

UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

MASTER'S THESIS

**THE INFLUENCE OF CULTURAL DIMENSIONS ON
INTERNATIONAL BUSINESS BETWEEN CHINA AND EU**

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ROK MIKLIČ

STATEMENT

I, Rok Miklič, student of the Faculty of Economics, hereby certify to be the author of this master's thesis, that was written under mentorship of prof. Maja Makovec Brenčič, Ph.D. In compliance with the Act of Author's and Related Rights- Paragraph 1, Article 21, I hereby agree this thesis to be published on the website pages of the Faculty of Economics, University of Ljubljana, Slovenia.

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INTRODUCTION

Research Problem

China is the most important challenge for EU trade and international business policy. It has re-emerged to be ranked as the world's third economy and the biggest exporter in the global economy, but also an increasingly important political power. EU-China trade has increased dramatically in recent years. China is now the EU's 2nd trading partner behind the USA and the biggest source of imports. The EU is China's biggest trading partner. The EU's open market has been a large contributor to China's export-led growth. The EU has also benefited from the growth of the Chinese market and the EU is committed to open trading relations with China. However the EU wants to ensure that Chinese trade fairly respects intellectual property rights and meet its WTO obligations (European Commission, 2011).

Even though international business between EU-27 and China has been quite successful, it would probably be better if there were no cultural differences affecting FDI and trade. Cultural differences play an important role in international business. In a domestic market we do not have to pay attention towards this issue so we usually forget it when we do business abroad. This problem is put forward also in Hofstede (2001) who says that it is amazing how different people behave in other cultures. Therefore, if we go into another country and make decisions based on how we operate in our own home country- chances are there will be some very bad decisions.

One of the main issues in international business is that companies concentrate too much on the technical side of doing business abroad whereby the cultural part is often put aside or even forgotten. That's why companies are not as successful globally as they could be. In order to better understand other cultures Hofstede made a model of five cultural dimensions. The first one is IND-COL dimension, which represents individualism and collectivism. In recent analysis based on Hofstede most researchers focused mostly on this, which made their studies less objective. Second dimension is PD or power distance. Other dimensions are uncertainty avoidance (UA), masculinity (MAS) - femininity (FEM) and Confucian dynamism (long term versus short term orientation- LTO).

There are several questions that can be made about this topic: Is there a big gap between Chinese and European culture? Do cultural differences accelerate or limit trade and FDI between China and EU-27? Among Hofstede's dimensions, which are those that limit trade or/and FDI the most? The purpose of this master thesis is to answer the questions formed above. I want to find out which indicators affect trade and FDI between EU-27 and China. I will also find out if there is a reason why some factors are more influential than others and in which way (positive or negative) they affect FDI or the trade. The basis for this research will

be Hofstede's book *Culture's Consequences*: comparing values, behaviors, institutions and organizations across nations.

Purpose, objectives and thesis of research

The purpose of this master thesis is to see if there are some specific characteristics of Chinese or European culture and if there is a way in which they can be distinguished. Furthermore the purpose is to find out if these two cultural groups influence international business and in which direction- in a positive way by fostering it or in negative by restricting it. The main concepts that will be discussed in this research are cultural dimensions, foreign direct investments and trade. This thesis will focus mainly on the topic of the entry mode choice and foreign direct investments. It will illustrate the meaning of above mentioned concepts.

The main goal of this master thesis is to find what constitutes the link between dimensions of culture and international business. An analysis of cultural indicators will be made to understand how and which indicators affect international business between China and EU. My idea is to analyze if there are any differences between power distance index (PDI), individualism (IDV), masculinity (MAS), uncertainty avoidance index (UAI), long-term orientation (LTO) and trade or FDI within China and EU-27. Besides the main objective I will also try to reach the following goals, in order to meet the purpose of master thesis:

- Examine characteristics of Chinese and European culture,
- give definitions about foreign direct investments and trade,
- provide an explanation of cultural dimensions by way of Hofstede's theory,
- offer an empirical explanation about relations between international business and culture,
- add a contribution to science based on the interpretation of previous research and analysis of gathered data.

In this research I will provide evidence for the following *hypothesis*: **Differences in cultural characteristics of China and EU play an important role and influence international business between them.**

Structure of the thesis and research approach

To meet the purpose of the master thesis I will divide it into three main chapters with several subchapters. The first part will be related to culture in which I will present Hofstede's theory and the main principles about cultural dimensions and also describe the main characteristics of European and Chinese culture. In the second part, different ways of doing international business will be presented alongside with an overview of historical background of trade and FDI between Europe and China. In the last part I will link the theoretical background with findings of research and present the results of analysis.

The theoretical part will make use of different secondary sources related to the topic whereby I will try to find different articles and books that will help me build a theoretical background. Furthermore I will present Hofstede's work and his theory. There will also be examples of other research related to FDI and cultural dimensions. This part will also show definitions that concern trade and FDI and define culture and its components.

The theoretical part will provide a basis for the empirical part. Findings taken from previous research and Hofstede's work will be the guideline for my research. As a tool to collect primary data I will prepare an on-line questionnaire and in order to reach the representativeness of the sample I will use random sample method- sampling in groups. There will be two major sample groups- Chinese and European companies that are involved in international business. However, the size of the sample will be dependent on the willingness of respondents to participate in the survey (the target number of respondents is 100). To get more practical information about the cultural dimensions and their impact on international business, interviews will also be conducted. There are going to be 4 interviews- two with EU companies that are trading with China and two with EU companies that have investments in China. Besides the questionnaire and the interviews, relations between culture and international business will be analyzed also statistically.

1 Culture

In this chapter I will concentrate on theoretical background related to culture. Firstly, I will begin with general definitions of culture. Secondly, I will present all five cultural dimensions that were made by Geert Hofstede and in the end I will briefly summarize characteristics of European and Chinese culture.

1.1 Values and culture

According to Kluckhohn (1951, p. 86-101) a *value* is a conception - explicit or implicit, distinctive of an individual or a group - of the desirable that influences the selection from available modes, means and ends of actions. On the other hand Rokeach (1972, p. 159-160) says that a person with a value has an enduring belief that a specific mode of conduct or end-state of existence is personally and socially preferable to alternative modes of conduct or end-states of existence.

Values are feelings that have two different poles (positive and negative). Examples of these poles are evil & good, dangerous & safe, ugly & beautiful etc. People may subjectively feel that values and actions related to them are totally rational, but this is not true. Values are

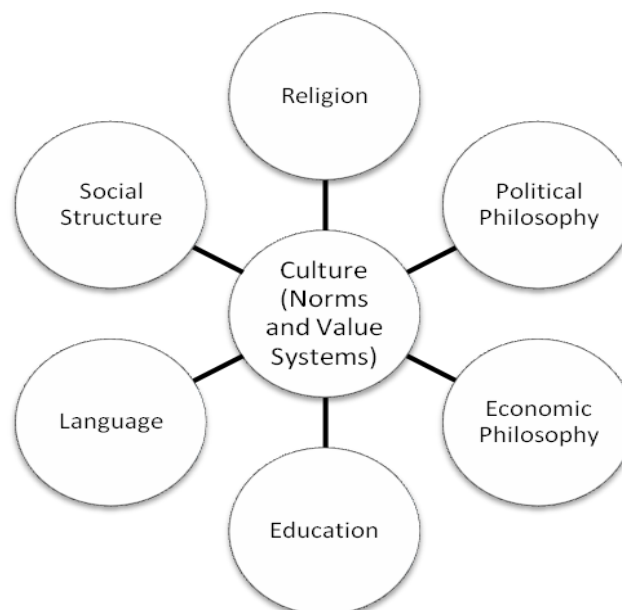
programmed in our lives starting in early ages of socialization. Because values are feeling with arrows to them, they have both *intensity* and *direction*. Values are invisible until they become evident in behavior, but culture manifests itself also in visible elements (Hofstede, 2001, p. 5-8). There are several definitions and also meanings of the word *culture*. The word comes from Latin and means “to cultivate”. One well-know anthropological consensus definition runs as follows:

“Culture consists in patterned ways of thinking feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values.”

(Kluckhohn, 1951, p. 86)

Culture consists of several components like values, norms, language etc. Hofstede (2001, p.21) says in his book that language is that part of culture that be most clearly recognizable and that lends itself most readily to systematic study and theory building. It is considered as a learned characteristic and people are able to acquire also additional languages beyond their first. Norms present “rules of the game” and they differentiate between right and wrong. They regulate behavior of people and set them limits within which people are operating. In a case of not respecting norms, predefined sanctions follow. Contrary to written rules (norms), values present desired behavior- what is right, good and moral whereby some of the values are love, social responsibility, nationalism, health, truth, spirituality etc.

Figure 1: Determinants of Culture



Source: C.W.L. Hill, *International business: Competing on the Global Marketplace*, 2000, p. 81.

Culture can be seen also from another perspective- from an organizational point of view. In this case we are speaking about *organizational culture*. Organizational cultures are complementary to national cultures but also entirely distinctive; they are the collective programming of the mind that distinguishes the members of one organization from another. Nations and organizations present two different levels of aggregation (Hofstede, 2001, pp. 391-394). E. Wight Bakke (1950, p. 234) wrote that a company represents a small society- it is a system that bonds people together. Culture in organization is part of a second nature to those who have been in company for certain period. This results in a certain way of thinking, of possessing common behavioral patterns and values, and of respecting norms (Jacques, 1951, p. 251).

1.2 Hofstede's cultural dimensions

The comparison of cultures presupposes that there is something to which should be compared- no culture is so unique in its characteristics that we cannot draw some linkages with other cultures. Institutions can be therefore understood only in terms of their own cultures; functional equivalence with institutions in other societies cannot be proven (Goldschmidt, 1966, p. 6).

Hofstede (2001, p. 27) wrote that his research on cultural dimensions is related to two different aspects:

- It focuses on differences between societies,
- it concerns ecological variables between societies.

In the following subchapters the following cultural dimensions will be presented: Power Distance, Uncertainty Avoidance, Individualism and Collectivism, Masculinity and Femininity, and Long- versus Short- Term orientation.

1.2.1 Power Distance

Power distance (also PD) is the first dimension of national culture. It is related to the inequality in the society. Inequality can occur in areas like prestige, wealth and power. Each country has a different score in power distance index- this index is derived from mean scores of countries. Power distance can differ not only on national level but also in different institutions such as family, school, politics and religion. Generally speaking power distance is the extent to which less powerful members of organizations and institutions (family, religion, school) judge the distribution of power to be unequal.

Evidence for the source of this cultural dimension can be found in biology. Human beings belong to the category that shows dominant behavior. The basis depends on the society to which a human belongs. With a PD we can relate a term *inequality* that has been present for a long time in history and there were a lot of famous authors writing about it. Society's level of inequality is endorsed by the followers as much as by the leaders. There are several areas where inequality in society can occur: wealth; power; laws, rights and rules; social status and prestige; physical and mental characteristics (Hofstede, 2001, p. 79-122).

The concept PD was firstly introduced by Dutch social psychologist Mauk Mulder (1976, 1977) who said that:

“The power distance between a boss B and a subordinate S in a hierarchy is the difference between the extent to which B can determine the behavior of S and the extent to which S can determine the behavior of B.”

According to Hofstede (2001, p. 84) power distance norm can be used as a criterion for characterizing cultures if different culture can be shown to maintain consistently different power distances in hierarchy.

The power distance index (PDI) norm is related to different need for dependence on one hand and interdependence on the other within a society. Both low- and high- PDI countries have hierarchies, but on the low-PDI side this is an arrangement of convenience. On the high- PDI side the hierarchy is existential: superiors are seen from other's point of view as superior individuals. In the past two generations dependence on the power of others has been reduced. This is probably related to the level of education a population has- because the higher level of education, the lower the score of power distance. Both power and inequality are fundamental facts of any society and even though all societies are unequal, some are more so than other (Hofstede, 2001, p. 121-137).

1.2.2 Uncertainty avoidance

Uncertainty can be seen through many different perspectives. It is common term also in economics, especially finances. Economist Frank Knight (1921, p. 233-234) wrote about *risk* and uncertainty as follows:

“Uncertainty must be taken in a sense radically distinct from the familiar notion of risk, from which it has never been properly separated, the essential fact is that ‘risk’ means in some cases quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far- reaching and crucial differences in the bearings of the phenomena depending on which of the two is really present and operating [...] It will appear

that a measurable uncertainty, or ‘risk’ proper, as we shall use the term, is so far different from and immeasurable one that is not in affect an uncertainty at all.”

Uncertainty about the future is a basic fact of human life with which we try to cope through the domains of technology, law, and religion. As mentioned above also Hofstede (2001, p. 145) distinguishes uncertainty and risk avoidance. He also proved that there is a correlation between PDI and *Uncertainty Avoidance Index (AVI)* for European and other Western countries. For other part of the world there is not a significant correlation between these two cultural indexes.

The Uncertainty avoidance index shows us how tolerant is society for uncertainty. In other words it reflects human search for truth. It indicates how individuals and also cultures feel comfortable or uncomfortable in an unstructured situation. These situations can be described as unknown, different, unusual, surprising etc. People in countries with high AVI are more emotional and motivated by inner nervous energy. Contrary to them, people from low AVI countries are more open towards novel situations. They are also more phlegmatic and contemplative, and not expected by their environment to express their emotions. Extreme uncertainty creates intolerable anxiety, and human society has developed ways to manage with the inherent uncertainty of living on the brink of an uncertain future. Different nations and within them societies familiarize themselves with an uncertainty in various ways. How individuals cope with uncertainty is transferred from society to them via different channels like family, school, work etc. (Hofstede, 2001, p. 145-182).

1.2.3 Individualism and collectivism

Individualism is the third dimension and it is opposite to collectivism. Societies link towards one of these two and this reflects in the way people live together- nuclear families, tribes, extended families and on specific characteristics of their values and behavior. *Individualism Index (IDV)* is negatively correlated with the PDI, but this correlation disappears when national wealth is controlled. Within Europe, IDV index is negatively correlated with uncertainty avoidance. Different sociologists offer different theories about individualism and collectivism. One of the most famous distinctions is from German sociologist Ferdinand Tönnies who distinguished between “*Gemeinschaft*” and “*Gesellschaft*” (Hofstede, 2001, p. 209).

Hofstede (2001, p. 209-210) compares individualism in a society with individualism within specific animal groups. He gives examples of wolves that are gregarious and tigers that are on the other hand more solitary. Accordingly to that comparison human species can have different degrees of gregariousness within their societies. “The relationship between the individual and the collectivity in human society is not only a matter of ways of living

together; it is intimately linked with societal norms [...] It therefore affects both people's mental programming and the structure and functioning of many institutions aside from the family: educational, religious, politician, and utilitarian.”

When we look closer at two concepts we can say that on individualistic side we find societies where there are loose ties between them and individuals. People from that society are willing to look after individuals and also themselves. Contrary to that we have collectivistic side, where there are societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families which continue protecting them in exchange for unquestioning loyalty. Word collectivism is distinguished from the same term used in politics, because it refers to the group and not to the state (Hofstede, 2001, p. 209-272).

1.2.4 Masculinity and femininity

Masculinity is the fourth cultural dimension with its opposite femininity. The basis of this cultural dimension is to what extent societies cope with biological differences between two sexes- what is the social role of *genders*. The difference between male and female is supposed to be a fundamental issue for any society- a range of solutions for different societies were found. There are some female characteristics that can be seen universally like attachment to social goals, helping others, being fond of relationships. Contrary to them men see higher importance in ego goals such as money and careers. Factor analysis showed a strong factor produced that is opposing social to ego goals (Hofstede, 2001, p. 279).

Furthermore Hofstede (2001, p. 280) acknowledged that among different societies- both rich and poor, one can see a universal trend that men must be more concerned with their economic status and women must be more concerned of taking care for other people. “It is not difficult to see how this role pattern fits the biological sex roles [...] men are supposed to be assertive, competitive, and tough. Women are supposed to be more concerned with taking care of the home, the children, and people in general- to take the tender roles [...] the common pattern of male assertiveness and male nurturance leads to male dominance at least in matters of politics and, usually, of economic life.”

