS' development path. It adopted a soviet agricultural and centralized industrial model that run for development and for production of heavy industry products. In this strategy China eventually ended for being used by URSS to obtain cheap resources and, due to an increasing division of both political and economic ideals, and nonetheless because of evident failure of the economic plans, the Chinese government decided to take its first steps into the USA's sole in late 70's and to cultivate this fresh relationship from 80's on.

Starting from 1978 China began opening to the Western world and made the primary moves towards the global market: in that year, the new leaders that succeeded to Deng Xiao Ping made the first visit in the U.S., decisively abandoning the URSS sustain and the soviet model of centralized economy that Mao pursued till his end in 1976, even after the colossal fail of the Great Leap Forward. Deng introduced some entrepreneurial aspects in the Chinese economy, like an agricultural responsibility system where farmers could decide what to cultivate, and an overall support of foreign investment. The sustain of economic alliances with foreign entities in the form of Joint Ventures pushed foreign companies to invest in China like they never did before. This new trend, together with another series of major changes in 1992 in matter of foreign investment, led to the entrance in the WTO in November 2001. We can say that this event is the pivot of the success of the Chinese economic model: in 2005 China was already the most attractive market for global investors. However, it must be said that if it's true that at the beginning the entrance in WTO had a shocking resonance in the economy, it's also true that in a more prolonged period every

company started to benefit from the same policies and the positive effect on the economy has been gradually lessened, also for ferocious business competition.

Gradually since the 90ies a few important sectors opened to the foreign investment and the government progressively lowered its interference in private economic matters. After Deng's death in 1997, the government of Jiang Zemin implemented a massive privatization policy and a large-scale reduction on tariffs and trade barriers. To give an example on how massively the regulatory system has been opening up from the beginning of this process to present days, in 1991 foreign retailing activities in China were not permitted, and in 1992 foreign retailers were allowed to establish stores or set up JVs only in major cities like Shanghai, Beijing, Tianjin, Guangzhou, Dalian, Qingdao and in other special economic zones like Shenzhen, Zhuhai, Shantou, Xiamen and Hainan; in 1999 stores property of Joint Ventures could be launched everywhere -but only if the Chinese party owned the majority in the JV-, franchising was still prohibited and foreign retailers could only export in China a maximum quantity of goods equal to the 30% of their annual sales. Only from 2004 it's possible to open wholly-owned stores and use each own's distribution channel.

## **China Progress – What made it possible**

The huge renovation that occurred in the last few decades certainly has its roots in the government stability and in the gradual deregulation of restrictions implemented to increase foreign investments: the sustain to the economic growth from the central government shifted from a first centrally-focused socialist strategy to a new model of Chinese economic entrepreneurial generation, where capitalistic and socialist elements mixed up in a one-in-the-world model. The new market-based economy has lifted more than eight hundred million people from poor life conditions since 1978 and led China to an annual growth in GDP of a rate higher than ever in any country's history -averagely around the ten percent-, and even if recently it slowed down a little, it is still one of the most impressive. Although these data are outstanding, and China is nowadays the biggest contributor to the global economy, it is still considered a developing country: other millions of people are still living in poor conditions, especially in rural areas, and it still has a partially obsolete law system. If previously the Chinese Party wanted to keep a lower international profile and develop the basis to excel, a peculiarity of the latest government under the Chinese Communist Party (CCP) of Xi Jinping is its "sharp power" used to influence or control rivals and allies worldwide during the last years: the economic boom that made China the biggest exporter in the world and that brought unprecedented wellness to lots of firm and businessmen that had to trade with the PRC, has also increased the influence of CCP in other countries' affairs. This influential power has its roots partially also in the historical heritage of the control that the Chinese Emperor had over all the Asian world in the past centuries; the main difference is that nowadays it spreads not only in Asia, but almost all over the world. China already has economic relations with more than 158 countries and most of its recent international strategies all points towards the strengthening of this strategy. Although the government seems to have changed towards an open-market economic strategy, its interference in non-governmental businesses can still be seen in the fact that all JVs' contracts usually might favor the Chinese society and show public development in their intent.

# Chinese Market - Cultural insight

## The post 90's Chinese generation

We have seen in previous chapters that China has gone through enormous changes in its political and economic environment, and it's impossible to separate those transformations from a revolution in values and views as much uprising as the other one.

The 90s generation is descendent of people born and risen in the 70s or late 60s, that are still a lot more traditionalist and less used to metropolitan lifestyle than their sons: they averagely used to think more to the community, they had to endure hardships like the effect of the Cultural Revolution or the backdrop of Mao's era, they lived the troubles the Chinese economy had encountered on the path to become a world power and burdened the effects of different political-economic plans applied. In the 80s Chinese government started building its solid position in the world and in the 90s China began to have a much more pivotal role in this sense. As the government dismantled communal farms and added some capitalist ingredients to the Chinese success' potion, the population struggled its way up out of indigence: thanks to this whirlwind renovation, the new generations are the first to be born using the internet and living China as a global super-power, and that's the only reality they know.

In 1989 hundreds of foreign firms already entered the Chinese market through the mean of JV investments, bringing along with them a bunch of new styles and manners. For the people born after the 90s it's easier to think about themselves as individuals able to freely find their expression in a far less-troubled sexual behavior, in the tastes and passions that come from abroad and in an environment usually made of many different sub-cultures: it's more accessible than in the past to find the subculture to which they belong or maybe just decide more easily to go against the

grain and break the most traditional values and lifestyles. This doesn't mean that today's China abandoned its core traditional values, it only means that it's easier to find other self-expressions imported from abroad, even though it's still not well-considered by the clear majority of the society. The previous generations often consider the 90s people self-centered and too open-minded, they're often referred to as "the Jelly Generation"<sup>35</sup> for they are colorful but with no much substance. Under a pragmatic point of view, the Jelly Generation simply has a brand-new wealth, lots of ways to spend it, and it has been empowered to choose to build up their career, find its own road to success and follow whatever passion as rarely happened before. New cash disposal, often offered by foreign companies that hired Chinese talents, together with an invasion of new products and consumption models that flooded the Chinese market, gave the chance to youngsters to experience a consumption-driven life style that sounded fresh and charmingly exotic. Being born and grown in a novel environment that pretty much never made them lack any resource, these 90s' youth care less for savings than their parents did and thus can spend on consumable goods and services.

The evolution of youth values is mirrored in their consumption tastes: in the '70 there was no need to buy merchandise with the aim to affirm one's personal tastes or individuality, simply because there was not the possibility of much income to invest, no much choices of stylish items on the market and no much choices of social styles. People thought about strict necessities and little remained for other purchase decisions. Thanks to new buying options that popped up at very fast pace from the late 80's on, youngsters started building up their identity through new consumption behaviors. Using internet as a way to get info and share them with mates is today the main gate through which a firm can get in touch with customers. In fact, this is actually the deal about the free market: manage to understand and be understood by customers. Moreover, being Chinese generations very different one from the other because of the quick evolution of society as well as of the market and for

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<sup>35</sup>Mary Bergstrom. *All eyes east: lessons from the front lines of marketing to China's youth*. Palgrave Macmillan, New York, 2012;

geographical differences, firms must also be careful not to target one group by, at the same time, disregarding or disappointing other ones.

*"The Chinese consumer is becoming modern, becoming international, but not becoming Western."*<sup>36</sup>

Holding hands with the exotic products and brands that entered the progressively opening Chinese market, a complete set of ideas got connected with them, sometimes properly, sometimes not. Chinese youth generation is looking steadily for new identity experiments, searching for new styles to step out of the mainstream: they are empowered to act as a true individual by the safety of exposing oneself through the internet, and they can find new options of expression in lifestyles imported from abroad, even if always adding a typical Chinese touch. Even when standing out of the crowd becomes too dangerous and someone is at risk to be disliked or silenced by the government restrictions, subcultures can offer a safe harbor to youngsters: everyone can find a group to belong or to look up to. Otherwise one can always try and create his own subculture, although this may be very complicated also in today's flashing China.

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<sup>36</sup> Mary Bergstrom, *Ibidem*;

# Internationalization

## Push and Pull Forces

At first, in the study of the reasons that guide a company towards the decision to internationalize, analytics were inclined to assume that the retail internationalization is ignited by so-called “push” factors:

- The domestic market is mature and there’s limited space to grow in targeted segments;
- Oppressing regulations from local or central government, bureaucracy is limiting;
- High rate of competition, lots of new entrants and strong competitors;
- Limited opportunities in the home country as the market is saturated.

Later on, other experts also theorized that there are “pull” causes as well, intending proactive reasons for the retailer to expand the company’s sales in a new market:

- Scale economies can be reached in the new market;
- The mirage of a wider market abroad to increase sales;
- A stable political condition of the target country;
- Economic favorable policies;
- Increasing living standards in the host country;

Forces that improve globalization can be considered a joint of both push and pull factors combined. The attraction of foreign retailers in China had both some push factors, such as mature domestic market, high operating costs, or a smaller domestic market in many cases, and pull factors, such as good economic conditions, an underdeveloped retail structure, a hugely large market, and low labor costs. The entrance in a new market requires usually qualitative previous experience to be used or a deep study of its distinctive traits through data collection, involving culture, central and local policies, market peculiarities and so on.

Having China many differences in itself, it can be necessary for a brand to conduct detailed and time-consuming studies of the specificities of a region and even of a city. In the case of China market researches were at the beginning very hard, both for the difficulty to find reliable data and also for the overall lack of experience on the field; however, following the liberalization policies and the gradual opening up of the market to foreign investments, the economic entities were day-after-day more attracted by the arising power of this country, and the need for more researches grew with it. Having said this, in the case of the Chinese market we can affirm that “pull” reasons were more influential than others in attracting investors.

## Requirements to internationalize

In the internationalization process, not only political and economic stable characteristics in the new market are necessary -or at least preferable-, but also and most of all, a set of internal features of the firm. The company management should be ready to apply important changes, to get new knowledge and to share it across the existing units, and an adaptation strategy seems generally to better suit the retailers strive for success rather than standardization<sup>37</sup>. John H. Dunning, in his Eclectic Paradigm, theorized that *ownership*, *internalization* and *location advantages* are needed: namely, the firm needs to possess unique elements that create solid points of strength against competition (ownership), to hold knowledge and competitive secrets internally (internalization), and finally the host country must be attractive and suitable enough in the provisions (location advantages). More than that, an international retailing company can use the previous experience in different markets to prepare to the entry process in the new host country, but it should be kept in mind that, being the Chinese market a sort of mix of different ones, the experience assimilated before may not be enough or accurate.

## Approaching the new market

Since the entrance of big retail chains like the American Wal-Mart around mid 90ies, big companies had to learn how to survive in such a complex environment and they also had the chance to adapt to the progressive changes along the liberalization process. Big retail chains and multinationals are very often the first to enter a new market, especially if it's a very complex one, with hardly-accessible distribution channels and a patchy economic law system: this is mainly because they dispone of larger funds to invest and to lessen the impact of a possible failure and almost always have prior international experience. These are the so-called "first movers", typically present in several countries already, with a conspicuous amount of money to invest

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<sup>37</sup> Andrea Pontiggia, T. Vescovi, *Panni stesi a Pechino*, Egea Edizioni, Milano, 2015;

and proactively greedy to find new gold-mine-alike markets.

The “*first movers*” are a source of experience for other firms and basically pave the road to the “second movers”, usually SMEs that can learn from the previous ones, use an existing distribution channel and avoid to struggle too much in teaching consumers important basic info about their product or service; most of times the presence of big international retail chains already spread a rudimentary knowledge: exactly basing on this shared elementary knowledge, the “*second movers*” must work on developing a deeper acquaintance and starting answer better to customers’ needs and wants through researches, received feedbacks and applying an adaptation strategy.

In some cases, “second movers” companies can directly specialize their offerings, but usually this is peculiar of the “*third (or late) movers*”, since this kind of strategy requires a level of knowledge too deep and too premature for the “second movers”. “Third movers” are the retailers that enter the new market when it’s already mature enough to produce particular needs, very often even requirements not present in the past, that came out along with the more profound knowledge and that were carried out by experience; thus, the “late movers” can specialize in niche markets and fill the gaps left uncovered by the competition. This is why, even if it may seem a paradox, competitors’ rivalry is harsher when the second movers kick in.

## Internationalization Phases

J. Dawson and M. Mukoyama in 2006<sup>38</sup> published an interesting research in which they identified five distinct stages of the process of internationalizing a retail business, specifically:

1. **Pre-entry stage;**
2. **Entry phase;**
3. **Post-entry development;**
4. **Assimilation;**
5. **Exit.**

In the pre-entry stage (1), companies seek data through researches in local market, assess the knowledge they already have and after that they evaluate different strategies to apply. In the entry phase (2), they choose the proper timing, market segments and entry modes to have success; they build partnerships with suppliers and draw their operational structure in the international frame. With the post-entry development phase (3), companies can develop their brand awareness in the market, build their network basing on the expansion already achieved and learn how to manage properly their costs: in this stage, they also start shifting the acquired knowledge to the headquarters; this aspect can be very important not only for the company future in the new market, but also to improve results in others by applying new experiences back. In the assimilation phase (4) the firm is finally more socially integrated, while in the exit stage (5) the company stop selling and can trade its property to others: deciding the best time to exit a market where previously the business had success can help saving relevant amount of money, as well as time, and avoiding image loss.