There were several studies in anthropology, psychology, and political science that confirmed the *male assertiveness* (“masculinity”) versus *female nurturance* (“femininity”) pattern. Roles of men and women are dedicated during the socialization. In the primary stage of socialization family (parents) transfer their values and behavioral patterns to their children. The difference between genders is even bigger during second stage of socialization- when people begin with education.

Hofstede (2001, p. 281) found in his research that across nine occupations, there are following significant gender differences:

- More important for **men**;
Advancement,
Earnings,
Training,
Up-to-dateness.
- More important for **women**;
Friendly atmosphere,
Position security,
Physical conditions,
Manager,
Cooperation.

1.2.5 Long versus short term orientation

This fifth dimension was found subsequently when they did analysis of several student samples in 23 countries around the world. Reasoning as to why this dimension was not found before is that questionnaires and other evaluating sheets did not have questions leading to this phenomenon. Values associated with Long-Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'. This dimension is also called *Confucian dynamism* because Confucius thought that there are both positively and negatively rated values of this dimension (Hofstede, 2001, p. 351).

Hofstede (2001, p. 354) defines four key principles that are related to Confucian teaching:

1. The stability of society is based on unequal relationships between people,
2. The family is the prototype of all social organizations,
3. Virtuous behavior toward others consists of not treating others as one would not like to be treated oneself,
4. Virtue with regard to one's tasks in life consists of trying to acquire skills and education, working hard, not spending more than necessary, being patient, and persevering.

On the Long-Term Orientation pole values such as persistence, ordering relationships by status and observing this order, thrift, and having a sense of shame are prevailing. Contrary to them on the Short-Term Orientation pole values like personal steadiness and stability, protecting your "face", respecting for tradition, and reciprocation of greetings, favors, and gifts are more common (Hofstede, 2001, p. 354).

1.2.6 Critics of Hofstede's work and alternative theories

Even though Hofstede's work on culture is useful and widely cited, several criticisms were put forward. The reason for there being problems with cross-cultural studies is that cross-cultural research is not an easy task, since the researcher must overcome many factors which are not present in typical research tasks. These problems are usually definition problems, methodological simplicity and equivalence. Since there is an issue to conduct proper study related to culture, findings can be criticized as well (Jones, 2007, p. 6).

Hofstede's work was criticized as a whole as well as in detailed parts concerning relevance, cultural homogeneity, national divisions, political influences, one company approach, etc. Since culture is not bounded by borders, nations are not the proper units of his analysis. Moreover Hofstede was focused only on one company, and a study fixated on only one company cannot possibly provide information on the entire cultural system of a country. Contrary to what Hofstede (1998) argued that "[...] usage of a single multinational employer eliminates the effect of the corporate policy and management practices from different companies influencing behavior differently, leaving only national culture to explain cultural difference." Besides that several authors argue that there should be more dimensions. Even Hofstede agrees with this when he says that "[...] additional dimensions should continue to be added to his original work and that four or five dimensions do not give sufficient information about cultural differences." (Hofstede, 1998, p. 481)

To ensure that cross-cultural studies will be more effective, authors such as Hall and Trompenaars developed their own theories and assumptions. Trompenaars and Hampden-Turner (1998) created a model based on differences in national cultures. Contrary to Hofstede their model consists of seven instead of five dimensions which are universalism vs. particularism, individualism vs. collectivism, neutral vs. emotional, specific vs. diffuse, achievement vs. ascription, sequential vs. synchronic and internal vs. external control. These seven dimensions were found by using questions that were designed to portray different situations of everyday life. The respective culture's most likely response to each situation, can be seen to illustrate the deep values entrenched in different cultures, and are used to generalize each national culture's most likely response to everyday dilemmas and human interactions. The different dimensions represent interactions between people from several national cultures and give guidance for business decisions in each individual country.

Hall's theory can be linked with finding of Trompenaars since for example Trompenaars' Universalism is followed by Hall's low context culture and Trompenaars' Particularism by Hall's high context culture. Significant for high context culture is that there are many contextual elements which help people to understand the rules- many decisions are taken for granted. Contrary to high context is low context culture, where very little is taken for granted and more explanation is needed. Hall (1959) included in his theory eight factors which are

overtness of messages, locus of control and attribution for failure, use of non-verbal communication, expression of reaction, cohesion and separation of groups, people bonds, level of commitment to relationships and flexibility of time. Each individual factor is furthermore categorized into two main extremes- low and high context culture (Hall, 1990).

A lot of discussion has been done in order to find out which theory is mostly applicable and useful to conduct surveys related to culture. Since every theory has its pros and cons and Hofstede's theory has been mostly used, this thesis will be related to his five cultural dimensions. In the following chapter Chinese and European culture will be presented with their main characteristic that will help to continue discussion.

1.3 Chinese and European culture

China and Europe are geographically and culturally very different. On the one hand, Europe exists as an enormous melting pot of different cultures, where on macro (European) level cultures are presented as one European culture and on micro (National) level each country has its own cultural characteristics that differ from other nations within EU. On the other hand, in China is also hard to find general characteristics of culture, since there is an economic separation between mainland and coast China. In the following subchapters I am going to write about the most significant characteristics of Chinese and European cultures. European culture is going to be described in general terms, not concerning the individual characteristics of member states, while China's core culture will be described without identifying differences between Mainland China, Hong Kong and Taiwan.

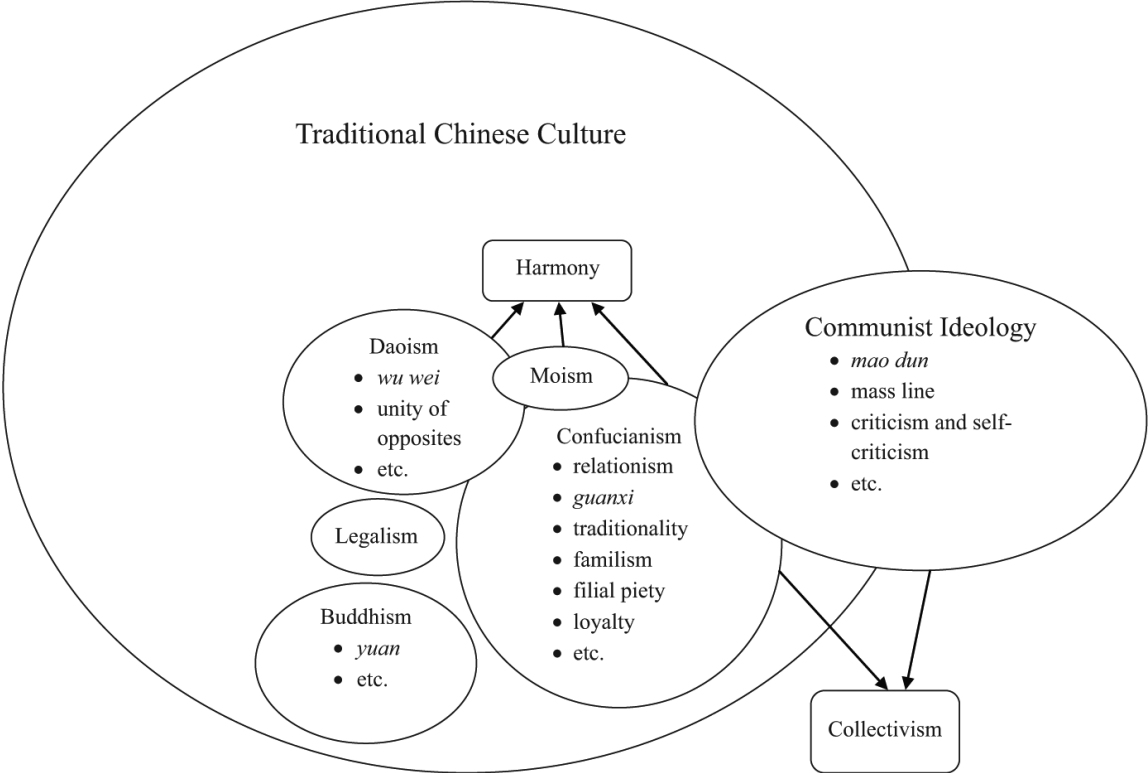
1.3.1 Chinese culture

China has been dramatically changing in the past twenty years, which can be seen in the changes of its national cultural values. Opening the doors to foreign investors from western countries not only changed the social landscape, but also reshaped the value system. It is important to know that culture has an important impact on management behavior and organization system but it is not the only factor (Fan, 2000, p. 7).

Even though China's importance has been accentuated in the recent years, it has always had a remarkable place in history of mankind. After several dynasties, the modern period started with Opium War in 1840, which marked a turning point in Chinese history. The Opium War caused a great outflow of Chinese silver and grave economic disruption in China. China's revolutionary movement, called the May 4th Movement, arose under the influence of the October Revolution in Russia. It was led by patriotic students (Chinese proletariat) that were anti-imperialistic and anti-feudal oriented and for the first time dominated the political stage.

Lately, China started to include modern economic thought in their functioning and nowadays it is the only country with mixed economy - on one hand, capitalism and on the other hand, communism. All these factors contributed to the development of Chinese culture, with its specific norms and value systems (China Window, 2011).

Figure 2: Dimensions of traditional Chinese culture



Source: C. Lin, *Studying Chinese Culture and Conflict: a research agenda*, 2010, p. 79.

The main problem, when evaluating Chinese culture, according to Fan (2000, p. 4) is that there is lack of agreement as to what Chinese culture is and how to define specific variables. It is important that core culture is identified without paying attention to differences that can occur between Mainland China, Hong Kong and Taiwan. Also, when identifying national culture, the best is to define people’s beliefs, attitudes and behavior.

Fan (2000, p. 4) describes the core values of Chinese culture as those that are unique, consistently shaped by a tradition of four thousand years of history and maintained by the same language. Traditional Chinese culture is the combination of three competing schools of thoughts: Confucianism, Taoism and Buddhism. Despite their differences and similarities, we can say that Confucianism is the most influential.

Pye (1972) wrote in his work that Confucianism forms the foundation of the Chinese cultural tradition and still provides the basis for the norms of Chinese interpersonal behavior.

Furthermore, Fan (2000, p. 4) says that Confucianism is the behavioral doctrine based on human relations, social structures, virtuous behavior and work ethics. Chen (1986, p. 69-71) recognizes that the basic teaching of Confucius can be gathered in the Five Constant Virtues: humanity, righteousness, propriety, wisdom and faithfulness.

In the table below (Table 1), the main values (38 out of 71) of Chinese culture are presented. They are gathered in eight different groups: national traits, business philosophy, interpersonal relation, personal traits, social orientation, time orientation, work attitude and relationship with nature. This combination of values is typical for Chinese culture and differs from all other cultures.

Table 1: Chinese Culture Values

National Traits	Interpersonal Relations	Social Orientation	Work Attitude
Patriotism	Trustworthiness	Filial piety	Working hard
Respect for tradition	Kindness	Chastity in women	Commitment
Bearing hardships	Propriety	Kinship	Thrift
Knowledge	Primarily Goodness	Senior loyalty	Persistence
Governing by law	Tolerance of others	Group orientation	Patience
Business Philosophy	Personal Traits	Time Orientation	Relationship with nature
Non-competition	Integrity	Past-time oriented	The way (Tao)
Not guided by profit	Moral standard	Continuity	Fatalism
Networking	Sincerity	Long rang view	Harmony
Wealth	Sense of shame	/	Unity of Yin and Yang
Morality	Wisdom	/	Yuarn

Source: Y. Fan, A Classification of Chinese Culture, 2000, p. 9.

Furthermore, Bobbie Chan (2005, p. 31-35) analyzed the Chinese culture via personality and group dynamics. His findings of a distinct indigenous factor of personality variation in Chinese populations raises some fascinating points, such as the existence of specific personality constructs - *harmony*, *Renqing* and *face* - that are more related to Chinese culture than any others. According to this author, harmony “measures one’s inner peace of mind, contentment, as well as interpersonal harmony. The avoidance of conflict and maintenance of the equilibrium are considered virtues in Chinese culture.” Regarding *Renqing*, it is a more complicated social relationship concept in the Chinese culture. Hwang (1987, p. 944-974) describes *Renqing* as “social favors that are exchanged in the form of money, goods, information, status, service, and affection according to an implicit set of rules [...] The set of rules are dependent upon the category of social ties between the individuals involved in the interaction [...] *Renqing* scale measures individual’s adherence to cultural norms of interaction based on various standards of social exchange [...] The forms of interaction involve courteous rituals, exchange of resources, reciprocity, maintaining and utilizing useful

ties, and nepotism.” The last important construct related to Chinese culture is face. Face is a dominant concept in interpreting and regulating social behavior in Chinese culture. Goffman (1955, p. 213-231) defines face as “an image of self delineated in terms of approved social attributes”.

China’s long historical and cultural traditions have a profound impact on the values, the life-style and the behavioral patterns of its people. To have a better understanding of these aspects, it is necessary to have an in-depth knowledge of the Chinese cultural norms and its values. As mentioned before, there are values in the Chinese culture with a major role to the society, these being *family orientation, Guanxi, Yuan, Mianzi and Renqing* (Qian, Razzaque & Keng, 2007).

Family orientation

It is noteworthy that Chinese cultural values “[...] emerge from and sustain in an Eastern world-view and pattern their behaviors.” (Frankenstein, 1997; Qian et al., 2007, p. 215). Chinese society is built around clan-like networks. “Family” as a concept, extends beyond its strict biological meaning and can be also seen as a set of concentric circles of contrasts (Luo, 1997a; Qian et al., 2007, p. 215). Chinese ethnocentrism has its roots in the family, while “[...] most or all of the emotional and cultural values of the Chinese individuals are derived exclusively from the family and conditioned largely within the solidarity of one family setting.” (La Barre, 1946; Qian et al., 2007, p. 215). Through family, children are thought about the importance of loyalty, obedience and filial piety within a role-bound network (Hsu, 1972; Qian et al., 2007, p. 215).

Guanxi

Guanxi involves direct particularistic ties between two or more individuals and is a major dynamic force in the Chinese society. Furthermore these ties determine the strength or closeness of interpersonal relationship and are the most important social-business resource of an individual Chinese (Jacobs, 1979; Qian et al., 2007, p. 215). Guanxi is viewed as a secret in China and furthermore “[...] an intricate and pervasive relationship network which the Chinese people cultivate energetically, subtly, and imaginatively.” (Luo, 1997b; Qian et al., 2007, p. 215). Person that has the largest guanxi network is the most powerful and nothing can be done in China without guanxi (Ju, 1995; Qian et al., 2007, p. 215). When one party receives a favor from another, it is expected that the former will reciprocate at some time in the future; otherwise the guanxi cannot be sustained.

Yuan

Rotter (1966; Qian et al., 2007, p. 215) describes Yuan (or karma, destiny) as “[...] individuals’ predetermined relations with things beyond one’s control which can be explained by the theory of locus of control.” It can be both, external and internal dimension- internal locus of control refers to the phenomenon that enables people to see themselves as the role of

controller of their destiny (their lives), while on the other hand external locus of control refers to whether or not they see themselves to be governed by forces beyond their control (Sampson, 1980; Qian et al., 2007, p. 215).

Mianzi

Mianzi refers to “face” or individual’s public image, gained by performing specific social norms and can be recognized by others (Hu, 1944; Qian et al., 2007, p. 215). According to Ho (1976; Qian et al., 2007, p. 216) mianzi is “[...] the respectability and/or deference which a person can claim for himself from others, by virtue of his relative position in the social network and the degree to which he is judged by others to have functioned adequately and acceptably in his general conduct in that position.” Furthermore mianzi can determine informal hierarchical order within Chinese culture (Bond & Hwang, 1986; Qian et al., 2007, p. 216).