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<sup>38</sup> Lisa QiXun Siebers, *Retail Internationalization in China: Expansion of Foreign Retailers*, 2011, Palgrave Macmillan;

# Joint Ventures

## Overview

A joint venture is a business agreement reached by two or more parties that want to share risks, profits, and management positions in order to pursue a common goal. Joint Ventures can be established for a limited-time project or business, or they directly can create a completely new business entity, usually a limited liability company. Being characterized by the share of assets, this kind of business collaboration lessens risks, times of objectives realization and relative expenses, increases economies of scale and the overall acquisition of knowledge. At the same time, it also limits decisional power and carries a few possible dangers that will be better analyzed in the following chapters. The Joint Venture contract is legally defined as an atypical contract, meaning that it's not contained in the contractual typologies of the Civil Law, and the parties are allowed to negotiate without restrictions the terms of their collaboration, basing on each respective exigency.

Joint Ventures can also be created among competitors: in this case a particular attention should be paid to the clauses, warranties and representations that complete the main contract, in order to protect each party and guarantee a fair relationship. In case of litigation the competent court and the applicable law should be clarified in the contract and concurred by all parties. The contract's litigation can belong to the competence of International Courts and obeys to the International Agreements, but it is necessary that the country where the business occur has signed and recognizes them. If the governing law is not clarified in the contract, the local law should be applied.

There are many little variances between different Joint Venture contracts, partly to be attributed to their atypical nature. Depending on the type of partnership created and summarizing them into two main types, there can be Equity and Contractual Joint Ventures.

## Equity Joint Ventures

In the Equity Joint Ventures (EJVs) partners share risks, profits and losses for a prolonged period (usually from five to fifty years), in proportion to their participation to the registered capital. The contract usually stipulates the creation of a limited liability company and is written in English, because this language is commonly chosen worldwide as the business language and often a Joint Venture is an agreement among parties of diverse nationalities, thus requiring a language likely to be known by all parties; basing on the amount of the registered capital, parties have different time terms in which they are obliged to cover the initial investment, with different amounts of equity. The equity can be paid cash but also by technology, materials, lands, equipment and intellectual property rights (each of them should be evaluated and certified an institution, depending on the host country law).

The management organs of an EJV should be carefully appointed: a fairly composition of members of each party can produce a more equilibrated decision process and dodge the danger coming from implicit advantages of one party on the other(s). Equally important is that the board of directors is in the position to avoid the so-called 'deadlock' situation, i.e. when the decisional process is stalled by the lack of overall agreement: components can't find a shared point of view, and cannot give up on their position either, on a matter of substance.

## **Contractual Joint Venture**

Contractual or Collaborative Joint Ventures (CJVs) are for its nature very flexible: partners share resources, efforts and risk of losses and they can cooperate in an independent way, not creating a new single entity, bearing each own liability and signing a contract of collaboration for the defined time. Because this form of regulation doesn't necessarily require the establishment of a new business entity, parties are to be connected through diverse kinds of contracts, defining the condition of their future relations, for example licensing contracts, distribution agreements, partnerships for international bids and so on. Profits and expenses can be distributed between the investors according to the ownership interest of each investor or divided by partners basing on agreements and not on shares. There is no minimum limit for the liability and the duration in time is not fixed as well, usually the CJV ends when the common target is achieved. Participations can be monetary or in kind, such as technology, machinery, lands, expertise and so on. Every transfer of shares in a JV agreement may be approved by all the shareholders unanimously and by the government.

When the collaboration naturally comes to its end companies are free to carry on their business separately.

## Equity Joint Ventures in China

In China since 1988 the approval of EJV contracts is given by provinces, Special Economic Zones and Autonomous Cities for investments lower than 30 million USD, and not necessarily requiring going through the central government's examination can help saving a much longer process: provinces can authorize cities to give permission for EJVs that regard projects of their pertinence. Every document submitted for registration of the EJV must be in Chinese, in case was given the possibility to write the documents also in another language, the Chinese law will consider the Chinese text as prevalent by the court in case of dispute. Intellectual property rights and intangible participations must be approved and valued by the Chinese government. In China, the amount of investment by the foreign investor should not be less than the 25% and not higher than 99%; the on-going transfer of shares from one party to another or the cession of one party's shares must be approved by the Chinese government and by all the other shareholders. After the EJV is set up, it is considered a Chinese business entity and therefore submitted to the Chinese law. At the moment of dissolution, net assets are to be divided among shareholders, each according to the shares proportion, or if the limited liability company will continue to exist it will be considered under all the effects a Chinese company.

## **Historical and Economic Background**

The first Joint Ventures Law was promulgated by the Chinese Government in 1979, in the first year of Deng Xiaoping's government. While at the beginning it was welcomed in the whole western world as the so-long expected renovation and broad-opening to the world market, seen under the light of the return of China to the global economic mainstream, the enthusiasm was quite soon diminished when companies realized that China still lacked a well-organized legal framework as a solid basis. In addition, the general political instability that had its apex in the Tiananmen episode led to a wave of fear and dissents in the political and economic world.

Considering the economic-political overall background of the vast majority of Europe and Americas in that period, it must be noticed that the establishment of a JV with a Chinese partner also involved a bizarre as well as significant partnership between capitalism and socialism, right after the end of the Cold War (1991).

Enterprises of both parties had all the economic interests in each other: Europeans and Americans in Chinese natural and human resources, while Chinese needed high-end technology. At the same time the collaboration featured vast differences in management practices, political ideals and, not last, huge cultural and language barriers. Nonetheless China made very brave steps forward to make its market a more solid and friendly environment to receive foreign investment, both for the hope of getting enormous streams of foreign currencies and also to appear more acquiescent and less closed to the world than it was previously. China had to compromise its historical and iron-solid will to be independent from anyone else to avoid the danger of an economic stagnation, possibly caused by the industrial gap with the rest of the so-called 'developed world'. In fact, the publication of the Law on the Joint Ventures and the introduction of JVs in the Chinese business panorama led to a fusion of Chinese business characteristics with economic models that could be found in the rest of the world. China's had to submit part of its ideology to pragmatism for its economy's sake.

## Joint Venture Law in China

The publication of the Joint Ventures Law in 1979 paved the road for a series of regulations and laws that regulated the foreign business activities in China, in part with the aim also to reassure foreign investors of their several concerns. The first noticeable change in the Chinese law apparatus is the Article 18 in the new version of the Constitution of 1982: the text of this article states that foreign investors' "*lawful rights and interests are protected by the law of the People's Republic of China*"<sup>39</sup>. The text declared above that the cooperation with Chinese businesses in any of their forms had to be "*in accordance with the law of the People's Republic of China*"<sup>40</sup>, but the simple fact that the foreign investment and the Sino-Western economic collaboration entered the Constitution is a bright sign that the matter acquired relevance in the Chinese long-period political and economic strategy.

In addition to the fourth edition of the Constitution, another sign that China was moving toward the direction of opening its doors is the publication of the Contract Law in 1985 to regulate the business relations between foreign organizations or individuals and Chinese organizations. Until 1983, with the publication of the Regulations on the JV Law, the Law on the Joint Ventures was quite an empty directive, with too many possibilities for interpretations, it was simply "*little more than a promising, colorful exterior of an edifice of a legal framework that lacks a solid foundation to support such a structure*"<sup>41</sup>, thus not providing enough business predictability. Where the JV Law was composed of 15 articles, the Regulations comprehended 118 articles, thus clarifying several details of the 1979's Law and providing it of some

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<sup>39</sup>Barbara Campbell Potter, *China's Equity Joint Venture Law: A Standing Invitation to the West for Foreign Investment?*, 14 U. Pa. J. Int'l L. 1 (1993);

<sup>40</sup>Barbara Campbell Potter, *ibidem*;

<sup>41</sup>Barbara Campbell Potter, *Ibidem*;

guidance. The Regulations at the Article 3 stated that JVs must cover one of the following industries<sup>42</sup>:

- energy development;
- building material;
- chemical and metallurgical industries;
- machine manufacturing;
- instrument or meter manufacturing;
- offshore oil exploitation equipment manufacturing industries;
- electronics and computer;
- communications equipment manufacturing industries;
- textile;
- foodstuffs;
- medicine and medical apparatus;
- packaging industries;
- agriculture;
- animal husbandry;
- fish breeding industries;
- tourism and service trade.

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<sup>42</sup>PRC State Council, *Regulation for the implementation of the Law of the People's Republic of China on Joint Venture using Chinese and Foreign investment*, September 20, 1983, Source: Ministry of Commerce Website;

Basing on 4 Article of the 2003 version of the Regulations for the Implementation of the Law on Sino-foreign Equity Joint Ventures, foreign applicants<sup>43</sup>:

*(1) They shall adopt advanced technical equipment and scientific management which enable the increase of the variety of products, the raising of quality and output and the saving of energy and materials;*

*(2) They shall provide benefits in terms of technical renovation of enterprises and result in less investment, quicker returns and bigger profits;*

*(3) They shall enable the expanded production of products for export and result in increasing income in foreign currency;*

*(4) They shall enable the training of technical and managerial personnel.*

As the foreign contributions must be technological assets or management skills, the Chinese part should contribute with the use of the land. It must be specified that in China the rights to use the land can be ensured by concession (i.e. the acquisition of the property on the soil) or it can be assigned (i.e. the right to use the land are obtained).

The highest decisional organism of an EJV is the board of directors and under the 1983 Regulations Law, the chairman of the board of directors was to be appointed by the Chinese party: most of time the chairman was a Chinese national, while the vice chairperson was usually appointed by the foreign party. This condition occurred even in the case of a foreign contributor owning the majority, creating a contradiction in the fact that the majority owner couldn't have a corresponding representation in the board of directors. Daily management decision should be taken by a management team made by both local and foreign people.

In 1983, as today still, it was very important for the Chinese government to obtain foreign cash, thus an interesting Article 60 provides a very strong encouragement to sell products of the JV on the international market.

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<sup>43</sup>PRC State Council, *ibidem*;

Under the 1983 Regulations, parties would resort litigations in front of the Chinese courts; in the actual version, that is the result of the last amendment, the chapter 15 states that parties should first try to solve litigations through consultation or mediation, they can apply for arbitration under a Chinese institution as well as under an international institution; if they do not decide a dispute solution system the litigation should be solved in front of the court of China. By confronting these two articles it's clear the path of renovation that China has gone through in more than 30 years, towards the standardization with international rules.

In a continuous strive to augment the number of foreign investments in China, along the road of getting opened-up to the world and trying to satisfy the foreign investors, China amended the JV Law in 1990. One of the most noticeable amendment refers to the Article 2, where the text states that "*under special circumstances, when public interest requires*", an equity Joint Venture can be nationalized "*and appropriate compensation*"<sup>44</sup> shall be made. Quite obviously, this last precaution is not lessening the foreign investors' fears, and the sentence that the government "*shall not nationalize or requisition any equity joint venture*"<sup>45</sup> is just a mere sign of little trust. The only reason an equity JV is not likely to be nationalized is just that it'd be more useful to the state in the condition of its existence: a nationalized enterprise would likely stop immediately its ongoing business, both interrupting a source of foreign currencies into China and also giving a very negative impact on other investors worldwide. Another valuable amendment touches the Article 6<sup>46</sup>, giving the foreign investor the possibility to appoint a national chairperson at the head of the board of directors, while previously only a Chinese national could cover this role. In some decisions this change wouldn't carry lots of value, being the decisions limited by the unanimous agreement of the board of directors on the topic, but it could give the foreign party a positive input.

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<sup>44</sup>Third Session of the Seventh National People's Congress, *Amendments to the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures*, Apr. 4, 1990;

<sup>45</sup>Third Session of the Seventh National People's Congress, *ibidem*;

<sup>46</sup>Third Session of the Seventh National People's Congress, *ibidem*;

# Collaboration is a chance

## Two possible paths

What are the reasons that lead a company to collaborate with another one for achieving its goals? Along the road of development of an enterprise, the autonomy and the collaborative path both present some positive aspects.

Independence offers more protection of technologies and shields against potential competitors outside the company: it requires that the enterprise already possesses the necessary resources inside itself and that it wants to benefit exclusively from a modern technology or from innovation results. On the other hand, opting for collaboration, like in the case of a JV, the enterprise accesses new competencies that can be found outside its boundaries, perhaps because it lacks them in the first place, by remaining autonomous; financial and capital boundaries are expanded, and the company favors from an enlarged flexibility on the use of resources, costs for uncertain projects are lessened as well as risks.

The independence path can force the company to seek some resources in itself to innovate, while the collaboration might broaden the sharing of complementary resources and thus create new ones. In the situation that an enterprise already has its own project well-designed and its work path well-analyzed it can act by its own in order to affirm independently that plot. When the enterprise has analyzed itself and found out that it lacks a particular resource, that a particular field can be strengthened or that the threat of a new potential competitor has appeared in the market, it should evaluate the possibility to collaborate with another one as real, in order to fulfill that lack.

## **Problem (or possibility) detection**

The foundation of a Joint Venture usually is ventilated when partners are looking for a new opportunity and doesn't have enough resources to go alone, thus it's pushed to search outside the company's boundaries for a possible ally. Another possible scenario is that a company is going well by its own resources already: on its development path steps into a possible partner and decide to establish a JV in order to open up new possibilities.

## **Evaluating arising risks**

One of the pivotal aspects in evaluating the collaboration method is the risk of losing control: the more the effects of this risk are impactful on the company, the more it might want to start a light form of collaboration, and vice versa. The level of control is maximum in independent and autonomous development inside the company, together with the valorization of the existent competencies and the possibility to develop new resources from the effort, but on the other hand it's going to be a slow development process, with no access to other competencies and with potentially high expenses.

When the collaboration seems to be the best choice, the company must ponder a lot on picking the right partner and define the appropriate control and management methods. One of the most frequent risks along the collaborative path is that the chosen partner offers limitedly useful resources or even it's not giving knowledge and uses the agreement only to get knowledge. Compatibility among partners is measured on compatibility of resources and of strategies: resources should combine and integrate to give positive results, strategies must be lined up and jointed in the long run, or at least as the objectives are achieved.

## Partner evaluation

A solid and trustable partner in a JV agreement is one of the most crucial keys to success. Parties must be sure that everyone wants to reach a common business target and each party should be able to see in the other the possibility to fill up one's own lacks, to bring on the collaboration field the help needed for the common target to be reached. The aim of a JV is to let each party have a benefit proportional to its effort, that is represented in the invested capital.

How to evaluate the fittest partner?

The company can analyze the impact of the choice examining several aspects:

- 1) **Strategic future steps** – wondering if the possible alliance is well-matched with the existent strategy of the company for its future, if it can fill up existing gaps and how likely strategic objectives can vary in time.
- 2) **Opportunities and treats** – wondering if outside the company the choice of collaborating with another business entity can change the existing relationship with stakeholders, if it influences somehow competitors and how likely the partner can become a treat in the future.
- 3) **Strengths and weaknesses** – wondering if the partnership is actually strengthening or weakening the already existing value-creating characteristics of the company, if it can shield against competitors' harmful actions and how big is the influence on the financial structure of the enterprise.

The success of a partnership depends on how profits and benefits from the alliance on the economic flows are subdivided between partners; it depends on the grade of control that partners have one on another, so if the partnership is an exclusive one or if it's possible to change it during the agreement; and it also depends on each party's contributions to the project (knowledge, lands, machineries, technologies, services and relations on the field or general resources).

There are some recognizable characteristics that can identify a suitable relation:

- Each partner knows that the other has something that is needed and that it lacks in the first place;
- The ally gives the other much more business power and importance than they ever could have obtain without each other. In this sense the collaboration is a mean for each partner to overcome its limits;
- Both have and need to have steadiness and be bold until the targets aren't achieved; never stop before the target is achieved just because it's not easy to see immediate results.

### **Market conditions and feasibility**

Jointly with the partner, market conditions are evaluated: working force costs, financial, custom and governmental regulations, banking environment and economic conditions, involving also competitors' examination. Each of these aspects is an essential element to compose the feasibility study that will guide the definition of the collaboration decisions. In the end, parties need to decide the extent of their effort in the JV, deciding the amount of investment, the target definition and the market segment. When establishing an international Joint Venture, the foreign party has to understand eventual local limitations in roles that is possible to cover: participations' limits, fiscal and customs allowances, import and export regulations in the foreign country as well as antitrust norms.

## **The Letter of Intent**

Every alliance stands on the solid floor of an agreement, that can be either formal or informal (most of times written) than binds each party to the other. Once the correct partner is individuated, parties need to think about writing a document that fix previous oral agreements in a written form called Letter of Intent, also referred to as Memorandum of Understandings (MoU): in this document entities that take part to the collaboration regulates the treat details, rules and the deadlines. To the MoU parties can attach ancillary documents like an investment forecast or a time-schedule of the future steps for the collaboration, and thus realize what's the entity of the investment for each party, seize its fairness and equilibrium in quotes, write down all the steps of the partnership and figure out all the necessary specifics. Confidentiality and lock-out elements may be defined in order to prevent partners to start agreements with other entities outside the contract.

The collaboration must be then formalized by a definitive contract where all the possible scenarios are explained and considered, in order to avoid possible controversies to arise in the future. In the case of China, remember that the relationship among parties is effectively as important as provisions written in the contract, sometimes even more.

# **Outcomes of a Joint Venture in China**

## **Market Gain**

Probably the most common and traditional reason to establish a JV is that the foreign party may want to open a new market, especially when the foreign market may appear hostile or too wide and complex to be faced without a local partner. The foreign company may have the idea of business but lacks the resources or the connections: the local partner can offer concrete benefits such as a well-established distribution channel, significant political and economic local relations and overall knowledge of the market.

After the presence in China has been consolidated, the foreign company has not only obtained a new lot of resources to allocate in other business project around the world, but it also possesses the ability to succeed in unfavorable conditions. This gain can be much more valuable than the economic aspect. Last but not least, it has to be pointed out that to establish a JV the only feasible way in some industries to enter the market under the PRC Foreign Investment Industrial Guidance Catalogue.

## **Synergies**

A Joint Venture, for its own nature, is a business cooperation with the purpose of combining one's points of strength with other companies' ones: this means that the gaps and weaknesses of both parties should be reinforced by the JV, with the predictable further result of creating value-added assets. The foreign company that wants to access broader human resources, enlarge its operational range and get quick access to local market channels in China may adopt JVs as an entry mode, since this business contractual form always guarantees the possibility to get out of the dangerous waters of an unpredictable emerging market like the Chinese one.

In this country, regulatory restrictions about foreign owned enterprises makes JV the preferred way to enter the market and run the business. To this situation it must be added that most of the Chinese companies are reluctant to sell their

ownership to foreign parties and the government itself makes JVs the only enter mode available to several business activities as constructions, restoration, and cosmetics.

When companies partner up, the combination of dissimilar competencies brings new synergies in different fields:

- **Productivity synergies:** verticalization of the productive cycle or its broadening in horizontal, as well as economy of scale and of knowledge, can all enhance productivity of the company in the long run;
- **Technological synergies:** flow of creativity and innovation due to diffusion of technology and knowledge; the combination of heterogeneous capabilities and resources can possibly lead to unexpected results in terms of innovation and productivity;
- **Distribution synergies:** distribution channels can be shared. It's typical of JVs with a Chinese partner to get the advantage of accessing an already developed distribution system. Without the need to build a new distribution channel from scratch, the market entering effort is much lower.
- **Managerial synergies:** from the joining of expert people, the management team can get one of the biggest advantages in allocating right people on the right posts, basing on past experiences, skills, and on the market knowledge of local managers;
- **Financial synergies:** overall credit capacity can be enlarged, and every unit becomes financially more flexible.

A collaboration is profitable, everywhere but particularly in China, when partners are in reciprocal trust and when they can consider a long-time duration project: it's always possible to interrupt the agreement before its termination, but the intention to go far is necessary to prepare the company for great things, also because long time can be required as investment. Agreements are made by people and thus there must be the awareness that cultural differences and motivation variances

are to be considered, appreciated and valorized, as well as possible changes in market conditions.

## **Guidelines for success in a Sino-Italian Joint Venture**

It's possible to find some characteristics that are to be searched in order to have more chance to success in dealing with a JV in a culture so distance from ours.

### **Eyes to the future**

In a collaboration with a Chinese partner, it's fundamental that both parties have a well-defined vision of the strategy to adopt in the future, and that there is agreement on the future operating model: this is what should be ascertained before the JV is established, but also after the partnership has begun, a regular check is required to align short time objectives with the ones to be reached during the maturity of the relationship. Be clear on the purposes, cooperate by standing strong on each ones' point of strength and be ready to build and use new capabilities; ponder also the possibility to refine preset targets if needed; the management structure must leverage each components' competences and create new ones from their combination if possible.

### **Create valuable resources**

Although the specialization of human resources in the Chinese market is running at very fast pace, in some sectors it still lacks to offer talented people comparing to the request, thus when creating a JV between a highly-skilled technology brand and a Chinese counterpart it should be provided a training center and a R&D section that can train and select new resources for the company future success; it goes without saying that this carries tangible dangers for the know-how ownership and the chance to create a competitor inside the venture itself as well as in the free market, thus a good protection set of rules is required.



## Stay updated

In an environment of overall opening to the foreign investment, the industrial guides published by the Chinese National Development & Reform Commission and the Chinese Ministry of Commerce in 2011 and 2015 differ in the number of industries accessible by foreign investment. Industries in China are divided into encouraged, permitted, restricted and prohibited industries, but the latter publication lowers the number of restricted sectors, enlarging the possibility of investment from abroad.

In order to understand the strategy of the Chinese partner, being updated on the Chinese governmental and economic situation is crucial. About the most recent times, it's important to consider the adoption of the "China Manufacturing 2025" economic strategy, since it changed things a lot recently: China intends to upgrade its business role from the world's manufacturer to a global superpower in ten high-end industries, elevating its focus from quantity to quality. Industries involved in the plan include bio-medicine, technology of information, new-energy cars, electronics, aviation and aerospace technology, automation, transportation technologies, agricultural equipment and so on. Just to make an example on how China has recently changed its economic strategy, this country is already the leading one in the number of circulating electric vehicles and it is estimated to have more than a half of its total of vehicles to be electric by the end of 2035<sup>47</sup>, and it has invested more than any other country in renewable energy solutions so far.

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<sup>47</sup> Market forecast research by Fuji Keizai, Tokyo;

## Functional guidelines

In order to recap, several aspects must be kept in mind when dealing with Chinese culture in business:

- **Proper Preparation** – For a Chinese person, prepare for a business meeting/dinner, or for welcoming the other party is a clear sign of respect and the lack of preparation often can interfere the realization of the deal, also making parties waste a lot of time. A proper preparation to face meetings and negotiation can also help to counter tactics from the other party;
- **Spend time with the operational team** – In any partnership and specially in the context of a JV with a Chinese party, the operational team is sometimes more influential for the success of the project than the heads, and the work done behind the scenes by the two teams is a solid ground for the formal meeting to take place and for main decisions to be taken. Being relationships so important in China, to build a solid friendship where local people can trust the foreign partners is worth it a half of the deal. Gifts exchange and leisure time all together are two of the best way to ensure the success of the project, and also one of the most interesting, inspiring aspect of doing business in China.
- **Know the language and the culture** – As every time people travel across cultures, not being ignorant about the language and the culture of the targeted country is already a good starting point. When trying to open a new business opportunity in China, particularly when a business project is involved, having someone that can be trusted on negotiating for the party's benefits with the locals is crucial to obtain the expected results. Besides, both parties should naturally try their best to be clear, to avoid jargon and idioms as much as possible, talking slowly, asking questions when something is not quite clear and taking the necessary time to answer properly. In cross-cultural negotiations, visual elements like slide presentation are even more important than in the usual meetings in home country, and they can be really helpful where communication obstacles are present.

- **Know the right timing and time usage** – Chinese counterparts have a different concept of time, more circular than linear, they focus more on finishing a task than on the deadline itself. When dealing with a Chinese partner in a meeting, patience and no signs of angry, neither no sign of forcing the closure of the deal must be showed. When in China, the focus mustn't be the signing of the contract, people need to take into consideration that the negotiation process could possibly take much more time than expected and shouldn't be rushed. In China, business negotiations are estimated to last from two to six times longer than in Western countries. Keep in mind that contracts are only the starting point of a longer relationship that is based on the trust established previously.
- **Keep the goal clear** – Last but not least, keep in mind the aim of the collaboration, even when the partnership is being ongoing for years: any time one of the parties realizes that the business goals are not being achieved, ending the collaboration it's always possible. Just be sure to seize the time and the best way to step back, avoiding as much as possible to waste time and resources on a dead-end path.

In order to have success in managing the two teams in a Sino-Italian JV, the manager should also check periodically the cultural health, verifying that the relations are going well and that the two teams are well integrated. Elements that are culturally different as the power distance among levels of an organization, individualism inside the group and an orientation to long/short term in business can lead to misunderstanding and misalignments between the two teams, where harmony and unity is needed to collaborate properly.

## Possible troubles in a JV project

Joint Ventures have been so far described in their positive outcomes and possible advantages for both parties, but being a collaboration of different forces, several critical facets can come to surface, especially in a far different market as the Chinese one.