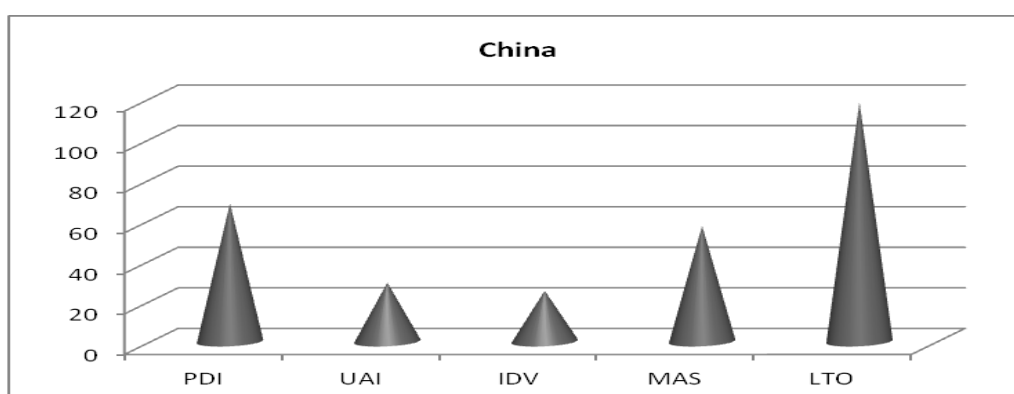
Renqing

Renqing has several meanings in Chinese culture and according to Yan (1996; Qian et al., 2007, p. 216) these meanings are as follows:

- Human feelings- emotional responses of an individual in a certain situation,
- a set of social norms and obligations- maintaining the contacts with people within guanxi and participating in exchange of gifts, greetings and visits,
- resource- a medium of social exchange,
- synonym for guanxi.

Chinese culture can be described also by using Hofstede’s cultural dimensions. In lower chart (Figure 3) we can see rating for each of the dimensions, where close family members are presenting its main core.

Figure 3: Cultural Dimensions for China



Source: G. Hofstede, Geert Hofstede Cultural Dimensions, 2011.

The highest ranking among all factors for China is Long-Term orientation. According to Hofstede (Geert Hofstede Cultural Dimensions, 2011) this factor is ranking high in all Asian cultures “[...] dimension indicates a society’s time perspective and an attitude of persevering; that is, overcoming obstacles with time, if not with will and strength.”

Contrary to that the lowest ranking factor is Individualism, which is furthermore lower than in any other Asian country. This results from a high level collectivistic society that is governed by the communists whereby this low individualism results in bigger commitment to a family, relationships, and extended family.

Being part of a group and fostering strong relationships comes from society, where everyone takes responsibility for fellow members within their group. Significant difference compared to other Asian countries has China also at Power Distance rating (for more than 30 %). Hofstede found reasons for that in high level of inequality of power and wealth within the society. This condition is accepted as society in their cultural heritage and is not necessarily forced upon the population. The majority of Chinese population is atheistic and hence the ancient concepts of Confucius’ thought have little influence in their culture.

1.3.2 European culture

The main problem with European culture is that there are few unifying cultural traits across all European countries. Culture is identified as e.g. Italian, French or German, but rarely as globally European. Moreover, people perceive European culture as something that is imposed from above or from the outside, or something that is not adapted to their personal values or beliefs. With a linkage to its economic mission, European Union defines culture primarily as an important sector qualifying for several kinds of funding. With different manifestations, EU wants to make its citizens aware of their shared history and values, to make them more aware of European culture and Europe’s heritage and on the other hand to cultivate their awareness of local cultures. According to Coudenys (2007, p. 4) European culture is not clearly defined since “[...] the EU cannot or does not want to confine itself to an ‘essential’ definition of European culture, or has not been able as yet to find the common denominator of Italian, French, German, Hungarian... cultures.”

One of the most important things in EU was fostering economic interests and trade by means of culture. These actions took place with the art, literature and music. Europeans share a common cultural heritage that results from migratory flows and exchanges. Furthermore they enjoy a prosperous cultural and linguistic diversity that inspired countries across the world. Success of European Union lies in its ability to respect Member States’ history, their languages and cultures, and additionally fostering common understanding and rules which have establish values such as peace, stability, prosperity and solidarity. Cultural exchanges

and dialogue across border are livelier than ever- these results from freedom of movement provided by the EC Treaty (Communication from the Commission, 2011).

In the Communication from EU Commission (242 final, 2007, p. 3) is stated that EU is perceived as “unprecedented and successful social and cultural project [...] Example of a ‘soft power’ founded on norms and values such as human dignity, solidarity, tolerance, freedom of expression, respect for diversity and intercultural dialogue, values which, provided they are upheld and promoted, can be of inspiration for the world of tomorrow.” EU cultural richness based on its diversity is an important asset in a knowledge- based world. Preconditions for cultural expression, exchanges and diversity are based on democratic and fundamental freedoms: freedom of expression, press freedom, access to information and communication, freedom of worship, freedom from want and freedom from fear, and freedom to connect.

Cultural cooperation plays an important role in bilateral agreements on development and trade. Europe is a community of liberal democratic values. Through the sharing of literature, film, music and heritage understanding of different cultural values is made. Culture has an intrinsic value in liberal democracies: it enriches people’s lives. Common European values are respect for human rights, democracy and fundamental freedoms. These values underpin and represent European culture, amounting to more than the sum of Member States’ own individual cultures.

Besides common values also competences such as multilingualism, e-skills and cultural awareness are respected in order to seize opportunities and develop talent in a global job market. On the other hand culture can be considered as an ingredient which helps to foster democratization, freedom of expression, inclusion, development, education and resolution (Draft report on the cultural dimensions of the EU’s external actions, 2010/2161(INI), 2010, p. 1-9)

The best way to present European culture is through cultural dimensions. In the table below (Table 2) cultural dimensions for twelve European countries are presented.

Table 2: Cultural Dimensions for European Countries

Countries/Dimension	PDI	UAI	IDV	MAS	LTO
Austria	11	70	55	79	31
Belgium	65	94	75	54	38
Denmark	18	23	74	16	46
Finland	33	59	63	26	41
France	68	86	71	43	39
Germany	35	65	67	66	30
Great Britain	35	35	89	66	35

»continued«

Greece	60	112	35	57	N.A
Italy	50	75	76	70	34
Netherlands	38	53	80	14	38
Portugal	63	104	27	31	30
Spain	57	86	51	42	19
Sweden	31	29	71	5	22

Source: G. Hofstede, Culture's Consequences: Comparing Values Behaviors, Institutions and Organizations Across Nations, 2001.

Concerning Power Distance Index all European countries score less than 70. The highest three countries are France, Belgium and Portugal and the lowest are Austria and Denmark. Low PDI scores can be seen as more equal distribution of power within a specific country.

Uncertainty Avoidance Index shows no similarities between these thirteen countries; because they score from low to very high (Portugal and Greece exceed value of 100). In Greece and Portugal people are more emotional- they show their emotions when facing uncertainty and in countries like Sweden and Denmark are more phlegmatic.

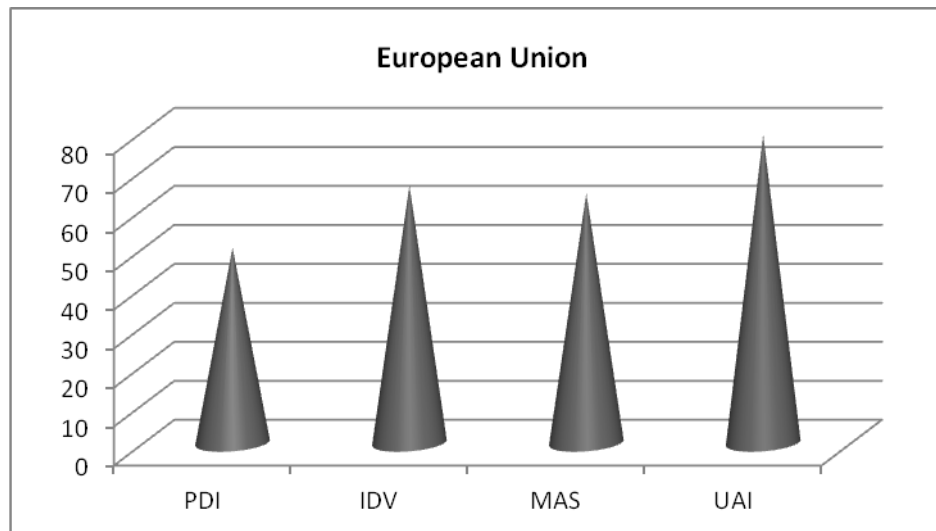
Hofstede (2001, pp. 145-150) found that there is a correlation between PDI and UVI. This can be most seen in an example of Denmark (PDI= 18, UAI= 23), Great Britain (PDI= 35, UAI= 35) and Sweden (PDI= 31, UAI= 29). Austria (PDI= 11, UAI= 70) is a typical example of country where no correlation can be seen. Individualism Index shows that European nations are linking more to individualism than towards collectivism. Only Greece (UAI= 35) and Portugal (UAI= 27) score less than 50 for UAI. Highest scoring UAI have Great Britain, Netherlands and Italy- these are countries where more "extreme" individualism prevails.

Masculinity Index also shows no significant similarities among European countries. Lowest ranking are Scandinavian countries which is not surprising because they run high social policy with balancing role and importance of men and women in a society. Sweden therefore scores lowest (MAS= 5) followed by Denmark (MAS= 16) and Netherlands (MAS= 14). Highest scoring are Austria (MAS= 79), Italy (MAS= 70), Germany (MAS= 66) and Great Britain (MAS= 66). At last cultural dimension Long- Term Orientation Index all countries score less than LTO= 50. There is no significant difference between countries concerning this dimension.

It is hard to present a unique model that will be representative for European culture. Main issue is that Hofstede's values are created on the basis of the individual state and differences of scores for each determinant among these states can be large. Furthermore, also calculation of the common European culture on the basis of the mean values of scores is useful just for informational intentions and cannot be generalized. The main reason is that there is no adequate definition of European culture and it is hard to make a comparison if scores are

correct or not. In the figure bellow cultural dimensions for Europe are presented. These dimensions are calculated as a means for European countries and each cultural dimension.

Figure 4: Cultural Dimensions for Europe



Source: G. Hofstede, *Geert Hofstede Cultural Dimensions*, 2011.

As can be seen above there is no scores for Long- Term Orientation. On the basis of previous table (Table 2) we can calculate mean value for LTD based on thirteen countries presented- LTD= 34¹. In comparison with Chinese LTD index is three times lower.

In this chapter and its subchapters culture was presented and furthermore characteristics of cultural dimensions concerning Europe and China were offered. Following chapter will be focused on international business.

2 International business

International business is directly related to *globalization* and *internationalization*. With globalization, international business dramatically increased and also opened new ways to perform it. Globalization is a term that describes more integrated and interdependent world economy. There are two major parts of it- globalization of markets and globalization of production (Hill, 2000, p. 5).

Globalization of markets describes a phenomenon when historically closed, isolated national markets were converted into a global marketplace. Global marketplace is a market when people with different nationalities and cultures are in an interaction and have similar

¹ LTD is calculated as an arithmetic mean of scores for 13 European countries

preferences. There are several global brands which provide the same value for consumers all over the world. These brands are Coca-Cola, McDonald's and Sony. Even though this trend has a major impact on modern business there are still differences between national and global marketplaces. Most globalized markets are not these for consumer products but for industrial goods and materials such as wheat, oil, wheat, microprocessors and commercial airplanes (Hill, 2000, p. 5- 6).

According to Hill (2000, p. 7) *globalization of production* is a tendency when companies move their sources and internal capabilities around the globe and taking cost and qualitative advantages of production factors within national markets or regions. These production factors can be labor, energy, land or capital. Joseph D. Incognito (2001, p. 1) clarifies that outsourcing allows companies to delegate non-core business functions and maintain those that provide for the company major value. Companies can have for example several suppliers all over the world, their accounting is made by other company in other country, their distribution is made by other companies etc.

Globalization has increased dramatically since World War II. There are several factors that foster globalization: removed barriers to trade (General Agreement on Tariffs and Trade, bilateral and multilateral agreements between countries etc.), technological changes (microprocessors, telecommunications, internet etc.) and changes in transport (airplanes, bigger ships, trucks).

International business is therefore any activity of a company that results in an international trade or investment; it is not necessary that company becomes a multinational enterprise by investing directly into foreign markets. Global economy is becoming more and more integrated and firms are becoming international businesses. There are two major methods to participate in global market: participating in an international trade or investing resources or activities outside domestic country (Foreign Direct Investment- FDI). In the following subchapters these two methods will be described in more detail. International business is therefore concept that is wider than international trade, which is only one of the activities that can be performed within it.

2.1 International trade and internationalization of firms

International trade is exporting or importing goods from one country to another. In following subchapters international trade will be explained through main theories and further there will be overview of trade between China and EU, and also trade in figures.

2.1.1 Definitions and theories related to international trade

There are many theories related to international trade. Adam Smith (1776) was the first one who explained why unrestricted free trade is beneficial for a country. Free trade exists when governments do not interfere and influence trade with restrictions like quotas, custom duties etc. He argued that country can have most beneficial outcomes in a stance of *laissez-faire* and that countries differ in their ability to produce goods efficiently- *absolute advantage* of a country in the production of a product.

David Ricardo (1817) makes a step beyond in Smith's theory. He explores what can happen if one country would have an absolute advantage in the production of all goods. Furthermore he also found out in contrary to Smith that international trade derives benefits to a country. Countries should specialize in the production of those goods that can produce more efficiently and on the other hand buy goods that produce less efficiently- theory of *comparative advantage*. Besides these two theories there are also Hackscher-Ohlin theory, Vernon's theory of product life cycle, Porter's theory based on national competitive advantage (Porter's diamond) and new trade theory (first-mover advantages).

There were several attempts to create an open trading regime that would be free of protectionism and other barriers to trade. International trade was done mainly on bilateral agreements that reduced tariffs but not significantly. After World War II leading policymakers soon realize that an international trade body is needed in order to foster world trade. Two important institutions were founded- World Bank and International Monetary Fund. In 1947 United States and 22 other nations signed the General Agreement on Tariffs and Trade (GATT) (Moss & Bartlett, 2002, p. 1-7).

Other agreements like General Agreement on Trade and Services (GATS) and Agreement on Trade-Related Intellectual Property Rights (TRIPS) were signed later. In recent WTO/GATT rounds there was extension of the range of negotiations that covers besides tariffs and non-tariff measures also agriculture, labor standards, investments, transparency, patents and environmental policies. There are now 153 members of WTO, among them EU countries and China that entered on 11th December 2001 (WTO- Understanding the WTO, 2011).

2.1.2 Trade between China and EU

In year 2006 was a Chinese deadline to implement all of the commitments from its accession package. China's commitments were implementation of tariff reduction on agricultural and industrial goods (agricultural goods: 31%- 41%, industrial goods: 25%- 7%). They balanced tariff reductions by establishing quota levels that were steadily raised. Besides reducing tariffs China had to eliminate its non-tariff measures (NTMs), like import quotas, restrictive

licensing procedures, subsidizing exports, cap subsidies of domestic industries and elimination of state-controlled monopolies of agricultural goods. Furthermore China had to apply sanitary and phytosanitary standards based on which agricultural imports would be uniform and scientifically based. To ensure transparency of business the establishment of new legal framework was needed- for example publishing laws more on a regular basis in at least one official WTO language (Vietor & Galef, 2008, p. 1-8).

When China entered WTO, trade between it and EU dramatically increased. But trade between EU and China already existed before year 2001. Hu and Watkins (1999, p. 1) divide trade relations (before 2001) between China and EU into three phases:

1. Western Ostracism/Chinese Self-Sufficiency, 1949-1959.
2. Increasing bilateral trade development/Low conflict levels, 1960-1988.
3. EU- level trade policy/Explosive trade growth/Increasing trade conflict, 1989-2001.

In the first phase there is no significant trade between China and EU. Reason is that most of the trade was done by different intermediaries therefore is impossible to disaggregate from the statistical records. European countries were following USA in imposing of sanctions towards China. In the second phase trade increased which resulted from bilateral agreements between China and individual EU member states. Important milestones of this period were Agreement on Commercial co-operation (1978) and Trade and Economic Agreement (1985). Third phase still reflects growth of trade but is also related to increase of trade conflicts. Trade growth was shown in two ways- absolute and relative in terms of percentage of trade with a specific country. China has become in this period third largest trade partner of EU after USA and Japan counted in \$34,2 billion for a year 1993. Despite the fact that China became more important trade partner for EU, EU started to impose tariffs and non-tariffs measures fearing that cheap Chinese goods might flood into their markets (EU states argued that China is not a member of GATT so they have right to use tariffs and other restrictive measures). The growth of trade was constantly growing and has increased since China became a member of WTO in 2001.

In 2006 the European Commission accepted a major policy strategy (Partnership and Competition) on China that assured the EU to accepting harsh Chinese competition while forcing China to trade fairly. Part of this strategy is the ongoing negotiations on a comprehensive Partnership and Cooperation Agreement (PCA) that started in January 2007. These will provide the opportunity to further improve the support for bilateral trade and investment relations and also include the upgrading of the 1985 EC-China Trade and Economic Cooperation Agreement (European Commission- bilateral relations with China, 2011).

As mentioned above, China and EU negotiate trade conditions also in bilateral level. China trade and economic cooperation agreement (EEC) is just one among many instruments for promoting and stepping up trade and moreover increasing economic cooperation and encouraging investments. First act was signed in year 1985 and was rewritten in years 1994 and 2002, where some minor changes to establish broader political dialogue were made. Recent changes were made in year 2006 when EU Commission proposed and made recommendation in order to strengthen EU- China partnership.

In the Communication from the Commission to European Council and Parliament (2006) several topics were covered to foster growing responsibilities in trade between China and EU, which are sustainable development, trade and economic relations, strengthen bilateral cooperation and international/regional cooperation.

Sustainable development

- Ensure secure and sustainable energy supplies,
- combat climate change and improve the environment,
- improve exchanges on employment and social issues,
- improve coordination on international development,
- build sustainable economic growth.

Trade and economic relations

- Insist on openness,
- level the playing field,
- support European companies,
- defend the EU's interests through dialogues and negotiations,
- build a stronger relationship.

Strengthening bilateral cooperation

- Ensure quality and increased cooperation in science and technology,
- build and effective migration relationship,
- expand people-to-people links,
- make bilateral structures more effective.

International and regional cooperation

- East Asia,
- Taiwan,
- transparency on Chinese military expenditure and objectives,
- arms embargo,
- non-proliferation.

China is one the EU's most important partner and its reemergence is a welcome phenomenon. In order to respond positively and effectively, the EU must improve policy coordination at all levels, and ensure a focused single European voice on key issues (Communication from the Commission, 2006).

2.1.3 China Trade in Figures

In the lower table (Table 3) we can see the rate at which imports of goods and services from China increased between years 2001 and 2010 (Data is only for 13 countries to comply with a Hofstede's cultural dimensions which were made for these European countries). Leading European country is still Germany which imported in a year 2010 for more than €60 billion of goods and services. Among these countries Portugal is the one that imported the least (€1,5 billion). Growth can be seen for all countries that were included into analysis. In a year 2009 imports in all countries decreased which is a consequence of financial crisis. The only country that did not recover from crisis and import less in a year 2010 in comparison with previous year is Greece.

Table 3: Import of goods and services from China in millions of EUR, 2001-2010

Country/Period	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
AUSTRIA	1046	1163	1571	1518	2120	2500	2928	3203	2542	3375
BELGIUM	4316	4747	5481	6758	8552	10308	12623	13402	10383	11964
GERMANY	18110	19053	22476	28533	35121	43149	48727	51461	45163	63411
DENMARK	1470	1475	1816	2160	2885	3417	3897	4294	3733	4634
SPAIN	4414	4758	5659	7158	9782	12116	15786	17108	11951	15957
FINLAND	867	957	1136	1373	1953	2958	3296	3168	2305	2292
FRANCE	8343	8572	9591	11652	14480	15839	18194	19164	17812	23233
UNITED KINGDOM	15530	16811	17280	20540	24667	28745	33207	32706	30567	37903
GREECE	925	1028	1223	1423	1703	1819	2795	3347	3045	2864
ITALY	7484	8307	9553	11828	14135	17911	21689	23606	19334	28572
NETHERLANDS	10440	12000	14739	18998	25827	30972	37746	40382	36897	49029
PORTUGAL	351	345	371	459	569	773	1063	1342	1115	1576
SWEDEN	1809	1823	2295	2558	3196	3906	4716	4776	4140	5586

Source: Eurostat- Euro Statistics, 2011.

Contrary to imports, exports to China (Table 4) between years 2001 and 2010 presented less value. Germany is a European country that exports to China the most and it exported in 2010 for more than €50 billion. Among these countries Greece is the one that exports to China the

least and in 2010 exported for a value of €145 million. Recent crisis influenced also exports to China, but countries like Belgium, Germany, Denmark, Italy, Netherlands, Portugal and Sweden remained a positive growth.

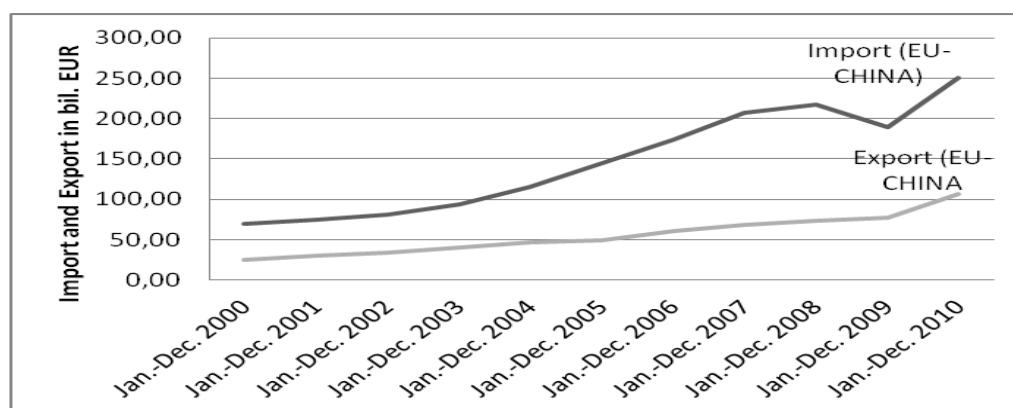
Table 4: Export of goods and services to China in millions of EUR, 2001-2010

Country/Period	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
AUSTRIA	876	1185	904	1153	1592	1288	1666	1945	1918	2583
BELGIUM	1691	2010	2274	2355	2711	2931	3341	3424	4323	5420
GERMANY	12118	14570	18264	20991	21165	27119	29854	34037	37262	53504
DENMARK	457	541	635	802	849	909	1327	1491	1524	1775
SPAIN	634	787	1096	1158	1524	1713	2110	2132	1959	2611
FINLAND	1265	1226	1301	1971	1562	1974	2161	2060	1857	2687
FRANCE	3552	3708	4697	5360	6297	8052	9026	8979	7872	11054
UNITED KINGDOM	2744	2364	2786	3483	4081	4791	5489	6107	5727	8319
GREECE	47	61	54	60	79	124	111	104	93	145
ITALY	3275	4017	3850	4448	4603	5686	6290	6432	6629	8631
NETHERLANDS	1238	1574	1675	2347	2626	3339	3724	3965	4732	5552
PORTUGAL	60	81	150	101	171	214	181	184	222	235
SWEDEN	1729	1506	1968	2073	2028	2238	2398	2694	2944	3738

Source: Eurostat- Euro Statistics, 2011.

As it can be seen on the lower chart (Figure 5) trade balance remained negative for EU-13 all the time and was constantly increasing, with the exception in the year 2009 where it was lower in the comparison with other years. Between years 2000 and 2010 trade balance deficit increased for 226 % which is a significant change for one decade. The highest difference between imports and exports was in year 2008 and counted -€144 billion. This trend (of increasing deficit) is going to continue also in the future.

Figure 5: Import and Export between EU-13 and China, 2000-2010



Source: Eurostat- Euro Statistics, 2011

2.2 Foreign Direct Investments

Kok and Ersoy (2009, p. 105) found out that trade has traditionally been the principal mechanism that links national economies with the purpose to create an international economy. Foreign Direct Investments (FDI) is similar mechanism that links national economies; therefore these two mechanisms reinforce each other. Furthermore trade effects of FDI depend on the access to natural resources, consumer markets and whether FDI is exploiting national comparative advantage or other strategic assets like research and development or development of capabilities. Following subchapters will be related to theories and definitions of FDI and to FDI between EU and China.

2.2.1 Definition and Theories Related to Foreign Direct Investments

According to the OECD definition Foreign Direct Investment “reflects the objective of obtaining a lasting interest by a resident entity in one economy (‘direct investor’) in an entity resident in an economy other than that of the investor (‘direct investment enterprise’)... involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated”. Furthermore interest results in long- lasting relationship between resident entity and direct investor. Foreign direct investor is an entity (private or legal) or a group of entities that operate in a country other than the country of their residence. When foreign direct investor owns more than 10 % of foreign enterprise it becomes direct investment enterprise or multinational enterprise (“multinational” stands for more than one country). Besides the 10 % shares some countries might consider also other conditions like the ownership of the board of directors, participation in policy making processes, transactions within- and between companies, interchange of managerial personnel, provision of technical information, etc.

Hill (2001, p.182) defines that foreign direct investment occurs when a company through direct investment in foreign country facilitates production and marketing of a product. He also exposes that there should be a distinction between foreign direct investment and foreign portfolio investment. The latter refers to the investment in foreign financial instrument (stocks, government bonds) and does not involve having a significant equity stake in a foreign business entity. Moreover different factors determine foreign portfolio investment in comparison with foreign direct investment and they both raise different issues. There are two different forms of FDI- horizontal and vertical. *Horizontal foreign direct investment* refers to the FDI where company operates in the same industry as it operates in domestic market. Contrary to horizontal, *vertical foreign direct investment* is FDI in an industry that provides inputs or outputs for a company’s operations in domestic market. Besides distinction between horizontal and vertical foreign direct investment, it is also important that we distinguish between flow and stock of FDI. The *stock of FDI* refers to the total accumulated value of

foreign-owned assets at a given time and the *flow of FDI* (inflow of FDI- flow out of the country, outflow of FDI- flow into the country) refers to the amount of FDI undertaken over a given time period.

There is always a problem of choice between FDI and exports to a specific target country-concerning horizontal foreign direct investment. One of the reasons to select FDI is high transportation costs, especially when transportation costs are added to production costs; it becomes unprofitable to ship some products over a large distance. For products that have low value-to-weight ratio and can be produced almost anywhere, we would prefer FDI or licensing over exports. In contrast to them transportation costs of high value-to-weight ratio products have small impact on decisions about exporting, licensing and FDI. Besides transportation costs there are also different characteristics of markets or market imperfections. Market imperfections can arise if there are boundaries to the free flow of products between nations or if there are impediments to the sale of know-how (Hill, 2001, p. 191).

Besides problem of choice there is also ongoing debate about the impact of FDI on the economic growth of host countries. Opponents of FDI argue that investments substitute foreign for domestic production and reduce domestic investments, employment productivity and consequently economic growth. Contrary to negative influences on the domestic market, supporters of FDI point out that it can have positive consequences like enabling firms to enter new markets, import intermediate goods from foreign affiliates at lower costs and access to foreign technology. Furthermore FDI enable that entire domestic economy benefits from them due to increased competitiveness and higher productivity and it is assumed to be an important vehicle for the transfer of technological and business know-how. Increased competitiveness allows local firms in the host countries to challenge foreign companies in the capturing of market shares (Herzer, 2010, p. 476-480).

Kok and Ersoy (2009, p. 110-111) found out in their study that following determinants influence FDI: Openness, Growth rates, Exchange rates, Tax factors (national and local tax rates, tax depreciation, tax holidays, dividend policy etc.), Budget deficits, Labor costs, Trade barriers, Gross domestic investment, gross capital formation and infrastructures, Technology gap, Economic freedom, Market sizes, R&D, Corruption and Human capital. The effect of these determinants on the nature of FDI varies from positive to negative, depending on a factor.

Countries can also have a negative opinion about foreign companies that enter their market and economic nationalism can influence FDI. Economic nationalism is an ideology, believing that multinational companies invest and operate only to enrich themselves and their home nation. Countries usually use protectionist policies in order to limit the influence of foreign companies and to ensure that domestic companies have benefits. The impact of public opinion on FDI depends also on the nature of national governments- if they are leftist or rightist.

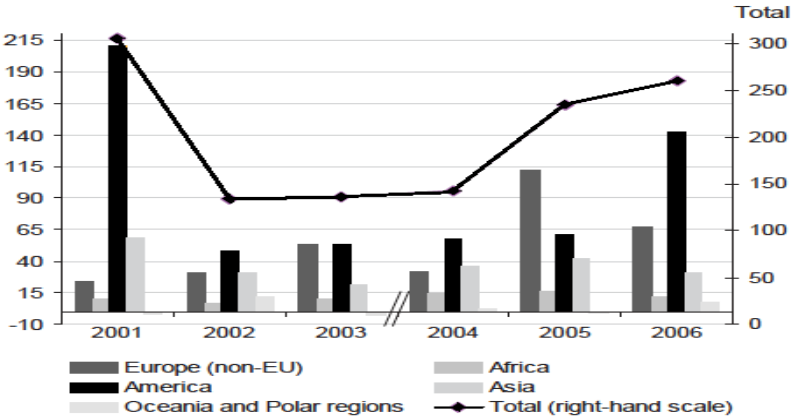
Leftist governments and politicians are more open to FDI because they believe that labor will benefit from capital imports given that multinational companies tend to pay higher wages, increase employment opportunities, improve labor standards, and constrain the rent-seeking tendency of domestic capitals (Jakobsen & Jakobsen, 2011, p. 61-64).

2.2.2 Foreign Direct Investments and EU

Foreign direct investments play a major role in the process of globalization and are also an important element of international relations. In comparison with trade, FDI creates deeper links among economies around the globe and it is a source of extra capital that fosters production, technology transfer and exchange of know-how (Eurostat- European Union Foreign Direct Investment Yearbook, 2008, p. 5).

Since year 2002, European Union FDI outflows have been increasing as seen in the graph below (Figure 6), rising to € 260,2 billion in 2006. After the decline in year 2002 and a moderate growth between years 2003 and 2004, foreign direct investments from EU started to recover by 65 % in 2005 and continue to grow in 2006. The main destination of EU FDI outflows was North America with a share of 55 %- the value of outflows to America more than doubled in comparison with a year 2005, reaching € 141,9 billion. The largest investor within a EU was United Kingdom with a value of € 67,2 billion and a share of 26 % in the year 2006 (European Union Foreign direct Investment Yearbook, 2008, p. 23- 26). Major outflows were made in 2009 by France with € 147 billion followed by Germany, Italy, Sweden and Ireland.

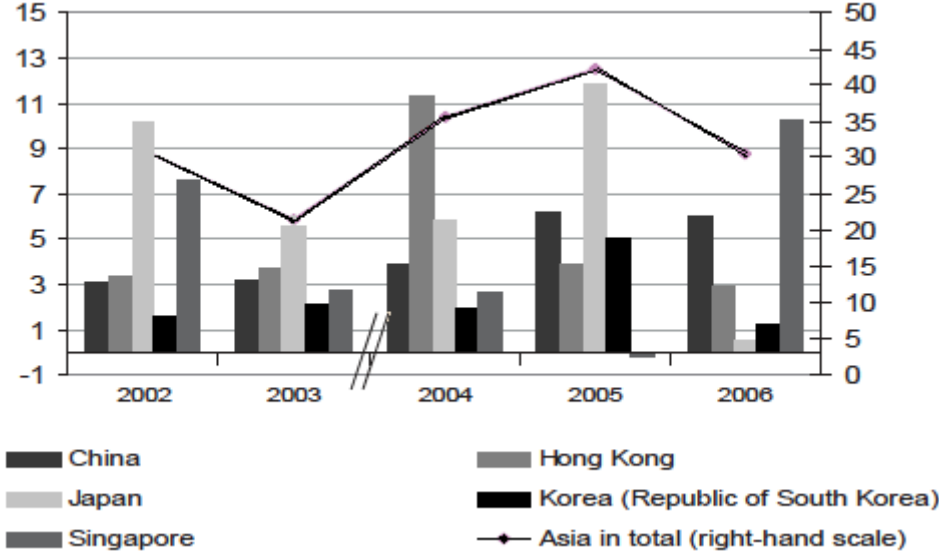
*Figure 6: Extra- EU Outward FDI Flows, by Main Continents, 2001-2006
(In billions of Euros)*



Source: Eurostat- European Union Foreign Direct Investment Yearbook, 2008, p. 25.