- **Cost and complexity of establishment** – Chinese local authorities carefully inspect all documents that need to be presented and may ask for clarification or changes. Establishing a JV in China requires time and the company cannot be operative in just a few months. Future costs to be estimated are the turnover of employees, the distribution costs, possible need for legal consultancy, and of course all the concrete effort in creating the right stage for the JV to work properly.
- **Conflicting interests with partners** – Parties' objectives and interest in the venture are to be cleared and specified previously, avoiding conflicts during the operational phase. A different approach to the daily work and to the future outcomes may lead to discrepancies and to frictions in decision making process; ultimately, a relevant difference in business goals can lead to the bilateral decision of interrupting the collaboration agreement.
- **Conducting the proper due diligence** – One of the most common risk met in a JV with Chinese Partners is the difficulty to conduct a detailed due diligence on the partner. Knowing deeply the financial and economic condition of the partner is fundamental to avoid real problems to take place when the collaboration is started. This aspect can be difficult in China since there are no public registers to consult in order to ascertain possible outstanding matters and pending controversies from the partner's side.
- **Merging different management styles** – The management of a JV

collaboration should be aimed to create balance in decisions and functions; warm commitment of the management components is required as the process of establish and manage a JV can be a lengthy and resource-consuming path. An operational team and a board of directors should be appointed, and these two organs should work together: even if daily operative decision should be taken by the operative teams, the higher levels should be updated about every relevant decision and they can help with their authority in case of stalling negotiations. Remember the typical approach of Chinese people to the decisional process and the importance of authority.

- **Technology transfer and intellectual property management** – The transfer of technology is a tangible risk. Be sure that the technology of the company can be protected by the Chinese Legal System. Technology is the most common contribution of a foreign company that wants to enter China, and protection is fundamental. It may be clever to make employees to sign agreements on confidentiality and non-compete behavior.

## Reasons stop a Joint Venture

An EJV or a CJV between foreign and Chinese partner can end for one of the reasons included in the termination provisions of the contract or for bilateral approval in the board of directors. The reasons to dissolve the agreement include:

- The natural expiration of the JV term;
- Critical impediment that prevent the JV to continue its normal operations;
- One of the parties is not able to fulfill the obligations that have been expressed and signed in the contract or in the articles of association, and for this reason the JV cannot proceed with its business activity;
- A force majeure event occurs;
- Other possible reasons can be defined in the JV contract and can lead to the end of the collaboration.

The Sino-Foreign JV Law in China provides that in case the company is not able to reach the prescribed targets and carry on its normal operation and this impede the future of the enterprise, this is already a significant reason for its termination.

## **Most probable causes for JV failure**

Joint ventures with Chinese firms continue to experience high failure rates. The lack of knowledge is the most common cause: lack of understanding of each other's approach to business practice together with culture clashes are the biggest obstacles and can lead to conflict between firms. Even if it seems incredible, often either parties ignore the cause of their business partnership's failure, and this is the main signal of the existence of a huge deficiency in understanding each other's cultural background. Mutual understanding of language, perception and feelings can be the point of strength that leads to success.

### **Cultural integration**

Cultural aspects are the core of what's to be considered in the choice of who to partner up with, not only considering the national culture but also the enterprise culture. As for the enterprise culture, the company has values and core principles, on which was founded, that can differ inside the same country and much more from one country to another. The more the two cultures are distant, the more challenging will be the integrating work of the management teams to make the collaboration work with success. The consideration of the partner's culture is sometimes even more important than actual differences present among them. Partners often think their culture is better than the others and only partially appreciate the partner's cultural specificities; instead, it's important to mix each component's best cultural aspects in the perfect mix. Often employees don't feel to fit with the partner's culture, and with their own enterprise's one neither. In this case efforts to make the collaboration work are most likely to be vane, because the partnership wouldn't bring real advantages to the venture. In another case, if the partner's culture is very attracting, the choice to adopt it is a very complicated step and managers have to carefully assess if erase one company culture and substitute it with a new one may ruin the company's health.

## **Amount of control**

Companies that want to partner up with each other must forget about the concept of total control. Very often, companies jointly focus mainly on the profit aspect of the collaboration, on the financial and economic effects that can be resulting from the alliance. In truth, advantages in getting knowledge and competencies exchanged, with the consequent possibility to develop new potentialities are eventually much more worth it. Many of the enterprises' leaders point on the control of the collaboration decisional process and give too much importance to this fact: a partnership that is based only on the economic and financial return is directly based on control, it needs control implicitly, so they are much likely to fail. An alliance is valuable when both parties don't have in mind to strictly conserve their autonomy: a profitable partnership is triggered by knowing that it will give gains in the field of creativity, motivation, strategic competitiveness and in the chance to build a much wider business, otherwise impossible to be obtained while keeping each own's autonomy.

Every alliance can give much to the partners but also requires them to find the middle ground between two different production, distribution, logistic systems with the good aim of helping each other towards the target project.

The new management team must invest time and effort not only in organizing financial and economic needs but also, and more than anything else, in managing new human resources, coordinating different talents, with distinct cultures and management habits.

## To keep in mind

Choose the best partner for our enterprise, to maintain a proper control over management decisions, to keep intellectual properties protected, and be sure that the Chinese party can contribute significantly in the business project. In particular, especially when parties are market competitors, they have to share a common goal, common strategic targets to achieve: if the foreign company seeks growth and profit in the long period and the local firm wants to grow fast, the two have a divergent future target and they are likely to have no success in the longer period, or at least several misunderstandings about strategic joint decisions.

A possible point of conflict between foreign and Chinese investor in an EJV is that both parties would likely desire to staff management positions with their nationals, the former because it's trusted and more likely well-trained and experienced, the latter because it seeks to acquire management experience. By the way, the fact that Chinese managers had to search for management experience to get confidence in their business leading positions was mainly a tendency typical of the past, since in the last few years there's been an increasing evidence of the improvement of management skills among Chinese leaders, and foreign enterprises investing in China also entrust local talents to manage their Chinese area market: they actually have a discrete ability to speak a foreign language, they studied and became more acquainted with the foreign business attitudes and they naturally know better than foreigners the Chinese market's dynamics.

Another drawback in a Joint Venture can come from the Chinese party: under the push of the government to become the first world economy, Chinese companies may want to enlarge their business scope from national to international to global, and thanks to the collaboration of foreign firms they can access to overseas distribution and sales channels, as well as to crucial knowledge and technology.

Also, because albeit an upgrading tendency to improvement the Chinese law is still quite lacking under this aspect, it's critical that foreign firms do the best they

can to protect themselves against copyright and intellectual property misuse, shielding against the possibility that the former partner one day will become the direct competitor in the local market or even worldwide. Most of times firms protect themselves through legal agreements in the JV contract or with ancillary contracts about the patents and copyright licenses, but the main problem is that Chinese legal system might be tricky and reluctant in case of dispute in the court.

In a Joint Venture, the party that owns the majority shares doesn't necessarily exert the control in the board of directors: for this reason, the board of directors should be composed of both local and foreign representatives, to use properly the locals' connections and knowledge of the market and also to guarantee to the foreign party a decisional voice in strategic choices. In particular, control in a Chinese JV comes from the role of the Legal Representative, the General Manager and the partner that control the JV's seal (to deal with stakeholders on behalf of the company). Chinese partners are likely to cover all of these three key positions arguing that with the proper *guanxi* and the market knowledge they're the fittest to manage those roles; nonetheless, the lack of these control means can lead to the creation of a JV where the foreign partner has no legal right of decision.

The coordination of participants can prepare the Joint Venture to have success in a high-speed changing environment like China, but in order to do so they all have to be sure to agree on the target for the future and to possess a well-studied communication system; this requires overcoming the language and culture diversities, as well as discrepancies in the management system. Being the pace of change so fast, Joint Venture contracts should also contain exit provisions, otherwise parties will have to discuss them and find an agreement when the interruption occurs. It's not uncommon that also very strong partnerships are brought to fail for governmental provisions' changes and market unexpected evolutions: parties have better to split up and follow each own's path instead of keeping an empty partnership that only retains a formal value.

International firms entering the Chinese market should consider many dangers, one of which is to consider the problem of protecting intellectual property, copyrights and trademarks: the PRC Trademarks Law, Copyright Law and Patent Law formally cover this matter, and there are also some intellectual property courts established in Beijing, Shanghai, Tianjin and other regions.

In the concrete state of things though, the rate of counterfeiting production in China largely overcomes the government response and legal implementation of the existing laws; more than that, even when a legal case is set up, the influence of CCP may make the course of the process hopelessly slow.

## China's run for knowledge

Chinese enterprises principally have two ways to obtain that knowledge: the first one is through the acquired knowledge of Chinese talented people going abroad to study in high-end universities and work in technological companies, and this road obviously takes longer time to give its fruits. A more up-front path suggests that national entrepreneurs can go on business trips in Europe and buy technology companies which the government is interested in to enact its business strategy, and this is actually what happened for the last ten-fifteen years. This behavior has carried out mainly three issues related to the image that Chinese business partners have abroad:

1. The lack of trust by western people who realized that Chinese enterprises can be a threat: they can conquer the whole market with successfully technological products as they did it ten-fifteen years before, when China was the world producer of simple components.

2. Nationalism has spread over most countries when it comes to Chinese people as '*they copy everything*': this way of thinking is not only wrong, since China is now much more a producer of excellence in several fields, but it's also dangerous in creating many more cultural difficulties to the management team of a company that wants to partner with a Chinese entity.

3. The concrete business advantage possessed by Chinese products that enter the European and American market at incomparably low prices, always on the thin border between dumping practices and free market rules, was made possible also by local political strategies that favor items import.

# Protection of innovation

## Knowledge is a key asset

Joint Ventures are characterized for their nature by the sharing of knowledge, and this is the very sparkle that make the JV engine to start. After the collaboration agreement is signed, and partially also before, partners will start gradually to share knowledge and to pass key information to each other. Both parties should consider that a collaboration built on solid trust, especially in China, in which there's faith on each other's intentions is a wealthy environment that favors the success of the venture. More than that, a concrete objective of the collaboration is often to research and explore new possibilities through a developed R&D center, so retaining respective knowledge is counterproductive.

In order to internalize knowledge inside the new-born company, a deep connection among individuals is needed, making possible to create a more or less continuous flow of acquired experiences and feedbacks; this deep river of knowledge is composed by a mix of different relations, both formal and informal, and in China the informal relations assume a crucial role. The main reason knowledge sharing is important in a collaboration is that the spreading makes it possible to create brand new added values and assets for the enterprise. More than that, if only one person owns deep knowledge about an argument it's always more likely to be ignored and seized as irrelevant than if this information is made of public domain. Such an important role held by knowledge requires an important backup from the management team, especially in case of the creation of a new entity with people coming from different organizations.

Without measuring the extent of innovation, it's not possible to protect it. The thing is that evaluating innovation can be a very pungent topic, especially if there is a collaboration that involves a few companies. Mainly three methods can be applied to measure the extent and the pertinence of an innovation:

- 1) The extent of effort from each contributor;
- 2) The present condition of the collaboration;
- 3) Results coming from the collaboration;

As for the point 1), the extent of effort from participants of the venture are measured basing on the field of intervention, that is in which aspect the Joint Venture enterprise has been affected; it can be a contribution either in financial, technological, decisional, human, intellectual, relational or organizational resources. The effort can be evaluated from very influential to totally uninfluential<sup>48</sup>.

The point 2) refers to the ongoing relationship among partners and it is mirrored by the efficiency and the influence of management decisions on the inferior layers. This concept is linked to the analysis conducted by G. Hofstede about the power distance, referring to the likelihood of people contesting the power of superior, thus questioning the hierarchical organization of the management. If there is trust among people of the different companies towards management decisions and an efficient response to them, then it can be said that the condition of the collaboration can be the right landscape to welcome an innovation. In a Joint Venture with Chinese partners, the sharing of different key-aspects and capabilities can easily lead to innovation, creativity always flourish in heterogeneous environment. But when an important innovation comes out from the collaboration of two or more companies, the problem of protection of this newness is pretty evident, both during the collaboration and after, especially in a short-time strategy that sees parties split up at the end. In any case, if parties are well lined-up on future strategies, meaning that they have to share some of their economic fields that create value to obtain an added

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<sup>48</sup> T. Saaty, *Analytic Hierarchy Process, Planning, Priority Setting, Resource Allocation*, McGraw-Hill, California, USA, 1980;

value from alliance, it means that they can also find an agreement on how to use the new intellectual property, as a fruit of the ongoing partnership.

As for the point 3), assessing the contribution of innovation to the company only takes the effort to try out the new process or product and see what the results are. If the novelty carries evident and measurable outcomes its relevance and pertinence can be measured.

## **How to manage knowledge**

As important as dealing with cultural differences it's also relevant to manage dissimilar knowledge, in particular the one that comes out of the collaboration of many enterprises on the fields of teaching, people involvement and communication. An alliance not only aids the proliferation of untapped resources but also their diffusion. The expertise must be transferred and communicated properly inside the organization. The management inside the new-born organization has also another important duty, that is to promote a view of the enterprise as a large entity, sized and inserted in a system of reciprocal interdependences with the environment. People are aware that their efforts can influence not only their operative world but also the wider environment around them. Managing a partnership in its crucial role has to follow the path of leading both the organizations in interdependency and also to follow their own path of learning.

The culture of knowledge has to grow deep inside the coordinating entities so that employees are led to collaborate more and better, through working teams of employees from both the companies; this way to collaborate is to build in the employees a more open mind by sharing different cultural assets, a better understanding of and learning from personal mistakes, and develops higher creativity. The role of managers in this scenario is to crash boundaries and to show them as opportunities instead of impediments, to lead this process of forward-backward learning and to spread a shared positive mindset and mixed Italian-Chinese culture.