In 2006 there was a drop of outward FDI flows in Asia to € 30,6 billion from € 42,3 billion in year 2005. The most significant change was recorded with Japan where from year 2005 to 2006 FDI flows decreased from € 5,8 billion to € 0,5 billion. Outward investment flows did not change so dramatically as in China and maintained almost the same. In the lower graph (Figure 7) movement of outward FDI to Asian countries can be seen. EU FDI income from extra- EU grew gradually over the period 2002 and 2006, with values rising from € 85,8 billion to € 211,3 billion. The main investor during the whole period to EU was America with an average of € 68,7 billion over the five- years period. The second largest was Asia which scored an average of € 30,1 billion over the five year period (European Union Foreign direct Investment Yearbook, 2008, p. 23- 26).

Figure 7: EU FDI Outflows to Asia, 2002-2006
(In billions of Euros)

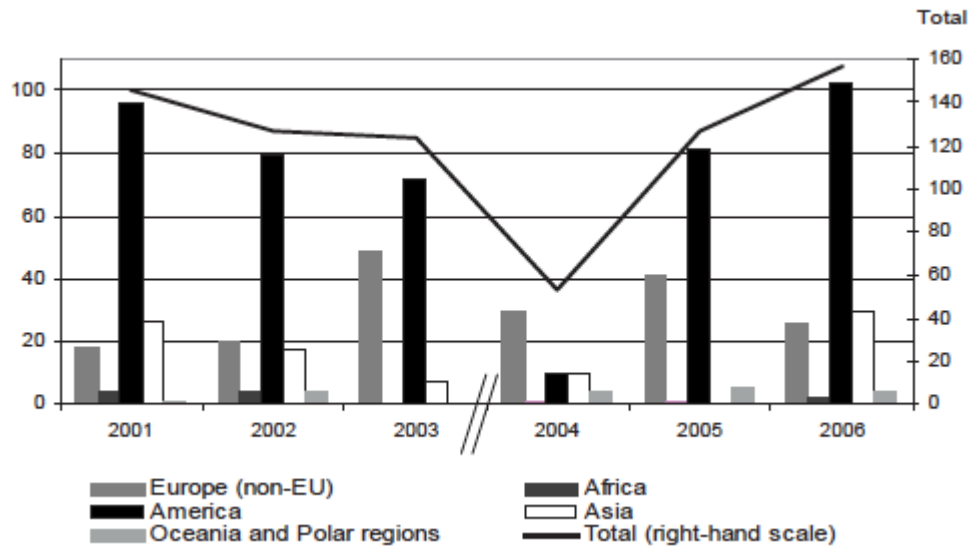


Source: Eurostat- European Union Foreign Direct Investment Yearbook, 2008, p. 28.

After a decline in 2004, FDI inward flows increased by 118 % between 2004 and 2005 and by 24% between 2005 and 2006. The main investor in the EU was America with 65 % of the global amount invested in the EU in 2006. Asia was the second largest investor in 2006 with € 29,5 billion and a 19% share. Major Asian investments to EU came from Japan, which invested € 14,6 billion in 2006. After Asia other non- EU countries were the third largest investor in the EU followed by Oceania and the Polar regions and Africa. Extra- EU inward FDI flows by main continents can be seen bellow (Figure 8) (European Union Foreign direct Investment Yearbook, 2008, p. 39). Among the European countries top five host economies in the year 2009 were France (€60 billion), UK (€46 billion), Germany (€36 billion), Belgium (€34 billion) and Italy (€ 31billion).

Figure 8: Extra- EU Inward FDI Flows, by Main Continents, 2001-2006

(In billions of Euros)

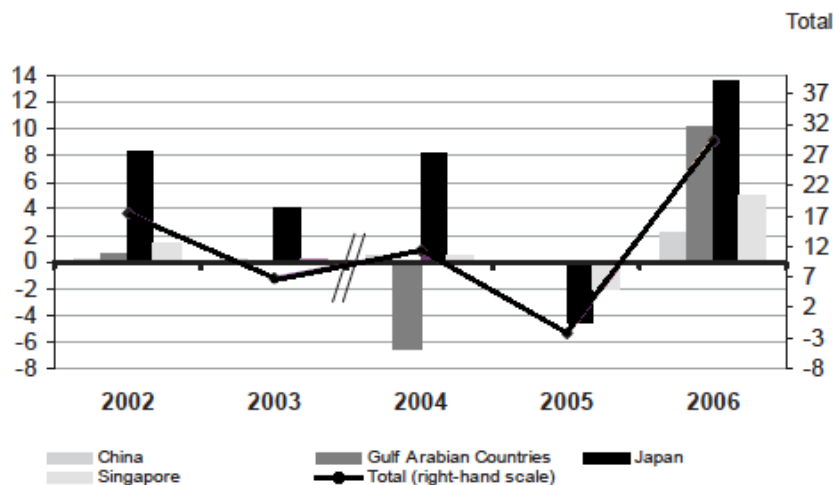


Source: Eurostat- European Union Foreign Direct Investment Yearbook, 2008, p. 39.

Among the Asian investors Japan held the first place with investments of € 13,6 billion in 2006 (Figure 9). In a year 2005 FDI inflow resulted in a decrease of all Asian countries to EU. With relatively small investments in absolute terms, China also stepped up its investments between 2005 and 2006- from disinvestment in 2005 to an investment of € 2,2 billion in 2006. China reached only 7% of EU FDI inflows from Asia.

Figure 9: EU FDI Inflows from Asia, 2002-2006

(In billions of Euros)



Source: Eurostat- European Union Foreign Direct Investment Yearbook, 2008, p. 42.

2.2.3 Foreign Direct Investments and China

Growth of FDI dramatically increased after the global financial crisis. The biggest stakes are having developing and transition nations among which China is scoring highest. Among the largest beneficiaries, China increased to second place after the USA in year 2009. On the outward investment side China (including Hong Kong) with Russia are among the top 20 investors in the world. In general FDI in Asian countries started to rebound and is likely to increase with higher speed as the region plays a leading role in the global economic recovery. Inflows to China and India started picking up in the middle of 2009, and their sustained outflows are expected to drive the region’s outward investment back to growth in 2010.

Figure 10: Global FDI inflows, Top 20 host economies, 2008-2009

(In billions of dollars)



Source: World Investment Report, 2010, p. 41.

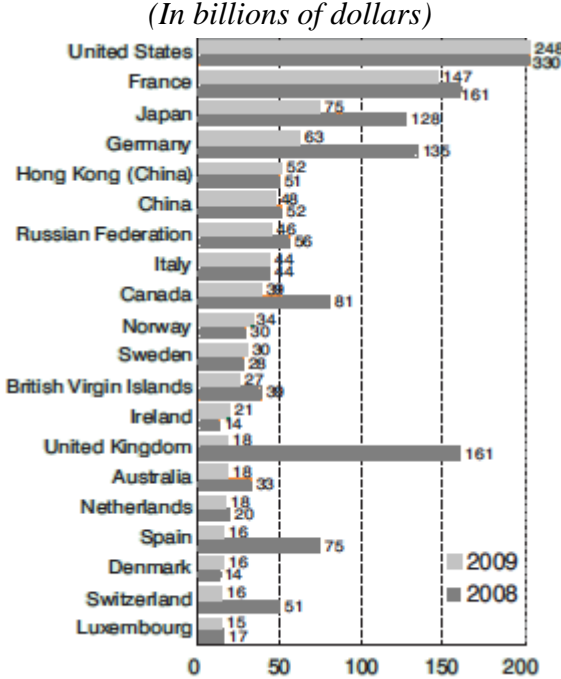
Growing investments in the Asian region caused technology diffusion and fostered competitiveness. Investments were also one of the key elements for industry development vis-à-vis sequential upgrading in the industries like electronics and high-tech products. Regional integration and growth of investments in China are accelerating development also by creating opportunities for other countries such as Cambodia and Myanmar. Furthermore concerning employment in foreign affiliates developing countries overtaken a major position of developed ones. China was ranked as first with 16 million of workers in 2008, accounting almost 20 % of the world’s total employees in foreign affiliates (World Investments Report, 2010).

As seen in figure 10, China is the second highest host economy for global FDI inflows and had in a year 2009 for \$95 billion of inflows. Change between the years 2009 and 2008 was 12 % which not as significant as in other countries. Hong Kong on the other hand scored less than mainland China (\$60 billion) but suffered loss of only 3 % between years 2009 in comparison with a year 2008. Downsize of the inflows in China and Hong Kong was much smaller than in the highest ranking United States, where they had reduced inflows for almost 59 %.

In 2009 in all three types of economies- developed, developing and transition, there was a reduction of inflows. This was a result of bad economic performance which started to recover after global financial crisis. In the graph (Figure 10) above it is seen that developing and transition economies suffered much smaller impact of crisis in comparison with developed economies. In general developed economies had a decline in their inflows for 44 %. For China, Hong Kong and other developing economies recovery was much faster than in developed economies. As a result developing countries now account for almost half of the global FDI inflows and they attracted the majority of greenfield investments.

Global FDI outflows (Figure 11) also decreased in a year 2009 in comparison with previous year. Mainland China and Hong Kong were in 2009 on 5th and 6th place with €52 billion and \$48 billion of outflows. Hong Kong managed to perform in a year 2009 even better in comparison with previous year and invested \$1 billion more around the world.

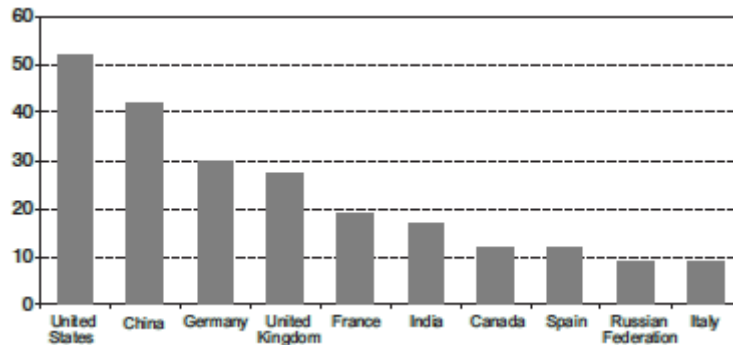
Figure 11: Global FDI outflows, Top 20 home economies, 2008-2009



Source: World Investment Report, 2010, p. 43.

Outflows from developing countries decreased less than outflows in developed countries. Furthermore developing countries manage to strengthen their global position as emerging sources of FDI in 2009, and increased their share to 25 % compared to 19 % increase in 2008. Future trends show that China will remain an attractive country for FDI inflows and it will also increase its position in comparison with the United States.

The most promising investor home countries, 2010-2012



Source: World Investment Report, 2010, p. 61.

3 The influence of cultural dimensions on international business

In the first chapter we presented cultural details related to the theories, Hofstede's cultural dimensions and the major characteristics of European and Chinese culture. In the second chapter international business was explained, firstly in general terms, followed by definitions of international trade and internationalization, foreign direct investments and China- EU bilateral agreements. In this chapter, the influence of cultural dimensions on international business will be explained, with focus on pros and cons of internationalization, the selection of entry mode choice and influence of cultural distance on foreign direct investments.

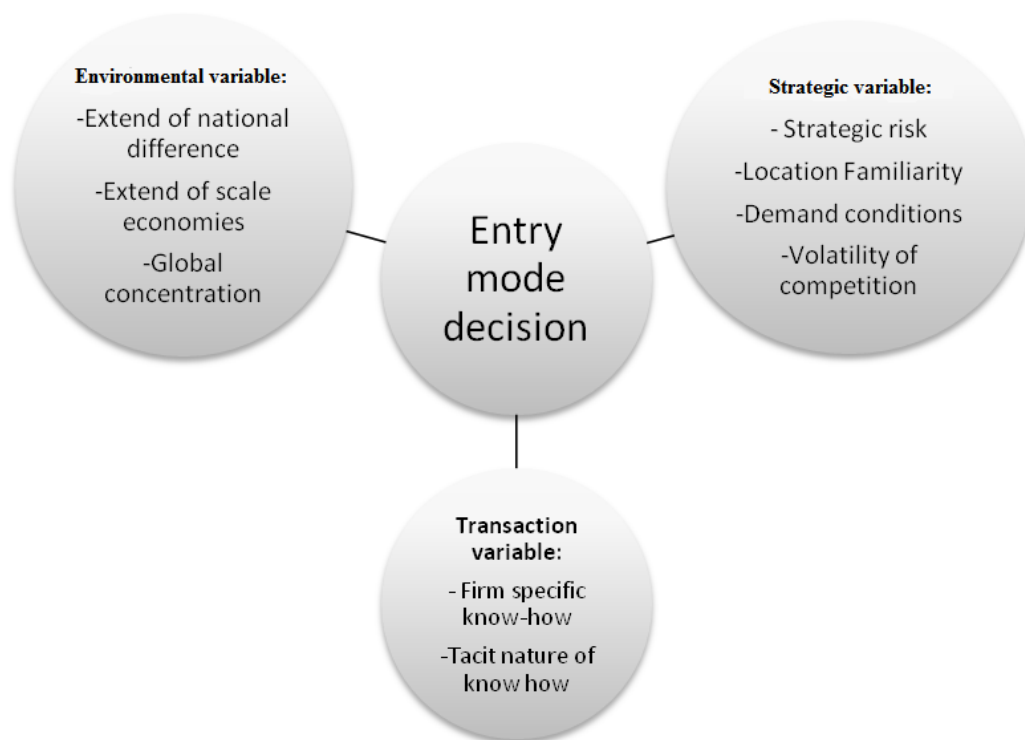
3.1 Cultural influence on the form of internationalization

When evaluating the influence of the culture on internationalization a lot of issues can occur. Sociologists and anthropologists have carried out most of the studies of culture which, when transferred to construction applications, showed not to be adequate to make relevant conclusions. As so, individual companies might understand the implications of culture, but little is understood of the wider implications of the importance of cultural differences. The main issue is to create the link between corporate cultures in international firms and national culture in the locations where these companies work.

Several authors were analyzing cultural influence on the form of internationalization and constructed their own models. Among widely recognized ones are Porter's diamond,

Hofstede's cultural dimensions and Entry mode decision model. Hofstede's cultural dimensions have been described in the introduction and to fulfill the goals of thesis Entry mode decision model will be described after this chapter. Accordingly, companies that want to internationalize must firstly decide on the mode of entry into the foreign market. The decision is based on several factors and considering companies' main resources. After entry mode has been decided, multinational organizations limit their tactical flexibility by developing skills and knowledge to support the chosen arrangement. As seen on Figure 12, there are three major constructs that influence a company's decision for a particular market entry - *strategic variables*, *environmental variables* and *transaction variables*.

Figure 12: Major variables and entry mode selection



Source: Proven Models Web Portal, 2011.

Strategic variables

- Influence through control requirements
- Different degrees of control

Environmental variables

- Appropriate level of resource commitments
- Intangible resources - managerial skills, knowledge
- Tangible resources - machinery, money supply

Transaction variables

- Risk
- Level of control

Companies' decision regarding entry mode has also an impact on its involvement with the local culture. Even though international trade does not require specific knowledge about host country's culture in the first instance, there are some cultural variables that have influence on companies. Since international business can be performed in several different ways culture can also have different impact on it. The following tables will present how culture is related to international trade and FDI which are two subfields of international business.