In a world always running for technology innovation and change, where anything stays as it is for a long time, a company must possess the capability to adapt and be flexible to daily and periodical needs, always evolving with the environment. In this situation, a collaboration between enterprises can be seen as a proper method to face business challenges with share capabilities and interrelations, towards a unified target to be achieved.

## Where does knowledge originate

Innovation comes to reality when the expectations of this innovation to bring solid and relevant advantages are trustable enough. Basing on the accessibility and on the protectability of innovation, it can be easier or harder to retain the property for the enterprise itself, to prevent others to get access to this amount of competitive advantage. If an innovation is characterized by a high rate of protectability and a low rate of accessibility, the enterprise 'mother' of the invention is much likely to keep most profits from it. Why does companies need to preserve their technology from others' appropriation? The chance to protect one's own IP is influenced by two factors:

- **The level of imitability** - the property rights on innovation are usually easier to be protected if the knowledge comes from an unpalpable and non-concrete background, like the relations with stakeholders or with the environment: basically, if it comes from interactions among individuals.
- **IP rights patents** - Patents on innovation are very valuable and necessary when the environment presents lots of competition and when the innovation is for its own nature a concrete invention and thus easier to be copied. In this case patents, trademarks and copyrights can effectively defend the enterprise's competitive advantage acquired from innovation against treats of competitors.

Evidently, because the imitability of an innovation is intrinsic to the idea itself and cannot be limited, the extent of control of the company on its own knowledge and on the property of its own resources is the principal way it can avoid external property rights' abuse.

## Intellectual property

The bond between Intellectual Property (IP) and business strategy is very strong, especially in business alliances like the Joint Ventures. At least one of the parties -in a Sino-Italian JV probably the Italian side- usually possesses relevant knowledge that can be used as a base interest for starting the project, and IP on that knowledge deserves attention. When invention arises from the mix of Italian and Chinese companies' competencies, three main concepts are fundamental in trying to manage the allocation of intellectual properties of an innovative idea:

- *Background and foreground intellectual property;*
- *Alliance boundaries;*
- *The "joint vs. sole" question.*

The background intellectual property refers to the IP created by each partner before the alliance creation, whereas the foreground intellectual property refers to the innovation created by the jointed effort of all parties: understand what the basis and the possibilities of future creations are, by asserting which resource contributed to what and in which proportion. The alliance boundaries are very crucial in a union of businesses, because they set the cooperation scope, and the rules deriving from them, which includes how to respect each other's intellectual property. Boundaries need to be perfectly set before the agreement, so that in the future there will be no uncovered problem. When one of the parties of the Joint Venture develops a new technology thanks to the support and to the resources of another party, and this technology is out of the scope of the Joint Venture business, the "*joint vs. sole*" problem arises. The party that owns the technology without which the innovation couldn't have become real consequently naturally have some rights on that innovation, but the distribution of rights must be based on an evaluation on the extent of

the contribution of the party's technology on the invention<sup>49</sup>.

The enterprise's technology is the amount of knowledge needed to produce its goods or services, thus creating the company's wealth and success. The most common and natural method to acquire knowledge and improve one's technology is to learn by doing: to expand the enterprise' experience and to enhance its service levels by learning from previous practice. The learn by doing method possibly leads to the development of economies of experience to lessen costs and improve the allocation of resources, thanks to the experience learned by the enterprise in its market.

Another quite straightforward way to get knowledge and seek new technologies is the Research and Development process (R&D): the proper investment in a R&D strategy is always a sure way to get to the hoped results on a longer-period base.

Except from these methods that produce experience from inside the company, technology and innovation can be brought from outside, from the ideas of another producer: i.e. when an enterprise asks another one to produce an item or a component. The most common contracts to seize this transaction of knowledge are subcontracts for design, engineering and production of a product or of a service. Naturally, acquisition of technology and knowledge by buying patents or licenses is always an up-front possibility, with the specificity of cross-licensing contracts in the case of JVs, where both parties license each other on the reciprocal use of technologies.

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<sup>49</sup> G. Slowinski, M.W. Sagal, *Allocating Patent Rights in Collaborative Research Agreements*, Research Technology Management, 2006;

## Patent in China

Starting from the definition, patents can be seen as a slight exception to the free market and competition rules: through a temporary monopoly on the concrete application of the new idea, inventors or authors can benefit from the possibility to be paid off for the effort they put in the invention process. They are the product of an institution's decision to confer the owner of the temporary right to use that idea, excluding others from the possibility to implement the same use. The importance of the temporality (usually they have a deadline of 20 years) of the monopoly on the innovation is fundamental to keep the market moving forward, to keep it opened to further innovations: as it has always been in every field of culture, a revolutionary idea always comes from previous ideas that can be used thanks to the temporality of previous patent. Creating a market of eternal patents would eventually lead to a much lower rate of innovation. As wonderfully put by Steven Johnson in his masterpiece<sup>50</sup>, every new idea is the fruit of previous discoveries and genius findings: each of them is a door that conduct to another room and each new room disposes of a major number of possible doors to be opened. In this sense innovation is never-ending and exponentially increasing in itself, thus explaining why in the last couple of centuries humanity developed more and faster than in the previous millenniums.

Patents were born in order to stimulate innovation: being sure that ideas are safe, companies can continue to invest in R&D and can keep on producing revolutionary technologies and qualitative goods. More than that, the competition enhances quality of results: a well-developed system of protection of property rights may stimulate rivalry among enterprises to compete in the market: competing with each other for innovation, companies have to invest continuously in research and technical improvements.

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<sup>50</sup> Steven Johnson, *Dove nascono le grandi idee: storia naturale dell'innovazione*, BUR Rizzoli, Milano 2016;

Adopted in China for the first time in 1984 and then amended in 1992 and 2000, the latest version of the Patent Law is dated December 2008. At its Article 1 provides: *“This law is enacted for the purpose of protecting the lawful rights and interests of patentees, encouraging invention-creation, promoting the application of invention-creation, enhancing innovation capability, promoting the advancement of science and technology and the economic and social development.”*<sup>51</sup>

The Patent Administration Department recognizes the *“invention-creation”* as the existence of<sup>52</sup>:

1. *Inventions as innovative technical solutions for the improvement of a process or a product;*

2. *Utility Models as innovative technologies that modify the shape or structure of a product and improve the use of it;*

3. *Designs, as an invention in the combination of colors, patterns and shape in a product and its aesthetic appeal.*

After the patent concession, nobody except for the patentee has the right to produce, sell, import or manufacture using that innovative product/process. The exploit of the patent by others than the owner is regulated by a specific contract and with the payment of royalties to the patentee. The Article 16 of Chapter One of the Patent Law of the People’s Republic of China<sup>53</sup> states that if the innovation occurs

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<sup>51</sup> The 6th Meeting of the Standing Committee of the Eleventh National People's Congress, *Decision of the Standing Committee of the National People's Congress on Amending the Patent Law of the People's Republic of China*, December 27, 2008;

<sup>52</sup> The 6th Meeting of the Standing Committee of the Eleventh National People's Congress, *Ibidem*;

<sup>53</sup> *Patent Law of the People’s Republic of China*, adopted at the 4th Meeting of the Standing Committee of the Sixth National People's Congress on March 12, 1984, amended in 1992 at the Seventh National People’s Congress (27<sup>th</sup> Meeting) and amended again at the Ninth National People’s Congress (17<sup>th</sup> Meeting);

inside an organization the patentee should be remunerated according to the economic scope of the invention and to the effect produced on improving the business. In case a foreigner or a foreign enterprise wants to apply for a patent in China without a regular residence, the patent permission should be valuated basing on the international agreements among the two countries. Under the conditions of an innovation to be patented, it must be *“novel, creative and of practical use”*: namely, it mustn't be similar to an existing one, it should carry signs of advancement and improvements, and produce positive results in use; besides, the design shouldn't have the same appearance as another existent product.

The Article 25<sup>54</sup> declares that patents shall not be granted for *“scientific discoveries, rules and methods for intellectual activities, methods for the diagnosis or treatment of diseases, animal or plant varieties, substances obtained by means of nuclear transformation and designs that are mainly used for marking the pattern, color or the combination of the two of prints.”* More than this, patents should not involve national security or social major interests and the State Council may grant a compulsory license on a patent always in case of national emergency or any extraordinary state of affairs, or when public interest requires it.

China has been the biggest provider of patents worldwide in the last few years: in 2016 the number of patents grew by 23,8% on an annual basis<sup>55</sup> and China plans to have 14 invention patents every ten thousand people in 2020. As innovation is one of the most pivotal aspects of modernization and wealth of a country, it appears that China is encouraging enormously the nation's development. Although lot of IP infringements still occur, China is seriously enhancing its fight to better protect

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<sup>54</sup> *Patent Law of the People's Republic of China*, Ibidem;

<sup>55</sup> The State Intellectual Property Office of PRC, *2016 Intellectual Property Rights Protection in China*, 2016;

IP right. In 2017 the 98% of the lawsuits in IP argument in China were between Chinese parties<sup>56</sup> and didn't involve a foreign party. More than that, China has established between 2014 and 2015 three specialized courts to deal with IP infringement cases. China's new effort to keep up with other nations' standards on IP protection policies is also going to give Chinese enterprises a more defined right to go to court against foreign subjects, reversing the trend that more frequently occurred in the past. In 2016 People's court closed at first instance the 89,06% of all IPR cases, whereas the number of overall requests for IPR infringements on a nation base lowered by more than the 20% on an annual basis.

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<sup>56</sup> <http://www.managingip.com/Article/3323146/Chinese-infringement-get-the-most-out-of-damages.html>;

# Trademarks in China

Every free market country needs a distinctive system to protect trademarks against counterfeiting activities. Trademarks, as well as patents, represent the two fundamental companies' assets and it's useful to seize the value of a trademark to be able to sell or to license when needed. Juridically, the trademark is the exclusive right of using a characteristic recognition method to distinguish one's own product or services from others in the market. Specifically, the recognition can be linked to a specific name, symbol, sound, color, number, product's shape and packaging, and so on. Each product featuring a distinctive characteristic and evident originality respect others previously present in the market can be trademarked.

Trademarks are protected by law, after the registration, only in the country where the registration occurred, thus for a company it's important to present the registration request in every foreign country to the specific institution. In Europe it's possible to register a trademark through the European Union Intellectual Property Office (EUIPO) and it has value in all the EU countries, otherwise it's also possible to ask the registration to World Intellectual Property Organization, an UN institution, indicating the target markets.

The Chinese Law on Trademarks, initially promulgated in 1982 and then amended in 1993 and 2001, provides the definition of trademarks and their protection as exclusive mean to guarantee the consumer the quality of goods, services and reputation, as well as *"promoting the development of the socialist market economy"*<sup>57</sup>,

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<sup>57</sup> *Trademark Law of the People's Republic of China*, adopted by the Standing Committee of the Fifth National People's Congress (24<sup>th</sup> Meeting) on August 23, 1982; amended in the [Decision on Amending the Trademark Law of the People's Republic of China](#) by the Standing Committee of the Seventh National People's Congress (30<sup>th</sup> Meeting) on February 22, 1993; amended again in the [Decision on Amending the Trademark Law of the People's Republic of China](#) by the Standing Committee of the Ninth National People's Congress (24<sup>th</sup> Meeting) on October 27, 2001; and amended for the third time in the [Decision on Amending the Trademark Law of the People's Republic of China](#) by the Standing Committee of the Twelfth National People's Congress (4<sup>th</sup> Meeting) on August 30, 2013;

enlightening the always present connotation of Chinese community purpose. Trademarks are signs of the certified quality associated with a specific name, symbol, logo or product design; in China they are protected by the Trademark Office and Chinese administrative authorities have, by the law, to stop every business practice that deceive consumers.

According to the Trademarks Law, in China is not possible to register as a trademark every name or symbol that recalls the State name, flag, emblem, places where the government organs are located, anything that can sound like Red Cross or Red Crescent, anything with nature of discrimination, or fraud against goods, and anything that can be *“detrimental to socialist morals or customs”* or that can have somehow *“unhealthy influences”*<sup>58</sup>. Each trademark registration has a validity of ten years. In case of adjudication of a trademark that has already been registered, the concerned party should file a request to the Adjudication Board in at max five years from the registration of the said trademark (this time limit is not considered when the trademark is *“well-known”*). It is by-law prohibited to use similar trademarks or goods related to the trademark without permission of the owner, counterfeit another person’s trademark without permission and replace the trademark with another one in order to market the goods again.

In any case of dispute, parties should first try to solve it through consultation, and only when the consultation fails they can institute legal proceedings at the People’s Court. Article 69 of the Trademarks Law states that functionaries appointed to administrate any activity related to Trademarks shouldn’t *“engage in any activity to manufacture and market goods”*, and should *“be incorruptible and disciplined, devoted to their duties and courteous and honest”*<sup>59</sup>.

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<sup>58</sup> Trademark Law of the People's Republic of China, Ibidem, Article 10;

<sup>59</sup> Trademark Law of the People's Republic of China, Ibidem;

## Copyright in China

The copyright is the legal right of the creator of a sort of innovation form to use and distribute it for a limited period of time, usually fifty or a hundred years after the author's death. Even if there are some international agreements on copyrights (Berne Convention for the Protection of Literary and Artistic Works of 1886, European Copyright Directives and the Buenos Aires Convention), copyright protection is not universal, it's covered by the country's government, thus different countries may have different provisions on copyright protection.

The first law on copyrights was enacted for the first time in Great Britain around the first decade of the 18<sup>th</sup> century<sup>60</sup>, but copyright is a concept that was born with the idea of printing someone's work, thus dated back in the 15<sup>th</sup> century: it was then that people started to use the new printing methods to produce copies of existent works and make a profit from them. Although the international existing agreements offer a rather consistent starting point to provide a generally recognized copyrights protection, there can be still important differences among countries when it comes to this field, some can cover more aspects of the authors' rights and some can even cover no rights at all.

The first time China saw a law on copyright was in 1910, under the last years of Qing dynasty; after the Qing's falling, two minor revisions were made during the period that goes from the civil war to the beginning of the Mao Zedong's government in 1949. During the '50s the copyright law was no more than the will of the central government to protect the efforts of writers and artist through the protection of their rights, and in the following two decades, in part also because of the Cultural Revolution (1966-1976), the law on copyrights remained a trivial argument. During the late '70s, with the end of the Mao era and the starting point of the "four modernizations", the Chinese government underwent a process of serious discussion and analysis that got to the approval of the actual Law on Copyright in China, published in 1990 and

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<sup>60</sup> Gregory S. Kolton, *Copyright Law and the People's Courts in the People's Republic of China: A Review and Critique of China's Intellectual Property Courts*, 17 U. Pa. J. Int'l L. 415 (1996);

then amended in 2001, while the actual version is dated 2010.

Article 2 of the Chinese Copyright Law states: "*Work of foreigners or stateless persons first published in the territory of China shall enjoy copyright*", while in the Regulation<sup>61</sup>, at the Article 6 it is said "*A copyright is created as of the date on which the work is completed.*"<sup>62</sup> This text provides protection to any artistic, scientific and literary content or author for encouraging the creation and dissemination of works which would "*contribute to the construction of socialist spiritual and material civilization, and of promoting the development and prosperity of the socialist culture and science*"<sup>63</sup>. Today, although China is a signatory member of the Berne Convention, to enforce your protection on copyrights in China those copyrights must first be registered there.

China is getting better at protecting copyrights in the recent years, in part as a consequence of the entrance in the WTO, but mainly for the push of Chinese big companies that want their IP to be protected as well; China's bureaucratic process to register a copyright is nicely forthright and averagely takes a couple of months; in addition, courts are implementing the existing laws in an increasing rate and this phenomenon is likely to continue, for the foreign companies' reinsurance.

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<sup>61</sup> The State Council, *Regulations for the Implementation of the Copyright Law of the People's Republic of China*, August 2002;

<sup>62</sup> *Copyright Law of the People's Republic of China*, adopted by the Standing Committee of the Seventh National People's Congress (15<sup>th</sup> Meeting) on 7 September 1990, amended in the Decision on the Amendment of the Copyright Law of the People's Republic of China adopted by the Standing Committee of the Ninth National People's Congress (24<sup>th</sup> Meeting) on 27 October 2001;

<sup>63</sup> *Copyright Law of the People's Republic of China*, *Ibidem*, Article 1;

## Contracts on technology use

Every enterprise that possesses a marketable knowledge about its producing process, the application of a service, that are patented and not secret can be licensed through a contract and marketed to someone else. Each company has some secrets about its working activities that must be protected and respected from industrial espionage or information leakage by a previous employee that holds some key knowledge. These secrets can be of technical, commercial, industrial or organizational nature and must have some business or marketable value to be defined so.

Anyone of the previous listed economic value can be marketed through several kinds of contract, for instance *licensing*, that is the concession to produce and distribute one's own product, *outsourcing*, that is the decentralization of some business activity linked to production, *technology transfer*, that indicates the cession of a patented technology, or *contracts of technical training* that has the aim to teach and learn how to use a given technology. Each one of these contracts should contain provisions on license concession, scope of use of the licensed technology and clauses about fee payments for the license, taxation clauses or secret clause.

# Case History

## Uqido's adVenture in China

### Overview

The following case history is the spark that lit my desire to research and expand my knowledge in the field of cross-cultural business; in the following chapters I will report my personal experience of how the Italian company Uqido has successfully started a Joint Venture project with a Chinese investor in Shenyang, Liaoning Province. My role in this project was, and is nowadays, to manage the Uqido business interests in China as a project manager and to collaborate with the project managers on the other side for both parties' success.

I will introduce both sides, narrate how parties came to know each other, how the project started, and which criticalities were encountered in the preliminary phase; I will describe how it took a more concrete road and what kind of difficulties we met during the meetings that led to the Memorandum of Understandings in its final version. All along this journey I also would like to enlighten particular and meaningful moments, cultural typical aspects and peculiarities of making business in China.

Characters I refer to in the following pages are called by their names' capital letter, since it's not of primary relevance to know them for follow the narration and grasp the insights I would like to offer.

*"We usually are afraid of 'them' taking from 'us', but as you move your first step in China you know how much you can learn." (P.)*

## **The protagonists**

Uqido is an Italian software house that was established in 2010 and has since then grown into a solid enterprise putting its name on very important projects. In 2009 P. and A. were two high-skilled computer engineers that wanted to launch an app that could help people in forecasting hospital first aid waiting lines. An idea in the head of two young students became reality and nowadays is being used in the hospitals of many provinces in Italy. Not only, it also lit the sparkle to these two brilliant guys to invest in a much bigger project: to establish a company whose aim is to put technology at everybody's service.

With the help of a local incubator, Uqido moved its first steps one year later and started making of Virtual Reality (VR) and Augmented Reality (AR) technologies its core business, a world that at the time seemed quite far away, to be explored as pioneers, and that today is much more real and is evolving very fast. The company began hiring the most talented AR and VR developers that the Italian market could offer and under P.'s coordination, the name of Uqido started passing from mouth to mouth among companies, as this young enterprise was holding the keys to build a large B2B business.

Mr. W.H. is a Chinese doctor and professor, very famous and respected in his medical field, that directs dozens of hospitals in Liaoning province and that is well-inserted into the Chinese political and economic environment. His activity was born from the philanthropical vision of offering a valid support to poor people from the countryside that needs eye surgery or eye medical healings and cannot afford it. From the words of the doctors in these hospitals, people in the countryside of Dongbei don't have eye doctors inside the villages and thus if they have any problem with the sight they need to go to bigger city like Shenyang and most of times it's not affordable: for this reason, Mr. W.H.'s built a number of clinics and hospitals that give these people the chance to obtain the necessary cures at affordable prices. Having started many successful and profitable business in the eye-medical field as well as in different others, Doctor W.H. managed to expand his business scope also in Europe, where he often comes to close deal with different nationalities' companies, also

buying some of them. During one of his trips in the North Italy, he happened to visit the incubator that assisted Uqido's growth, heard of this company and got in touch with P.

Two years passed since the moment they met, the two companies slowly got to know each other, and both managers wanted to dive into the possibility of a collaboration. Difficulties seemed unapproachable and the project realization very remote: yet the power of a strong will and entrepreneurial braveness overcame the fear of future obstacles, and together with the ability of the respective teams did the rest.

## **A long knowing phase**

As soon as the two businessmen started talking about each other's possibilities that could be disclosed by working together they started dreaming, and it could really be said that their only limit was fantasy. This was particularly true for the Chinese part, always very joyful and enthusiastic about every possible business chance or new channel. Since the project was only a mighty plan in their mind, the concrete approach characteristic of P.'s business behavior suggested the need for practicality. About this aspect, I remember that during the last day of our first trip in China, after a very long meeting that defined some important specificities in the contract, Mr. W.H. affirmed that most of Italians like to talk a lot and don't do anything, thus he was happy to find that we are different.

The possibility of a collaboration lied bare for almost two years, both because the Italian part was busy keeping up with a lightning-fast growing rate, because the Chinese part failed to make the first step and for a lack of competences in dealing with intercultural business projects by both parties. In this context P. and I got in contact: I met him during an academic presentation where Uqido was invited to explain the importance of the latest technologies on business and future possible development, sharing the stage with companies of the caliber of Microsoft and Mercedes. In that occasion, during the break, I introduced myself to P. in order to ask a few questions about his company, and to my great surprise, he asked me if I would have been interested in helping his company to carry on a Chinese JV project that seemed to be stuck. Knowing that I was honored to accept his proposal and thus he had a back-up hand on the project, he speeded up on it and arranged a group call with the Chinese team where I had to help him out in understanding what the Chinese components said to each other. That was actually the main problem P. had faced since that moment: the Chinese team during the group calls only had one person that could speak English and she only translated a little part of what they used to say. The uncrossable language barrier made P. lack trust on the Chinese team, since they used to talk in Chinese for ten minutes and then ask a quick question in English to P. or just recapping the long Chinese debate in a brief sentence: P. was afraid that he was

missing out something important. After that group call we made an important step forward and we scheduled a meeting in Italy with Mr. W.H., while the Chinese team prepared for the future collaboration.

## **Getting real**

The first time I had the chance to meet Mr. W.H I unfortunately still had a very foggy idea of what was the deal to reach and about what was my role in this context. As the meeting started Mr. W.H., that already knew P., appeared to me as a very friendly and western-styled person, even more enthusiastic and positive about our bright future together than P. had already told me he was. An aspect that he underlined a few times that “*money is no problem*” and during that night he referred a couple of times to huge investments made in Europe and the possibility of stock exchange for millions. During the aperitif and the business dinner we sketched some of the points that the parties had to put hands on in a first phase, like the investment objects, the project scope and the main cores of the partnership. The project appeared to me as a clear deal where one side holds cash and the other technology, and it was similar to the dozens of study cases I studied during my college years on every book: the rich Chinese investor wants to get hands on high-level technology to ‘improve the Chinese economy’ and have great success, so I felt a little skeptical.

The one thing I wanted to be sure of was the protection of Uqido’s technology, dodging the risk to create a new competitor in China, thus I decided to talk with P. and expose my doubts. He actually agreed with my perspective, but he also made me see things from another point of view: although the risk is always concrete, the Chinese market is growing so fast that there could have been thousands of chances to access this growing technology in that country, especially in coming years. Uqido could only surf this wave of progress and growing interest by investors, taking the advantage to open a new market channel and to extend its business scope. In fact, as we’ve seen in the relative previous chapters, even if China has recently built a better developed IP protection system, the enacting law system was still to ferruginous. In

any case, as P. told me, the effort was worth the risk.

After this meeting he informed the team that they need to prepare the MoU draft and get the money ready to be invested and announced that we would have travelled to China in a month: another important step forward for the enact of the JV project.

## **Trip insights and post-considerations**

The first time we arranged the date of our business trip, it was then delayed twice before we actually knew for sure that it would have become reality, to the point that I thought it would never be happening. This delay was likely due to the fact that both parties wanted it to happen as soon as possible, but both companies also naturally wanted both heads to be present. Together with this, the quite lengthy Chinese decisional process that involves many components, some lack of experience from the Chinese team and the importance of hierarchical decisional roles made the date shift a couple of times. After the slow processing of decisions that characterized the business negotiations until that moment, this was the first practical demonstration of a different approach to the tasks, to the decisional process and to time perception.

### **First steps In China**

While P. and I were flying sat in quite uncomfortable sits, he asked me for some tips about Chinese traditional way of life and behaviors that could help him in dealing with Chinese people and in avoiding embarrassment with them. Even though I could have expected this curiosity from him, after a short moment of surprise I started thinking about my life experiences in China and all the little stories professors often told us in class, about the 'business dinner' etiquette, the way Chinese people introduce each other, the way they accept business card, the way they daily live moving across huge cities and so on. Surprisingly though, at the moment of our arrival, when two girls from our partner's team got to the airport to welcome us, we both fell into the all-Italian greeting gesture according to which we kiss each other's cheeks and shake hands when we meet. They were surprised about that, but frankly they did seem to appreciate this kind of ritual, since then and started almost overusing it in the following days at every possible occasion. I interpreted this behavior as a big effort from the Chinese team to adapt to our customs and to make us feel at ease and showed me a much appreciated and mature approach towards us.

After that moment, the two colleagues introduced us the schedule they organized for whole day, and they surprised us as following: first of all, we would have made a complete tour of the University Campus, that is the Headquarters of the Chinese party, followed then by business lunch, business meeting for all the afternoon and business dinner.