Table 5: International trade in relation to culture

Cultural determinant/ Mode of int. business	Language	Religion	Political philosophy
International trade	Knowledge about target country language is not compulsory but desired Usage of third (global) language (English, French) to communicate	Limitations on import/export for specific products (Arab world and alcohol restrictions) Facilitation or/and limitation of import/export at specific days of the year (Christmas, 4 th of July, etc.)	Influences decision about mode of transportation (infrastructure)
	Economic philosophy	Education	Social structure
	Quotas and Tariffs NTB's (Non Tariff Barriers) Product requirements	Negotiation skills (Incoterms, insurance policies, transportation mode)	Stakeholders can limit import/export of specific groups of products

On the opposite side, companies that decide to enter foreign markets through direct investments, fall immediately under the foreign country's cultural influence. Cultural determinants have different impacts on foreign direct investments and on international trade, which can be seen in tables 5 and 6.

Table 6: Foreign direct investments in relation to culture

Cultural determinant/ Mode of int. business	Language	Religion	Political philosophy
FDI	Compulsory knowledge about target country language	Limitations on productions of specific products (India and beef production) Increase and/or decrease of production at specific time of the year	Can influence ownership structure (in communism there is no private ownership) Expropriations
	Economic philosophy	Education	Social structure
	Different requirements on foreign investments (accounting, managerial skills, etc.)	Influences the structure of the workforce Innovations and patents Tacit knowledge	Stakeholders and its influence on foreign investments Managerial skills

As showed in the tables above, culture has a different influence depending on the entry mode chosen. Besides several pros and cons of the different entry modes, culture also contributes to the companies' decisions when entering foreign countries. Given that companies that decide for foreign direct investments are directly related to foreign culture, many studies were made on how to overcome cultural differences in order to have the best outcomes. In the following subchapter there will be a presentation of cultural distances and their impact on FDI.

3.2 Cultural distances and their impact on FDI

There has been a complex relation between *cultural distances (CD)* and their impact on FDI, which depends on detail in entry mode choice and subsidiary performance. When both intra-firm interactions with local companies and interactions with external stakeholders are taken into consideration in the host-country environment, culture-related difficulties might occur.

When analyzing CD and its correlation with FDI, we can see two major streams in international management research. The first one is when cultural differences were seen as an important issue when dealing with foreign entry mode choice and subsidiary performance. These theories can be linked with the index of national CD that was developed by Kogut and Singh (1988). These authors developed the thesis that as the cultural distance increases, the

firm would choose a joint venture over an acquisition. Cultural distance results from differences in language, religion, race and social norms between countries. They used the following formula:

$$CD_j = \sum_{i=1}^4 \{(I_{ij} - I_{ih})^2 / V_i\} / 4 \quad (1)$$

In this formula, CD_j is the cultural distance between country j and the investing firm's home country, I_{ij} is country j 's score on the i -th cultural dimension, I_{ih} is the score of the investing firm's home country on this dimension, and V_i is the variance of the score of the dimension.

As mentioned, these studies focused on the choice of ownership structure for foreign subsidiaries - *joint ventures* (JV) versus *wholly owned subsidiary* (WOS). The major finding of this stream of international management research is that increasing CD made foreign investors prefer JVs over WOSs, because larger national cultural differences increase the amount of uncertainty associated with FDI. Uncertainty might be reduced having a JV with a local company that has better existing management skills and more knowledge regarding local conditions (Agarwall, 1994).

Furthermore, researchers related to this stream found that a large CD made WOSs more likely to occur, due to the higher costs and to the uncertainty associated with working with an equity partner from a culturally distant country. Bell (1996) analyzed the FDI activity of Dutch companies and concluded that there is a curvilinear relationship, with JVs being preferred over WOSs when national cultural differences were reaching extreme values. The results achieved also suggest that JVs might be used for various intentions: On the one hand, when there is a big gap between cultures of two countries, JVs are used to get knowledge about local conditions. On the other hand, when countries are more similar, JVs are made to have benefits of common research and cost reduction. Some researchers linked towards the choice of establishment mode - *greenfield investment* or *acquisition*. Several authors, like Barkema and Vermeulen (1998), found that increasing cultural distances led multinational companies to prefer greenfields over acquisitions. Kogut and Singh (1988) believe this happens because larger national CDs result, on average, in larger differences in organizational practices, making integration after acquisition more difficult. Accordingly, acquisitions are less attractive in culturally distant countries.

The second stream of research is related to foreign affiliate performance, where cultural differences are seen as reducing performance by making interactions difficult and by producing feelings of hostility that lead to a cultural clash between the parties involved (Parkhe, 1991). Barkema and Vermeulen (1997) discovered that high cultural distances prevent joint ventures to succeed. Moreover, they found that this relationship is not significant for all of the Hofstede's cultural dimensions. Differences in uncertainty avoidance, masculinity and long-term orientation have negative effects on international joint ventures,

while differences in power distance and individualism do not have any significant effect. The mode of entry to a foreign country is not the only perspective from which the impact of CD can be seen. Several studies, such as Benito and Larimo's (1995), examined the impact of CD on the performance of foreign subsidiaries and found out that the impact of cultural differences can be a result of cultural traits.

Barkema, Bell and Pennings (1996) found that cultural differences might have a negative effect on the survival rate of foreign ventures. The intensity of this effect varies across entry modes because they require different amounts of acculturation, which can be described as the process of contact, conflict and adaptation that occurs when two national cultures come together. Besides acculturation, Barkema et al. (1996) found that cultural distances have a stronger negative effect on the longevity of joint ventures and acquisitions than on wholly-owned subsidiaries and greenfields. The main reason they see for this fact is the intensity of interactions, since in JVs and acquisitions the investing firm interacts with stakeholders in the host-community and the local company itself. Opposing, there is the case of WOSs and greenfields, in which the company interacts only with the local stakeholders. The authors describe these two phenomenons as double- and single- layered acculturation. For companies, it is much easier to perform a greenfield investment that is partially owned, since they benefit from the knowledge about the host environment. Accordingly, the former CEO of the Swedish company ASEA said: "Don't ever buy 100 percent of any company in China, because you don't understand the Chinese. You must have somebody who is involved in the business, whom you can trust and who can tell you what you can do and not do in China, and he must be part owner".

Hennart and Larimo (1998) discovered that the fact that local partners have an equity stake in the venture ensures that they will really provide their help and knowledge. Besides, companies that have a local partner do not have to interact with the foreign environment and stakeholders, but only to deal with its partners. However, the interaction with foreign partners might cause cultural conflicts and harm the overall performance of the company. Hennart (1988) sees partially owned companies as the solution to the problem, because local partner's equity stake has an important effect, resulting in motivation of a partner and his actions that leads to the venture's best results.

The negative impact of cultural distances on ventures' performance is similar for all acquisitions, meaning that the differences among cultures do not have a strong meaning until they are in contact with each other. When there is a low interaction between cultures, cultural differences do not play an important role and, consequently, they do not lead to cultural conflicts and bad performance. Furthermore, all international mergers and acquisitions are similar in terms of the amount of cultural interaction, being this the degree of post-acquisition integration desired by the acquiring company, that is reflected on how closely an investing company wants the other to be positioned vis-à-vis its own (Barkema et al., 1996).

Barkema et al. (1996) found that cultural difficulties might arise from both internal and external interactions. There are three characteristics of subsidiary to be considered: the desired degree of integration, the subsidiary's establishment mode and its ownership structure. This model also assumes that cultural differences may produce conflicts both internally and externally, which reduces subsidiary's performance. The impact depends on three different factors: the desired degree of integration between the subsidiary and the investing firm, the subsidiary's establishment mode and its ownership structure. Cultural differences may also influence on a company's choice of establishment mode and ownership structure.

Buono and Bowditch (1989) found in their research that the impact of CD on subsidiary's performance is stronger during the first few years following the expansion. The reason relies in adaptation: cross-cultural issues might eventually be overcome when the company learns how to deal with cultural differences, which reduces their impact on its performance (Barkema et al., 1996).

Besides companies that adapt to the differences, there is a group of companies that do not change the way of performing their business. These companies perform by conducting global strategies and focusing on the economies of scale or scope where coordination of the activities of different subsidiaries in different countries is important. Firms that strive for economies of scale are forced to have a high subsidiary integration that relies on behavior control. Companies can be expected not to compromise on the degree of integration they desire for a subsidiary, not even when CD is considerable. Therefore companies can overcome cultural differences by selecting the subsidiary's establishment mode and ownership structure.

The best way to have overview how CD influences entry mode decision is to calculate index that was made by Kogut and Singh (1988) index of national CD where our home country will be EU and our host country will be China². The calculated value of index is 2,083 which is quite big value and shows us that there are huge differences between China and EU related to language, religion, race and social norms. European companies that are entering Chinese market can make their decision about entry mode choice on the basis of the value of this index and have therefore several options.

As seen on this model, the best way for companies to enter Chinese market will be with joint venture as the ownership structure and via acquisition as establishment mode. This will allow them to initially minimize the influence between these two cultures and to make necessary adaptations to their business models.

² CD = ((18*18)/503,2+(41*41)/605,5+(7*7)/620,8+(50*50)/324,1)/4

3.2.1 Egalitarianism and FDI

Siegel, Licht and Schwartz (2011) state that May Weber and other sociologists found that culture influences business conduct. Accordingly, research showed that differences in cultural values directly enable and constrain the conduct of business across countries. With the evolution of globalization, cultural distances across countries can be shown to have a meaningful and theoretically discernible impact on international business behavior. Cultural *egalitarianism*, as a construct within country, is believed to have a direct causal impact on MNC's chosen place to engage in FDI.

So far, several researches were undertaken regarding international business activity - notions like liability of foreignness, CD or psychical distance have been part of the organization theorist's vocabulary for decades. However, cultural differences were always considered as a self-evident concept and there are not many studies regarding their impact on international business itself.

Therefore, Siegel et al. (2011) believe that cultural distance nowadays remains more a myth than a well-established reality. There are several studies relying only on the cultural index scores that were introduced by Hofstede (1980) and not many studies that have a theoretical framework that could yield solid evidence for the impact of the multiple dimensions of cultural distance. There are a lot of discussions recently on how to theorize and operationalize culture, the stability of its core and whether cultural effects are not actually dominated by other institutional factors.

Culture was conceptualized by Swartz (1994) as a fundamental social institution that is related to the country's historical and ecological conditions and to specific societal features. Egalitarianism is a cultural orientation that induces people to recognize others as moral equals who share basic interests as human beings. As egalitarianism shows the cultural orientation, it can be said that forms the fundament for many institutions in a country, including antitrust law and policy, protections for employees, corruption, accounting transparency, managerial norms and exercise of power and authority (Siegel et al, 2011).

DiMaggio and Powell (1983) discovered that when organizations emerge, they respond to isomorphic pressures and furthermore adopt values, norms and structural features so they are compatible with the perceived level of egalitarianism prevailing in their domestic institutional environment. When a company is operating in a foreign environment, it is necessary to make an interpretation of local norms and institutions. Many of these norms and values within institutions are informal and consequently marked as cultural. Even though MNCs (multinational corporations) might operate well in their domestic environment, where they can easily detect certain patterns of their culture and comply with laws, this is not always the case when they enter in a country where they cannot recognize unwritten and unspoken rules

of the game. Moreover, it can be prohibitively costly for companies to make an implementation of organizational practices that are compatible with different national environments (Kogut, 2004).

When companies are entering their target market, they should master the proper ways of exerting power. Every interaction between an organization and stakeholders such as government, employees, consumers, competitors, communities or creditors, takes place in a certain power relationship and is consequently influenced by cultural egalitarianism. There are several points within which cultural egalitarianism operates, such as compensation systems in organizations, labor union relations, social norms, corruption and socially accepted negotiation practices. The greater the difference in cultural egalitarianism between the domestic and the host market, the less likely are firms to identify which projects are worth to reach this cultural distance- not meaning that obstructs foreign direct investments. Egalitarianism is a theoretically defined, empirically measurable construct, whose greater variances cause organizations to turn away from investment opportunities abroad (Siegel et al., 2011).

Siegel, Licht and Schwartz (2011) found that there is a strong negative impact of egalitarianism distance on FDI flows in a broad sample of nations using different sources for data in different time sequences. Furthermore, similar results were gathered, both for total flows of FDI between nations and for an estimate of greenfield and joint venture FDI flows as distinct from M&A flows. This means that (in most cases) firms cannot overcome egalitarianism distance through particular entry modes. FDI flows between countries are associated with differences in cultural harmony. Cultural harmony can also be associated with inclination for entrepreneurship, such that harmony distance might encourage multinational companies to enter countries that are less entrepreneurial. FDI flows usually go from high-entrenched to low- entrenched countries, which is a consequence of an international regulatory arbitrage on environmental protection regimes. Moreover host-country and domestic- country characteristics and its effects (political, economic, and social) need to be taken into consideration.

The frame for egalitarianism and FDI presents power process which means how institutions care about the use of authority's power and its implementation and adaptation in practice. Informal rules about existing power may have influence on the company in general and all stakeholders. Economic actions show how informal rules are influencing behavior in institutions (Freeman, 1984). Mayer and Rowan (1977) found that organizations which perform actions that are compatible with prevailing social institutions might be less vulnerable to the volatility of the technical requirements of the market. When a company enters a society with a different emphasis on egalitarianism and fails to conform to the tacit expectations for appropriate behavior, extraordinary efficiency and technology may be required for it to hold its own (Siegel et al., 2011).

Multinational companies might gain competitive advantage when they master the information template of their domestic markets. Furthermore, cultural expectations lead MNCs senior management at headquarters and in the subsidiaries to internalize beliefs about “what goes with what” and how to act with stakeholders such as governments, suppliers, customers, employees and competitors (Kogut, 2004). Theoretically, egalitarianism and FDI multinational companies will be split in coordinating on the appropriate way to act when there will be big differences in the society’s tolerance for different modes of existing power (Siegel et al., 2011).

Besides Siegel et al. (2011) argue that egalitarianism is negatively related with FDI flows, harmony distance is seen as positively and significantly associated with FDI flows, indicating that cultural distance can be an asset rather than a liability. In their research, the authors have four major findings related to egalitarianism, cultural distance and FDI. Firstly, they claim that cultural distance affects organizational populations in their FDI decisions where the egalitarianism distance is important factor in channeling the direction of foreign direct investment activity. Egalitarianism distance has a negative and significant influence on FDI made by multinational companies. Secondly, they discovered that other characteristics of CD may also facilitate FDI flows between countries, such that foreignness could be under specific circumstances an asset rather than a liability. Thirdly, they found the evidence that differences in countries’ liking towards entrepreneurship are among the mechanisms through which CD on harmony positively affects FDI flows. Fourthly, foreign FDI is more likely to travel from low entrenched to high entrenched countries.

Furthermore, differences in the legal regimes of countries are also negatively linked with foreign direct investment flows, as well as acquisition based FDI and imputed greenfield/JV FDI show similar economically relations with egalitarianism distance. There is also a positive relation with cultural distance on harmony and FDI flows, where FDI flows from low-harmony to high-harmony countries. The reason relies on the cultural atmosphere that is present in low-harmony countries, fostering assertive actions, risk taking and growth, while organizations in high-harmony countries function in the opposite atmosphere. The main consequence is that companies from low-harmony culture are more active in reaching new markets, particularly those in which they can anticipate less competition (Siegel et al., 2011).

3.2.2 Culture and entry mode choice

One of the most investigated topics within international business is related to foreign direct investments and the mode of entry. In fact, several authors indicated that foreign market entry choice is one of the most important strategic decisions in the internationalization process.

There are two different theoretical backgrounds about the relationship between CD and equity or non-equity modes of entry. The first division believes that CD leads to a preference for non-equity entry. One of the schools that follow this argument is also the school of internationalization, which predicts that companies start with low commitment entry modes because of psychic distance. When these companies learn more about a country, equity based entry modes such as a sales subsidiary or overseas production become feasible. Anderson and Gatignon (1986) support this argument through transaction cost theory, where there are opposite predictions for the relationship between CD and entry mode, since CD increases both transactions costs and the cost of internalization. Costs related with market transactions increase, because the uncertainty level in a foreign market makes it more difficult to monitor all the agents involved. Moreover, contrary internalization costs also increase, since it is more difficult to collaborate with foreign partners. Therefore, multinational companies would choose equity- based entry modes in culturally distant countries, while according to the latter argument the preference would be for non- equity based entry modes (Harzing, 2003).