We were quite baffled by the intensity of this plan, since we didn't know anything about that before our arrival and we longed for a shower and a bed more than anything else; we considered it would have been normal to give us some time to rest before, but we knew the reason one hour later. In any case, we were very excited to finally be there with them and to finally start moving the first steps towards the realization of Uqido's JV project. During the one-hour trip that took us from the airport to the university campus, the two young women from the Chinese team were very kind and we could feel that they recognized the importance of our arrival: every detail was organized with precision, and they were trying to make general conversation to make us feel comfortable; for example, they were curious about my passion for Chinese language and culture, so they asked me about my studies and assessed my knowledge about Chinese literature and philosophy together with my language preparation. Talking about this last topic, those two women were evidently quite proud of their English and, both for this reason, both probably to make P. more comfortable, they used to talk in English even when P. was not involved in the conversation and I replied in Chinese. About my use of Chinese, I should add that probably they didn't understand at the first glance that I was there as project manager of the venture and they thought I might have been P.'s personal assistant and translator. I can affirm this because since P., later that day, specified clearly and once for all, that I was not an experienced translator, their consideration changed: for instance, instead of telling me in Chinese *"Can you please ask Mr. P. if..."*, they started asking me questions in Chinese as expecting that I could answer directly. It was a clear manifestation of their concept of hierarchy: I had another proof of this during a business dinner with the young operational team: although the environment was quite informal and relaxed, they reserved for P. the most important place at the table and for

me the place at his left<sup>64</sup>. It's been already enlightened the relevance of hierarchical and ritual behaviors in a high-context cultural environment like China, and this was one of the moments that made me feel it on my skin.

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<sup>64</sup> In China, important dinners have a traditional and typical etiquette that should be respected: among other rules, the most important guest at the table should sit in the place facing the entrance, while others should take place in order of importance starting from his/her left. Since its beginning, the dinner is characterized by many ritual toasts of every member greeting for something;

## **First meeting and hierarchy**

As anticipated in the time schedule, we first had a look around the campus while the two team components showed us the most important buildings and students stared at us with a mix of surprise and regard. When we arrived at the meeting room, Mr. W.H. greeted and welcomed us in a very friendly way; unfortunately, though, he also informed us that he could be with us only for that day, so we knew that this was the reason we definitely had to make the most of those hours. During the first meeting we got to know each other more deeply: we've been introduced to the team, and they showed us their University and campus slides. Their presentations were very accurate and well-prepared, while we were completely improvised and caught-up, since we haven't had the time to prepare anything yet. Since we supposed, and we probably were a little naïve about this, that we would talk about business the day after the arrival, I had to improvise myself as an instant translator while P. had to find in real-time proper contents to show them from his laptop. During those hours I had another proof that hierarchy is really imposing in China: Mr. W.H. speaks a very good English and in his presence we could definitely conduct the meeting in that language, while he could translate in Chinese for those who don't understand in a naturally better and faster way than I could; nonetheless he repeatedly kindly asked me to translate what he just said to his team, even if I modestly affirmed that my Chinese wasn't quite near to be as good as a native Chinese speaker. As for what I assumed, he was kind of testing my Chinese and at the same time affirming his role in the group: he wouldn't take the role of a translator in such an important meeting, in front of its team. I accepted that with curiosity and tried to make the best of the experience I was making. It was really fun, P. and I felt that we were doing something magical: during a short break we recalled how we almost randomly met a few months before and wondered about my contribution to a project in China for Uqido; now we were out of the city of Shenyang, in the other side of the world, possibly paving the road for the success of a made-in-Italy excellence company in China.

For that day we kindly asked to skip the business dinner and set it for the day after -we felt our head spinning for the tiring trip and for the quantity of information

received- and we've been accompanied to the hotel. Knowing how important business dinners are in China, I really hoped that this wouldn't have changed the project fate and I tried to avoid this decision as most as I could: from one side, we seriously had difficulties in joining it and in our culture the business partner could probably understand our state of mind, avoiding to ask to be present to such an important occasion; on the other side, Chinese people value business dinner as it is one of the best ways to establish relations and to prepare the bright future of a collaboration. Even though a very famous Chinese saying states "in a new country follow their habits"<sup>65</sup>, we can say that in this occasion both parties had a little lack in understanding the other. Later that night we arrived at our hotel, and even if we didn't have much time and strength to appreciate the surroundings, it was a very nice place to stay, in the center of the city.

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<sup>65</sup> 入乡随俗, (rù-xiāng-suí-sú, literally enter-country-follow-habits) is the Chinese correspondent form of "When in Rome, do the Romans";

## **Different business approach**

The next four days we went through long meetings and discussions about different topics: at the beginning, we finished a quick recap about the state of things, but they seemed unable to get things under control, probably for the absence of Mr. W.H.; I recognized a big difference in the way meetings are organized: during a business meeting in Italy, people are likely to face one topic at the time, precisely eviscerating every detail and discuss until they are all solved; during that summit, P. and I had to decide the meeting timeline and to write down a few steps we needed to prepare for in the next few appointments; although we tried to make some order, the components of the Chinese team connected different topics during the discussion and it was very hard for us to come to a decisional point. This aspect made me reflect about the fact that Chinese people are used to perceive the world as a unit in which every component is deeply interrelated with others and where the singularity of each object is serving the system as a whole: every detail we could have discussed may have possibly influenced some others and this caused several topics to be roundly discussed again and again a few times. As we analyzed in previous chapters, the Chinese team approaches the work with a different orientation, and for every job that has to be done, they usually need very precise and exhausting instructions, a real step-by-step guide of the future tasks. In our culture, the higher-in-hierarchy positions expect from the lower one to find solutions to a given problem with their creativity and with their problem-solving capability. This skill requires a practical mindset that is culturally inborn, the tendency to wonder why, to think out of the box, to know that things can be changed by the single individual. People in China is less used to adopt this kind of mindset, they're more suitable to apply what they're asked to, and they're more muddled in taking initiative while at the same time much more methodical and organized than us in completing well-explained tasks.

## **The core of the project**

As the essential feature of the JV project, the Virtual Reality exposition would have been composed by Uqido sharing a few VR experiences about a typically Chinese or Italian cultural topic, and they enthusiastically proposed that in the food court we could also place a pizza-chef that made some tasty Italian delicacies. The dream of the Italian lifestyle, architecture, design and of course the exotic appearance of the Italian food as gourmet specialties is much highlighted in China; except from these fields, they also admire us for our culture, and in fact we pointed out some different point of contact between Italian and Chinese culture which could give initiative for new virtual experiences: naturally there's Marco Polo, then some food delicacies as dumplings or spaghetti, historical business relations among these two nations and so on. Culture seemed a very solid and possible theme to explore in our VR Building; more than this, developing our VR project on the cultural field could also be a choice of positioning the venture on a more sophisticated and less commercial level in the market.

The AR part of the deal was also very important, but mainly under the marketing perspective: through the Augmented Reality apps developed by Uqido people would have been guided and pulled from all around Shenyang to the X-Building. AR technology offers the possibility to enchant people with effects that are kind of magic to unexperienced eyes since, as the name suggests, it adds items and information to the world that we can see through a mobile camera. Mr. W.H. is always been very optimistic about previsions on huge streams of people that in the future will visit the location, although we were a little doubtful on that for its decentralized position, and because it could also be a strategy from an experienced businessman to excite us about the project and build relations. With Augmented Reality contents Chinese people can be attracted from the city of Shenyang itself as well as from adjacent areas to experience the X-Building activities: with these new technologies, a brand-new method to market our product would have placed us under a very innovative and almost groundbreaking perspective, triggering the word of mouth.

In future developments, the JV project will provide an internal training project about AR/VR computer graphic modeling for students of the He University that showed to have the proper qualities. We intended to provide, in the future, a complete academy for AR/VR content and experiences creation also open to the public in China and thanks to this third project the JV could enhance its profits from the subscription fee. We highlighted earlier the importance of developing new resources in a collaboration between companies: heterogeneity, cultural differences, different styles and capabilities are to be seen as a rich possibility and not as an impediment; we wanted to put into effect this diversity, to use the know-how owned by Uqido to enrich future outputs and create inexistent value in one of the bets forms of investments: knowledge.

The day after both parties realized that we needed to meet the students, getting to know them better and selecting few of them to come studying in Uqido's headquarters. As for that day, they needed to discuss further with the whole team about the number of students, as well as for many other related topics. We needed to understand diversities, be patient and shift our focus from the signature of the contract to the creation of a long-lasting relation for the future development of the project. We liked the students they proposed us, we tested them as we could, analyzed their main work and saved further discussion for when they'd have had more details to share.

## Moments of tangible cultural exchange

During our staying in China, we didn't only discuss business provisions, but there were also several occasions to enjoy leisure activities. First of all, the two kind young women that accompanied us every day always took us to eat in high quality places and they paid much attention to let us taste local specialties. During one of those moments, when I was randomly chatting with one of the two, I discovered that she amused herself in Chinese calligraphy, and she was also quite good at it; since the art of calligraphy deeply fascinates me, I simply asked her if she knew a place where I could find someone who could paint a piece for me. Unfortunately, she couldn't think of one, but she asked me what style of calligraphy<sup>66</sup> I liked most. Since I remember from my past experience in China that it wasn't hard to find people expert in calligraphy that sold their paintings, I was quite sure that I could find somewhere in a street market an old Chinese guy that could write calligraphy for me: I woke up at the sunrise one day and wondered around in Shenyang to find my guy, and even if I met a few interesting people that tried to help me out in finding someone who could satisfy my request, I came back to the hotel disappointed by my failure.

The same day P. and I planned to give them a sign of our gratitude for their warm welcoming, and we went with the two girls to a high-end supermarket that sold ethnical food, among all the rest: we wanted to cook some Italian pasta for them and let them taste a bit of our country. We took inspiration from the ingredients we could find there, and we headed to the University Campus, where in the afternoon we would have proceeded with another business meeting. They gave at our disposal the entire campus kitchen, and also a woman that could help us finding what we needed. While we were cooking and preparing the rounded-table for lunch, the Chinese girl that exercise calligraphy called me in the dining room and showed me a

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<sup>66</sup> Chinese Calligraphy is a form of art that includes five different Script Styles, namely: Seal Script (篆书 *Zhuànshū*), Clerical Script (隶书 *Lìshū*), Running Script (行书 *Xíngshū*), Cursive Script (草书 *Cǎoshū*) and Regular Script (楷书 *Kǎishū*);

table entirely covered with calligraphy scrolls and traditional paintings. She surprised me with all those gifts remembering what I told her the day before about my interest for Chinese calligraphy and she even asked a professional painter to produce a work of art for P. and me. The vibes were amazing, you could feel the mutual exchange of cultural traits, in a glad, thankful and friendly atmosphere as never happened before between the two teams: relationships were being creating.

During that day full of meaningful pleasing experiences, I had the chance to wonder about cultural characteristics and differences, not only focusing on Chinese traits, but also considering how we do things in our culture. Their hospitality left me speechless and I realized the weight of creating lasting boundaries for high-context cultures. I supposed the woman from the Chinese team read the context while I was telling her that I'm interested in calligraphy, thus she interpreted that I was asking for her help in finding traditional paintings, and maybe she didn't perceive it as just curiosity. We had the chance to ponder again on the hierarchic role and how flat is instead the country where we grew up comparing with China: for example, the woman that helped us in the kitchen, apparently an assistant in the campus kitchen, didn't join us in the dining room and stayed alone in the kitchen to eat her meal even if we insisted a few times that we would have liked to have her at the table. While we were eating we also could inquire their tastes for the Italian cuisine and some people inside the Chinese team asked us how to do cook some good pasta. To me, it was one of the most vivid expression of what crossing cultures means, together with the dinner at the restaurant with the young teammates I referred to before, and I felt that I will be happy to work with that team in the JV, in a culture so distant from ours and at the same time so attracting and positively challenging.

## Topics of the negotiation

In this chapter I will sum up the major topics we faced during our meetings in China, trying to underline the core aspects of the negotiation.

### Budget draft

The budget draft was one of the first topics we put attention on during those days. Budgeting the economic effort from both sides is a matter that needed very careful attention and it could be a quite slippery ground: the budget forecast is attached to the final version of the MoU and signed by both parties for approval, thus what is written on the document is what it's expected to happen in the future. It's quite clear then that both parties need to be very sure that the numbers written down are not underestimated, otherwise bad surprises like profit loss, unexpected expenses and partner's disappointment will be granted. Besides, this is one of the topics that are more strictly connected to the calculation of parties' shares: usually in a JV the bigger the contribution of one party the more shares it has to own. In our experience, the Chinese party was not prepared to improvise a budget forecast in a short time as we did, and they went on changing it even after we were already back in Italy, during the week after.

This reminded me of the different importance that the written word has between China and our culture: documents are the final touch naturally deriving from a good relationship, they're not accredited all the importance they have in other countries that are more 'task oriented'. Because of this conception, if anything in the MoU or in the correlated documents was agreed once and then the Chinese party realized it to be unfair, we were supposed to understand their position and change it. In this case, under a mere business negotiation point of view, it's possible for negotiators to apply a *"if...then..."* clause, that means: *"my party understand your situation and will change the terms of the contract that you requested to modify, but in change we ask you to change something else in our favor"*. Of course, this advantage

cannot be overused, to avoid the risk of appearing too pretentious or utilitarian, especially with a partner that values so much relations.

In China, business meetings can be very long and somehow tiring: Uqido had only me and P. (although he frequently updated other component of the board of directors back in Italy) while their team was quite heterogeneous -about ten people from different roles discussed every topic we raised- and sometimes the participation of many people is not symptom of efficiency: some of the components failed to be lined up with others' opinion or updated with the last project evolutions; for instance, we were stuck during a couple of meetings on understanding what was going to be considered their economic effort in the venture and what was to be labeled as JV company's expense, so to be shared consequently. Some components lacked the understanding of topics discussed in their absence, or they simply disagreed in their different views, thus slowing down the negotiation process.

## **Building opening time**

The building that the JV company will use as the venue of the AR/VR experience center is a huge construction -once used by the government and now rented to the Chinese party- where the new company resulting from the venture will use almost two thousand square meters for the implementation of experiences, food court, souvenirs, relax areas and so on. The building as we saw it during the trip looked abandoned, so it needs not only a lot of work in order to make it usable again but also a full renovation in its interior and exterior design. In our experience, we noticed that our Chinese partners have always been very optimistic, and their prevision about the estimation of time to get things done wasn't an exception: this can be in part a matter of not knowing precisely what are the exact amount of steps that the project needs technically to be taken as well as the time required by each work to be completed, but in part it can also be a cultural feature: appearing positive and not skeptical about the bright future of our collaboration is a must-have behavior, for the same motive they found it hard to decline a proposal; for this reason, often we felt

like they were underestimating the possible effort on the pragmatic point of view. For instance, after we explained in detail the renovation works that the building needed, their first prevision to open in 3 months shifted ahead and doubled.

The design of the building was important topic that occupied both parties for an important part of the time we were there: we all agreed that the place should have an 'Italian taste', with the related architectural style and interiors. Italian design companies are much more expensive than the Chinese ones and they were convinced that they could arrange that huge structural work with any external help; we debated a few hours on what it would have been the right solution, until we got to a point in the middle: both parties will gather different companies' portfolios, respectively of Chinese and Italian designers, and then we will decide together which one is the best and most suitable one for our project. The design of the venue, in this case, is important not only because of its appearance in terms of marketing, communication and placement of the product, but also because there are fundamental technical requirements that need to be satisfied in order to set the proper environment for AR and VR contents.

## **Government Permission**

The JV project included the opening of an official academic course on AR and VR, to be implemented secondarily inside the Chinese party's University: the JV company would get profits from students' tuition fees to be divided between parties, plus this can provide the new-born company with new promising young developers and software engineers to be hired; the Chinese team told us that the Chinese government takes at least one year to give official permission to a new college course to be established, thus the time needed to organize the practical knowledge, teachers, venue and communication to the students market was not the main problem anymore, and shifted to the background. The Chinese government covers an evident central role in every business decision and it uses this period of time to analyze the college course content, its detailed program, the aim of the course and the institution

that provides it: being AR and VR one of the hottest technological topics in the whole world as well as in China, and thanks to the deep *guanxi* that Mr. W.H. established during his business activity with the central and local government, we have reasons to believe that there are no evident causes for the government to decline this new course, albeit in a more distant future.

## **Training of the JV students**

When we were in China, we had the chance to meet and interview some of the students chosen to come in Uqido's headquarters to attend an important training course. They are all expert in computer graphics, 3D modeling, 2D, 3D video making and after effects; they will stay six weeks in Italy to learn how to apply their existing knowledge to our project, basically by learning from our experts the application of computer graphic and modeling for AR and VR. In the long run, this part of the project is crucial, since it can give to the AR and VR market new people to be employed, and also it would make it possible to hire internally into the JV company for both parties. All the students we got to know were very excited and respectful towards us, they wanted to show their skills but always maintaining a humble behavior. They showed us the places they use to study and teach (in fact, two of them are teachers). Although their classrooms were old and quite dirty, their computers were up-to-date, and we were happy to notice that we all were working pretty much on the same systems. Although at first their arrival in Italy seemed to be possible in just one month, both parties soon realized that bureaucratic procedures to obtain visas would have slow down the implementation of this plan. More than that, they couldn't come in July also for the fact that one of the people selected to attend the training course felt sick during the procedure of obtaining their visa and they kindly asked us if the training period could be delayed to a new date, most likely the next year. The existence of cross-cultural differences imposed us to show understanding for this inconvenient fact and we couldn't but accept in order to save the relationship with the team.

## **The copyright on experiences**

A serious doubt we often had when we were in China regards the possibility that their effort was only aimed to obtain technical knowledge about our technology. We basically lacked trust on their intentions at first, and although we entered into more confidence by getting to know each other during those days, we still knew that a leakage of know-how in that environment would have been resulted in a relevant damage and in the inevitable end of the project. In particular, during the last day, we visited one of Mr. W.H.'s hospitals and we exposed them the brilliant app for controlling the accesses to the blood test center Uqido has developed for hospitals in Veneto: they asked a lot of questions about all the software functions, questions that were very sensible for the presence of Chinese software engineers at the same table; unfortunately, we realized that the questions were all at the limit of the free market rules, we had to keep the relationship good for the future and most of all we went there right to show them what we are able to do; in a certain way, we were stuck inside a bottle neck that we created ourselves and we felt quite like in the lion's den.

Another aspect that we were particularly worried on during the last meeting, is the amount of our shares, whose fairness was being debated by a couple of components of the Chinese team. They claimed that our contribution was not corresponding to the number of shares and that, to make it fair, we should have handed over the copyright property of the three initial Uqido VR experiences to the Chinese JV. At the same time, they feared that we were just using their investment money to enter a new market and that we could also leave them from one day to another, so the intellectual property was also a way to preserve their position. Anyway, guessing their fears, we stressed the point that those experiences had been developed inside our software house and with no contribution of the JV, thus it made no sense to hand over the property rights on them. Besides, we ensured that we will continue to give content to the JV project as a contribution with no further expense from them, exception made in the case they required something very specific. The point that lessened their anxieties was probably the fact that I referred to our hope for a very long

collaboration between us (instead that version of the MoU reported 3 years of duration). This aspect solved their fear of us sneaking opportunities from them and focused their attention on the fact that we would like to continue our collaboration for a long time, giving importance to a lasting successful relation.

# The Chinese Business Partner

Let's recap what's good to know about Chinese negotiators and businessmen, their way of doing business and their culture, in order to make clear which are dos and don'ts in dealing with a Chinese partner.

**Focus on Guanxi** – Relations are the core of the Chinese society and in case of a new business chance, the probability for it to get real is much higher if the foreign party it's been introduced by a third person with a good reputation for the future partner. Try to establish relations before thinking about closing the business deals: contracts based on solid interactions are more likely to have success than others based mostly on written provisions. Share experiences, passion, dinner and activities organized ad hoc to create a united group. Gifts can be very useful to reach this aim: always carry some presents when visiting the Chinese partner, use both hands in presenting them and keep in mind that it's polite not to open them in front of the giver.

**Remember hierarchy rules, respect formalities** – Chinese people give importance to older people and higher ranks in the organization: the advantage to be introduced is valid not only in case of building a solid *guanxi* net but also for young businessmen or negotiators to be trustworthy. Formal deference for senior components of the team is a must behavior: use the family name or the hierarchical title before it when addressing an older business partner inside and outside the organization; same necessity to show respect can be found in avoiding showing anger or opening a discussion in front of others, to decline politely without openly saying no and so on.

**Communicate properly** – Direct communicative style, typical of European, American and other low-context cultures, can be perceived as arrogant and unpolite, as well as interrupting each other while discussing or gesticulating too much; avoid direct criticism as negative feedbacks and remember the strict relation between social and business life. Chinese people fear to ‘lose face’ inside the group and expressing disappointment on a business behavior can bring serious damage to the relationship. On a mere practical point of view, even though many Chinese people speak a little English nowadays, their ability may not be enough to conduct a business meeting with success or to spend pleasant moments all together: entrust a person that can speak Chinese and that knows the Chinese cultural background, rely on this person to act for the company interest during the project.

**Non-verbal behavior** – Try to avoid too direct eye-contact, expect and give a softer hand-shake than the one you’re used to if you’re coming from a low-context society, do not boast your company or your achievements inside the group and do not gesticulate too profusely. It’s better not to show anger or anxiety with facial expressions: generally, all feelings are better to be hidden than expressed openly.

## Conclusions

This research started from two evidences: the first one is that the world is asking to change mindset towards the meaning of culture, requiring people to shift from an ethnocentric point of view to a new polycentric attitude; the second is the consciousness that people from distant cultures surely employ different approaches in facing their life, and that the encounter of different sets of beliefs can lead to possible clashes and misunderstandings when it comes to business. This happens principally due to the ignorance about each other's points of view that were shaped during past millenniums and centuries of relative history. At the same time, as it results from the studies reported in this work, the chance to meet distance cultures in the business environment of a Joint Venture can bring positive tangible outcomes to both the enterprises and to the new project itself, if cleverly managed. Craving to identify which are the most important values that in distant cultures influence the respective business behaviors and the interaction with each other, I started a journey that allowed me to deepen my knowledge and to add new competencies, by finding out some answers to my initial query: which cultural features appear to be relevant in negotiating a deal with a Chinese company, and which skills should managers practice in order to enhance their likelihood to sign it?

In this context, the luck to prove myself into the vivid practice of the very object of my research enhanced the possibility to assess the purpose of my studies. In the vibrant environment of a new-born collaboration between Uqido and a Chinese partner in the field of Arts and Medicine, I had the chance to experience the characteristics of cross-cultural meetings, understand what should be avoided or longed for, start practicing what I've been learning for the past years, and which fields need to be sensibly deepened. Typical aspects of the Chinese cultural background could

be analyzed and dug out in their meaning; I had the chance to touch with my hands the local traditional business values and I had to consider each traditional facet in order to make the collaboration work smoothly. A favorable economic and political environment is not enough to give success to skilled managers and negotiators on both parties should be able to put into practice reciprocal knowledge, the most crucial expertise to possess. In particular, the context of a Sino-Italian JV is very likely to place managers in front of sensible decisions and behaviors that need to consider opposite styles: the approach to day-to-day as well as economic choices is different, as well as the decision-making process and the attitude towards future developing sides of the project; it's been underlined that non-verbal communication styles and informal relationships are the core of business relations in China, and special effort must be placed in adapting to different notions of time, reputation, trust, hierarchy, role of the individual and of the group. An Italian manager that wants to succeed in Asia must renew his mindset and switch to a dissimilar cultural behavior when required by the situation. Necessary qualities for an Italian businessman in China are adaptability, time flexibility and a lot of patience; Chinese people like being collaborative and partners need to take advantage of the negotiation in a win-win approach that often requires to forget the more typically Western win-lose tactic.

Several concrete actions and rituals have a specifically relevant place when closing a deal in China, even if they may appear useless and time-wasting to the eyes of some low-context, task-oriented Western managers: relationships, hierarchy and the cooperative style towards communication and decisions are the core genes of the Chinese approach to business deals. Conscious that it's very unlikely to successfully emulate these ethnical structures, addressing those differences with an adaptive mind is the best way to overcome them. People comes always first in China and the relevance of the formal deal shifts in second position accordingly: gifts exchange, leisure moments passed all together and pleasant mealtimes are among the main events that can sustain the deeds of an Italian manager on the Chinese soil; older people or components of the team with more experience are held in much respect and this is a legacy of a specific, historical and philosophical ancient evolution; China is the domain of indirect communication, and this aspect probably represents the

core issue that causes several negotiation to stop their course: listening carefully more than try to learn how to be subtle is fundamental when dealing with Chinese associates: grasp the un-said and feel what is tacit.

For the centrality of this matter and for the weight that a smart and smooth communicative style have in cross-cultural business environments, further studies are to be conducted in this field: turning back to the original intention of my studies in Chinese language and culture, the future goal is to continue analyzing the Chinese traditional interacting patterns, with a special focus on which characteristics will be added to the pattern from the combination of modern revolving societies. Just like someone that states to have achieved a decent ability in speaking Chinese but at the same time he knows that the moment in which he can affirm to have fully mastered the foreign language will never come, possessing enough notions to make it possible to behave efficaciously in a cross-cultural business circumstance is not the finish line, but a new exciting starting point to target new study horizons, in a world which horizons are continuously expanding. Object of an additional investigation will be also the likelihood to individuate a pattern of common traits between Italian and Chinese business culture, that can help people sharpening their attention on which shared traits can be used to support a profitable cross-cultural transaction. More than that, the knowledge acquired will be useful to examine what are possible new trends of evolution of business behaviors according to a society that changes rapidly and continuously.

Knowledge is the one and only way to ensure a proper cross-cultural behavior, and managers must be able to reach success by taking into consideration the peculiarities of the Chinese culture, ethics, and life values, and by always having in mind an overall picture of the economic and political environment. Far from a deceptive conception of an ethnocentric approach to business exchange, attention must be paid to integration among teams, tailored management strategies as well as plans for innovation protection; equally important are the business goals to be achieved by both parties, keeping in mind respective aims, and the need to overcome day-to-day obstacles with the awareness of a solid relationship as a base. The best part of

studying different cultures and dealing with different people is the appreciation of foreign peculiarities: facing criticalities with an approach that favor the reciprocal growth and with curiosity for ethnical aspects will make managers' job not only more successful but much more enjoyable, in the perspective of a never-ending personal growth.

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