Harzing (2003) argues that other perspective of entry mode choice is the decision regarding full control over shared control. As cultural distance influences the investing firm's perception of costs and uncertainty, MNC's prefer low- commitment entry modes in countries that are culturally distant from their own and hence JVs would be preferred over WOS, because they limit their exposure to risk and uncertainty. Moreover, not knowing the host environment, that is a consequence of CD, might cause the need for a local partner that can provide this knowledge. However, CD increases costs and uncertainty involved in working closely with foreign partners, as in the case in joint ventures.

Concluding, there are three different areas that can influence the decision about entry mode: not- equity and equity entry modes, shared and full control and greenfields acquisition. There has been a lot of evidence on how CD impacts these decisions and what kind of decisions can companies take in order to overcome huge gaps in the culture of host and domestic countries.

The first three chapters were related to theory, where to begin with terms related to culture and characteristics of European and Chinese culture were described. In the second chapter there was an overview of terms which are important in international business, with the presentation of figures for international trade and FDI for last decade. In the third chapter links between first two chapters were created in order to find out how culture and international business are related. To meet the purpose of this thesis and answer research questions in the next chapter there will be a presentation of empirical research, which was conducted in order to see how theory that was described in previous chapters is applicable in practice. Since for companies the decision about entry mode is very important, in the following chapter there will be also an overview of this issue in relation to culture.

4 Empirical research related to companies that are involved in international business between China and EU

Every year, the number of European companies that are involved in international business with China is increasing, with the main issue for these companies in the future being the establishment of the best business model to overcome cultural differences that exist between China and European Union. In order to understand how cultural determinants influence international business and to give guidelines for the future decisions, an empirical research was made. Therefore, the hypothesis to be tested with this master thesis is: **Differences in cultural characteristics of China and EU play an important role and influence international business between them.**

To explore this main hypothesis, the following chapter includes the presentation of purpose, goals and research methodology, as well as results of interviews and questionnaires made and the main conclusions.

4.1 Purpose and objectives of the research

The purpose of this research is to **whether we can accept or reject main research hypothesis and furthermore to understand if there are some specific characteristics of Chinese or European culture and if there is a way in which they can be distinguished.** Besides, the purpose of the research is also to find out if these two cultural groups influence international business and, if so, in which direction - in a positive way, fostering it, or in a negative way, restricting it.

Moreover, the present research includes companies that are already involved in international business between China and EU, since they have their own experiences of overcoming cultural differences. These experiences, shared for the purpose of this study, result from their every-day involvement in performing business activities and respecting cultural issues.

4.2 Research methodology

The empirical part of this master thesis is based on the primary data gathered, including quantitative and qualitative research methods. The qualitative part was made through interviews and included companies that are involved in international business between China and European Union. All companies that were part of qualitative research have their origin in the European Union. Since some issues remained unsolved and not all research questions were fully answered, quantitative research was also made to achieve more in-depth view of

the research topic. With that purpose, questionnaires were conducted, in which both Chinese and European companies were involved.

To fulfill the main research purpose of this master thesis, there were several questions elaborated and researched: “Is there a big gap between Chinese and European culture?”, “Do cultural differences accelerate or limit trade and FDI between China and EU-27?”, “Among Hofstede’s dimensions, which ones limits trade or/and FDI the most?”. With these questions, I intend to find which indicators affect trade and FDI between EU-27 and China, if there is a reason why some factors are more influential than others and in which way (positive or negative) they affect FDI or/and trade. The basis for this research will be Hofstede’s book “Culture’s Consequences: comparing values, behaviors, institutions and organizations across nations”.

As mentioned previously, interviews were the first primary method used to widen the perspectives about culture and its impact on international business in practice, and on the basis of which qualitative research was conducted. A total of four interviews took place between March 2011 and June 2011, two with companies that have investments in China and two with companies that import products from China.

The companies, with which interviews were conducted, were selected on the previous knowledge about them and their business activities. As examples of FDI in China, the Portuguese company “Mundinautica, Ltd.” and the Slovenian company “Gorenje d.d.” were used. On the opposite side, “Digit d.o.o.” and “Lecana d.o.o.” (both from Slovenia) were used as examples of companies that import products from China. Only in the case of Gorenje, the interview was conducted with a sales representative in China – the other interviews were conducted with managers or/and owners of the companies. The interviews also differed in the way they were performed - two companies were answering on questions via telephone (Skype), whereas with the other two, personal (face-to-face) interviews were conducted. To get better quality of answers, the questions were sent to respondents before the actual interview occurred, therefore it can be said that closed questions were used in all four of them. Additional information regarding companies was taken from their websites.

Each interview was divided in four major parts: Introduction and presentation of the company, culture and business in general, Hofstede and cultural dimensions, and general recommendations. In the introduction part, there were three general questions about selection of China and characteristics that influenced the entry decision in this market. Secondly, questions related to culture and business in general were presented - there were four questions in total, regarding the differences between European and Chinese culture, which of the cultural categories mostly influences entry mode and how companies have been coping with differences. The third part was linked to Hofstede and his cultural dimensions, where questions related to each dimensions and its impact on international business were asked.

Finally, two questions were made regarding general recommendations, for instance what is the best way to learn more about the host country and if multinational companies would perform better if they would focus more on culture (see Appendix). Findings from interviews gathered from Gorenje and Mundinautica were also linked with theory, since for Portugal and Slovenia cultural distances were calculated to see if activities of companies comply with previous researches.

As mentioned previously, the results from the interviews were considered to be insufficient to fully address this study's purpose, and therefore a questionnaire and quantitative research were made to upgrade and better overview the main research idea. The questionnaire was available on the Internet for 20 days. I assumed that this time period was long enough to get sufficient response. The questionnaire consisted of seventeen closed questions and one open question, where respondents answered with their own words (three words that describe their culture) (See Questionnaire in App 1).

In general, the questions were divided in three major groups. The first group was related to general information about respondents and their perception of international business and culture. Within this group of questions, respondents firstly selected their domestic country and mode of international business that they perform. Furthermore, an opinion was asked, regarding the selection of the factor that mostly impacts the decision of entering into a host country, with possible answers being geographical location, economic forces, cultural factors, politics and legal environment or other. Besides, respondents were also asked to define which cultural determinant (norms and values, political philosophy, economic philosophy, social structure, language, religion) is the most important and if they believe that culture fosters or discourages international business. Companies that participated in the survey were also asked to select the determinant in which Chinese and European cultures differ the most and to define the importance of culture in international business. The second group of questions was related to Hofstede's cultural dimensions: Respondents expressed their perceptions of importance of each cultural dimension and its impact in international business. To enable further analysis, answers were formed based on Likert scale (1 - Strongly disagree, 2 - Disagree, 3 - Neither disagree nor agree, 4 - Agree, 5 - Strongly agree). Besides Hofstede's dimensions, respondents had to define the importance of language in international business. The last group was made of three questions: "Do cultural differences foster or discourage international business?", "Is it necessary to adapt to cultural differences?", "What is your perception of domestic culture in 3 words?". Among all questions there were no specific questions about entry mode and its relation to culture, since the analysis for it was made indirectly for each interviewed company individually.

As sampling method, I used probability sample method - each unit of the population had the same probability to be selected in the sample. In analysis companies from China and EU that perform international business were included. The main criteria were: involvement in

international business whether company's domestic market is Chinese or European, company is trading with China or has investments in China, vice versa. To get a more representative sample I used sampling in groups, where I tried to get data from different geographical areas (27 EU countries and China). There were a lot of problems with the sample size because the response rate was way below the expected one (approximately 10 %). This reduced my sample size from previously expected 100 to 72. Concerning the sample, I can say that it is not representative even though that on one hand it covers a lot of companies from countries within EU, and on the other hand there is almost equal proportion of Chinese companies.

4.3 Limitations of the research

One of the main issues is related to the analysis, since it does not provide direct evidence of entry mode choice and its relation to culture, and furthermore there were no questions either in the interview or in the questionnaire that would discuss this issue. Entry mode choice was analyzed indirectly and individually for each company that participated in the interview, meaning that major findings can have only illustrative value and there can be no generalization in the conclusion.

As mentioned previously, there were issues also related with sample size and sampling. In the interview only four companies were participating, representing only two countries among 27 in the EU. This means that the analysis of interviews and its findings can also have only an illustrative value, since interviews don't cover all EU nations. The main reason for small sample size is companies' willingness to participate in the survey. Companies that were included in the research were selected on the basis of previous knowledge about them and in the personal connections with people that work for them. Small sample size occurred also in the questionnaire, where from desired 100 there were only 72 participants. Also here similar issue occurs and is related to the willingness of cooperation and participation in the survey. To get the sample of 72 companies more than 1000 emails were sent, meaning that the participation was only 7,2 %.

Besides the sample size there was also a problem with access to the questionnaire, which was created in the Google docs' format. In China there is a limited access to the Google website and several Chinese companies could not participate in the survey.

4.4 Results of the research and main findings

Results of the present research are presented in two parts, being the first part related to interviews and their presentation, and the second part related to the questionnaire.

4.4.1 Analysis of interviews with the selected companies

Each interview will be analyzed individually; therefore their respective results are presented in four parts. There is one major difference between the analysis of each, since two companies are involved only in international trade with China and the other two companies have also investments in China. For these two companies, further analysis of cultural distance between their host and domestic market was made and results were linked with theoretical background.

4.4.1.1 From Portugal to China

Mundinautica, Lda is a Portuguese company that distributes fishing and diving equipment - “[...] our main activity is the production, import and distribution of nautical products.”³ After two decades of successful trading with China, they decided to make also an investment in this country. The company decided to enter the Chinese market because it was previously trading with China (both importing and exporting) and they saw an opportunity to make an investment there. Their main activity there is the production and the trade of nautical products, and their own label of brands was established on the basis of their twenty years of experience in doing business with Chinese producers.

There were several reasons that influenced the decision of entering Chinese market, such as labor (manpower), price, rapid growth, development of technology and well-diversified market. Mundinautica established a legally independent, physical company in China two years ago, in order to ensure some essential tasks, such as:

- More effective quality control
- Support in logistics
- Product development

Besides previously mentioned tasks, the presence of this company in China will also have the purpose of allowing the distribution in the Chinese domestic markets, through the brand of the Portuguese company. Therefore, Mundinautica has been involved in international business with China in two different ways, firstly with *trading (importing)* and secondly through a foreign direct investment in this country. The company had in China a *greenfield/joint-venture investment* with a local partner.

During all these years performing business with China, managers of Mundinautica have detected several differences between European and Chinese cultures. Most of the differences are “[...] reflected in the relationship among the several entities and actors of the business circuit.” In fact, the main differences are related to the opportunities that can be detected in

³ All quotations in this section are taken from interview with the manager of Mundinautica

the Chinese market. “[...] due to the market dimension - demand and supply have dimensions that allow companies to have a better selection of the business partners, as well as there are many communication facilities [...] one of the mostly seen differences is the language that plays important role.”

Socially and educationally, Chinese people are seen by this company’s perspective in considerably different levels in comparison to European people. “[...] European people try to take advantage of the huge economic potential and added value existent, since the political and legal barriers are easily overcome [...] Concerning religion and differences that follow from it, there is no evidence of obstacles that will affect the business or the company’s prosperity - “[...] even though differences exist, business goals are the main priority, so they can be perfectly overcome.”

As this company believes, companies from the European Union will always have to consider the maintenance of a long term relationship with China. “Where there are difficulties, there are also opportunities”, which should be the slogan for all companies that wish to develop a privileged relationship in China. “It is certain that growth of Chinese market will continue also in the future, which will influence also on their domestic market [...] This will be a decisive factor for many European companies to be able to have the dimension they need to the standardization and consolidation of their business.”

Regarding Hofstede and his cultural dimensions, there is some evidence of these phenomena in practice. Notwithstanding their existence, it is generally considered that they do not represent any negative influence to business. “As seen in the example of the company, women are much more hardworking and productive, with men being more available to the planning and management area [...] everyone works very well in teams, and that influences the good functioning of processes and proclivity.” Due to political and cultural constructs, in China “[...] there is no individualism because everyone puts the collective goal above their personal goals, which transmits a great dynamics and interaction in the value chain.”

Differences in the perception of time can be also seen in the case of China, where a long- term orientation and strategic planning exist. This fact brings evident benefits to companies, since they can establish more consistent cost/benefit standards and investments are always protected by a more global and long- term vision. This company is taking this advantage of the situation through investments in distribution structures to the period in next 3 years because they know that the outcome can be predicted.

“In China most of the companies live perfectly with collectivistic mentality, which is a main thought also among the population itself [...] this does not affect negatively the relationship between local and foreign companies and also will not have affect in future investments in China. Furthermore there are big differences in distribution of power, but what exists does

not bring any influence, positive or negative, to the normal relationship between local and foreign companies.”

Multinational companies would perform better if they would focus more to the culture of their host countries and its characteristics because they will develop faster and safer and they will get more beneficial return from the investment they made. “The best way to learn about the country’s culture is to stay in the foreign territory for a long period, which ensures that everything gets more clear and safe especially when you know how to interpret and adapt to the existing rules.” As this is the case in any market, it is true also for China and its market-where companies invest and develop their business.

Cultural Distance between Portugal and China

The table below (Table 7) presents the scores for each cultural dimension for Portugal (where Mundinautica, Lda comes from) and its host country, China. Furthermore, distances between each dimension have been calculated in order to see the impact of CD on the entry mode selection.

Table 7: Cultural dimensions for China and Portugal

	Home country	Host country	Differences
Power distance index (PDI)	63	68	5
Individualism (IDV)	104	25	79
Masculinity (MAS)	27	57	30
Uncertainty avoidance index (UAI)	31	29	2

Cultural distance between Portugal (home country) and China (host country) is 2,955⁴. If we compare this CD with other countries, we can say that this is quite high value. When we connect the findings from the respective interview with the theoretical background, it is seen that we can relate it to the findings of Kogut and Singh (1988), which say that higher CD will result in selection of JV over acquisition. In fact, Mundinautica entered the Chinese market through a joint venture and a greenfield investment. This can also be related with findings of Barkema and Vermeulen (1998), which argue that when big CD exists, companies prefer greenfield investment over an acquisition.

Furthermore, a comparison of individual cultural dimensions with the answers of this interview shows that the most important dimension for the company Mundinautica is long term orientation, which can be seen in their strategic perception of time, resulting as a benefit for future investments. Other dimensions, such as prevailing of collectivism over individualism, can be found in practice but do not present a significant impact on international

⁴ $CD = \frac{(5*5)}{503,2} + \frac{(79*79)}{605,5} + \frac{(30*30)}{620,8} + \frac{(17*17)}{324,1} / 4$

business itself (from the perspective of this company). To conclude, we can say that Mundinautica example shows that cultural dimensions are important and that culture influences international business (FDI), but not all of the dimensions have the same importance. Moreover, from this case is also seen than CD can impact decision on entry mode choice and the ownership structure of the investment. Even though that Mundinautica is a good example of how cultural dimensions influence international business, no generalization can be made on the basis of one company.

4.4.1.2 Gorenje enters Chinese market

Gorenje, d.d. decided to open an office in China at the end of 2005, with the intention to ensure an easier way of making business between headquarters in Slovenia and Asia. Initially, their work was mainly focused on supplying the main production facilities with different materials and components, produced in China, but soon they realized that they could also sell their product, that belong to high price segment, to Chinese market.

China does not impose special limitations to foreigners who want to establish companies or representative offices. Moreover, China is willing to accept inflows of foreign capital so they ensure that establishing business units runs without unnecessary complications. “Foreign capital is most wanted in those areas where Chinese lack of experience or knowledge. The Government supports the establishment of foreign companies in China through special benefits such as support in infrastructure and tax reliefs, among others. The mode and the intensity of support depend on the type of the industry.”⁵ Gorenje started to operate only few months after they entered China, through support of starting capital and documents.

To make sure that this company would perform positively on the market, they established a special brand for whole Asia some years ago, which they sell not only in China but in all Asia. Through a strategic marketing program, they started to search for a business partner and to create higher brand awareness. In 2008, Gorenje presented its line of product in an international fair for interior equipment in Shanghai, where they also received a prestigious reward: “China home style award for the best brand of the year 2008”. This fair brought attention to new business partners from China, Taiwan, Thailand and other Asian countries.

Entering the Chinese market also showed that there are many differences between the way of doing business in domestic market (Slovenia) and host market (China). Even though China is involved in international business and a part of WTO, this did not change the way that they perform business. “The most important characteristic of Chinese people is that they master the negotiation techniques where they act smart, patient and also ‘tricky’ [...] during the process

⁵ All quotations in this section are taken from interview with the sales representative of Gorenje

of negotiation, they want to lead ‘the game’ and don’t rush with their decisions.” Moreover, the negotiation process can be very long, which can create the need for solving problems (e.g.: reclamations). “One of the most significant things is that the end of negotiations and start of cooperation doesn’t finish/start with signature of the contract. The most important during the whole process is the relationship between business partners, so called ‘guanxi’ [...] - through personal connections, social networking, and good relationship it is possible to achieve much more than with the contract agreement itself [...] when you gain the trust of a local Chinese partner, you have the biggest advantage to create a successful business.”

Between Chinese and Slovenian cultures there are several differences that influence the business performance. Understanding these differences is the most important action to avoid conflicts. “When performing business with China, the following personal characteristics play a major role: patience, thoughtfulness, cleverness, cautiousness and also courage, ingenuity and business luck. As there is a huge gap between Chinese and Slovenian cultures, it was said that if you succeed in China, you can be successful everywhere else.”

Concerning Hofstede’s cultural dimensions “[...] the most important characteristic related to the Chinese culture is long- term orientation. This can be seen in the long negotiation process, as mentioned previously, as well as on their perception on more strategically oriented thinking.” In Gorenje, managers see Chinese perception of time as something positive, that fosters business, since it contributes to better established relationships and long- lasting partnerships.

Besides long- term orientation, there is a considerable difference regarding collectivism and individualism. “Prevailing of collectivistic mentality in China influences business performance - it is more important to have good connections and relations with people than to have positive business results. Collectivism can foster international business only when companies follow the Chinese way of doing business, while contrary to that they can fail very easily.” Gorenje also found that in China there is high uncertainty avoidance, prevailing of masculinity and bigger differences in power distribution than in their domestic market. However, in managers’ perspective, these three dimensions do not affect international business. As seen, companies need to adapt to cultural changes if they want to perform successfully in their host markets as well as to have positive business results.

Cultural distance between Slovenia and China

Scores for Slovenia were taken from the research of Avramška (2007). The lower table (Table 8) shows the value for each dimension and the difference between domestic (Slovenia) and host country (China) in the case of Gorenje.

Table 8: Cultural dimensions for China and Slovenia

	Home country	Host country	Differences
Power distance index (PDI)	37	68	31
Individualism (IDV)	99	25	74
Masculinity (MAS)	34	57	23
Uncertainty avoidance index (UAI)	48	29	19

Cultural distance between China and Slovenia is 3,229⁶, which is much higher in comparison with Portugal and China, therefore we can say that there is a big cultural gap between China and Slovenia. On the case of Gorenje, we can see that company firstly started to perform trade in this geographical area and after decided to make an investment.

Since there is a big cultural distance between Slovenia and China, we can link the case of Gorenje with Barkema and Vermeulen (1998) theory, that says companies would prefer greenfield investment over an acquisition when there is a big cultural distance between host and domestic country. Besides greenfield investment, Barkema and Vermeulen also found that companies would prefer WOS over joint ventures when there are bigger CDs. This can be clearly seen in the case of Gorenje, where the subsidiary is fully owned by the main company in Slovenia. By having a 100 % of share in the company, Gorenje can lack of experiences in foreign market and also they do not have all of the knowledge they could have if their investment will be JV.

Gorenje gained knowledge about the Chinese market during the phase of trade, and used it when investing in this market. The previous business with China enabled them to better understand the Chinese culture and the way to perform business. Furthermore, their experiences and specific knowledge allowed them to have WOS over JV, which is also the reason why this case does not fully comply with theory.

4.4.1.3 Importing frozen vegetables from China

Digit d.o.o. is a very successful wholesaling company which has established distribution channels all over Slovenia. The main activity of this company is the import of goods from different parts of the world. In recent years, they have been also exporting, especially to Austrian and Croatian markets. During about two decades of constant growth, they have established good business relationships with many world-wide known companies such as Friesland-Campina, Aviko, Remia, Higlo, Henry Lamotte and others. Their product range is very wide and includes deeply frozen vegetables, deeply frozen fruits, canned vegetables and sauces, cheese, meat products, toppings such as mayonnaise and ketchup, etc.

⁶ $CD = ((31 * 31) / 503,2 + (74 * 74) / 605,5 + (23 * 23) / 620,8 + (19 * 19) / 324,1) / 4$

This company has also been working with China, from where they import mainly deeply frozen broccoli. They selected China “[...] on the basis of an analysis of their products, that included sample tests for quality and market tests for price [...] the analysis showed that the offered products had good quality and could be sold under the current market price.”⁷ Among the country characteristics, economic forces were the one that mainly affected this company’s decision. “[...] products could be bought 15 % below the European price and included all costs such as transportation costs, insurance costs, tariffs [...]”. As mentioned previously, Digit performs only trade as mode of international business, since they consider that “[...] for FDI you need higher initial investment, deeper knowledge about the host market and a reliable business partner.”

During all these years of performing business with China, Digit’s management detected some differences between European and Chinese culture, but they do not consider them to be relevant. “All business people from China are internationalized and their main goal is to bring business to reality, for example by selling products to the European market [...] consequently, they don’t mind about differences or if they exist, they overcome them.” With trade, differences in culture cannot be clearly seen because instead of using the domestic language, business is performed in English. As so, the main difference is in the economic philosophy, since “Chinese businessmen have a different perception of market - their business is seen as the ‘...amount of containers they can sell.’” Accordingly, this company did not have to adapt to differences that are related to economic philosophy because usually their exporters were adapting to them, being therefore the ones to overcome this issue. Differences in cultures do not discourage international business, because every open-minded businessman wants to learn more and accepts anomalies, vice versa.

Hofstede’s cultural dimensions give companies a deeper perspective about culture and its components. In Digit’s perspective, masculinity is prevailing in China, since the role of women in business is minor. Examples can be seen in trade fairs and other events where “Chinese companies are represented exclusively by men”. Even though women’s role is not as important as men’s role, this has neutral influence in international business, because the focus is not as much on people as it is on tasks and goals. Digit also neglects Hofstede’s findings, because they see China as a short-term oriented country. “All businessmen are focused on short-term goals and they do not build their markets like in Europe.” Usually, Chinese companies change their business partners according to the amount of goods or services which they can sell, and they do not build with them strategic partnerships.

The Chinese society is globally presented as unified, where collectivism is prevailing over individualism. Digit’s management shares this perspective about Chinese businessmen: “They usually concentrate on their main goals and they do not criticize other business subjects [...]

⁷ All quotations in this section are taken from interview with the manager of Digit

when you perform trade with them is hard to see deeper relations and to have a better picture of their strong ties.” Power among people is very concentrated and you cannot see major differences between people. “They still operate under rules of socialism that has also a taste of capitalism which can cause some differences.” In trading, usually differences cannot be detected, because Chinese businessmen do not show their status symbols and you can see differences only in their attitude, such as the way of showing respect. In general, it can be said that there is high uncertainty mentality. Chinese people offer what they know and they play by strict laws and rules. In addition, they have an established system for quantities and prices, which can be related with safety and security measures.

European companies do not have to focus on their host countries’ culture if they import from China, since Asian exporters request this. For bigger markets, such as Germany and France, sellers from China need to adapt to cultural differences. They have to conduct cost/benefit analysis, of adaptation according to benefit desired result from their selected market. The best way to learn about a country’s culture is like learning a foreign language: ” It is not enough to do desk analysis, you have to breathe with the country you are doing business with.” Furthermore, you have to visit host country, visit trade fairs and, if you have FDI, also live there for a short period. “This cannot be performed through simple tourist visit, but real business activities.”

4.4.1.4 China and its exports of fireworks

Among many other companies, Lecana imports products exclusively from China. They started their business with pyrotechnic products in 1996 and after that have been constantly widening their product range, nowadays including also cleaning products, packaging for furniture, etc. The most important country characteristics that influenced their decision to start doing business with China were economic forces. Besides importing, they also perform licensing “[...] I can order products under our own brand and sell furthermore the license to produce it.”⁸

The biggest gap between Chinese and European culture is the political philosophy, since [...] in China there is communism, which differs a lot from our democracy and capitalism.” The most fascinating fact is how has a communist country, which is open for international business, been growing in the last decade. “The standard of living is rising rapidly since European countries and America are suffering from recent financial and economic crisis. In the future, Europe will have to restart the production of many facilities if it wants to maintain high standards of living.” What matters the most for business is to learn from the Chinese way of working, to conquer their working habits and willingness to try several businesses. Lecana

⁸ All quotations in this section are taken from interview with the manager of Lecana

considers that the differences or similarities between Chinese and European culture do not have impact on international business since “[...] business always finds its own way, no matter the social structure, religion, language, social norms or education.”

In China, masculinity is prevailing and impacts the specific production for their home market, as well as the characteristics of their products. Their way of performing business can be seen as long-term oriented, which influences business in Europe since prices of goods European companies buy are higher every year. Furthermore, they are developing higher standards and they can no longer produce goods for lower amount of money. This does not have impact on other Hofstede dimension- collectivism - which is also very high in China, where people are more connected in comparison with Europe. Moreover, every single individual is willing to do something beneficial for the society as a whole, which has a positive influence on international business. So far, Lecana did not have any experience regarding distribution of power; therefore they could not comment about its impact on international business. They gained more knowledge about uncertainty avoidance, which they relate with government and its intervention in business. In fact, the Chinese government is constantly monitoring the economic situation, and many cases of intervention were conducted in order to maintain economic stability and foster economic growth in general. Even though the government’s role is important, it does not have any impact on trade.

To conclude, it can be affirmed that culture does not represent an important role for Lecana, since they believe that “culture and business are totally independent.” According to this company, the best way to learn about a foreign country is to travel abroad - “[...] when you meet a lot of local people, that can tell you about their way of life and performing business activities and make them share their experiences with you.”

4.4.2 Analysis of the questionnaire

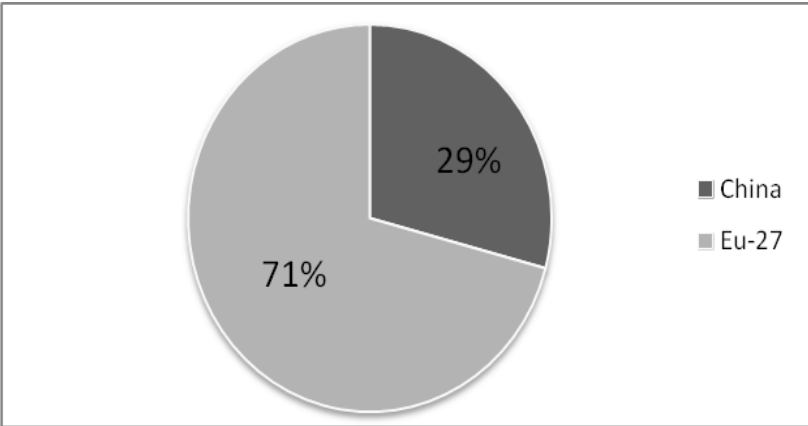
The analysis of the questionnaire will be presented in four main parts: The first part will be related to entry mode decisions and most influential factors, the second part to culture and international business, the third part to Hofstede and his cultural dimensions and the last part to the importance of cultural differences in international business.

4.4.2.1 Entry mode decisions and most influential factors

Most of the companies that participated in the survey were from Europe, representing 71 % of all respondents. The other 29 % respondents represented Chinese companies. In total, there were 72 participating companies that are involved in international business between Europe and China (Figure 13).

This structure enables a deep understanding of what is the perception of Asian and European companies about culture and its influence on international business. Furthermore, through their involvement in multicultural sphere, it is also possible to understand which determinants of culture have impact (positive or negative) on their business and how they overcome cultural differences.

Figure 13: Company's Origin in %

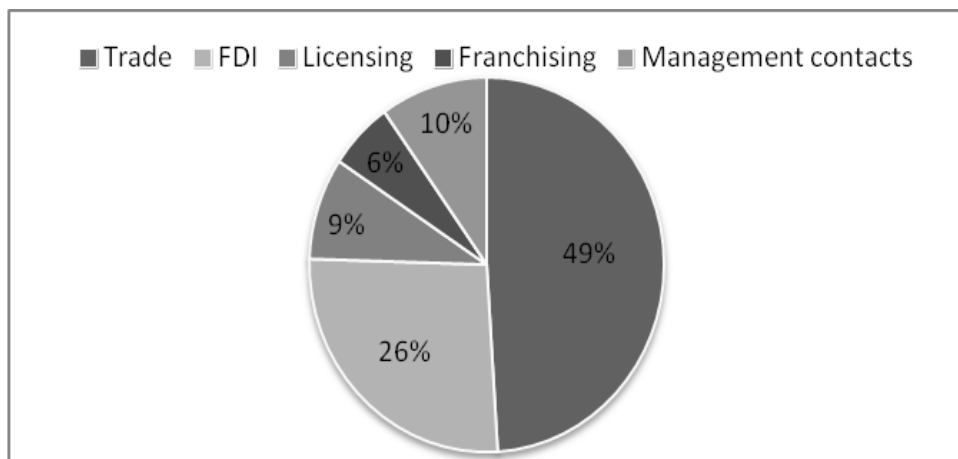


Although this survey could not cover all European countries, the most important were included in the sample including Northern, Western and Eastern European companies.

Majority of the companies were Slovenian (14 answers), followed by French (8 answers) and Italian companies (7 answers). Personal connections with some of these countries' companies helped in achieving the higher response rate. The smallest number of answers came from Belgium, Denmark and Bulgaria (one answer each).

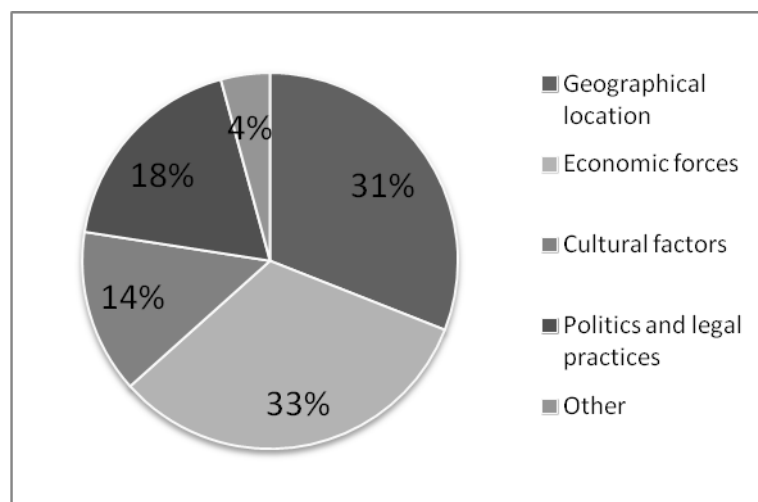
As mentioned previously, only those companies were selected that were involved in international business. Since there are different ways of performing international business companies were further classified according to their mode of international business. The results indicate that the majorities of the companies were involved in trade at an international level: almost half of the companies (49 %) actively import or export goods or services from China. The second most used mode of international business is foreign direct investment, with 26 % of companies having investments in foreign countries. As also indicated by the survey Franchising, Licensing and Management contacts are not as popular as the other two.

Figure 14: Mode of International Business in %



Before entering the foreign country, companies usually conduct an analysis of its macro and mezzo environment, which helps the companies to precisely understand the country's functioning and enables them to further conduct a cost/benefits analysis.

Figure 15: Most Influential Factor in %

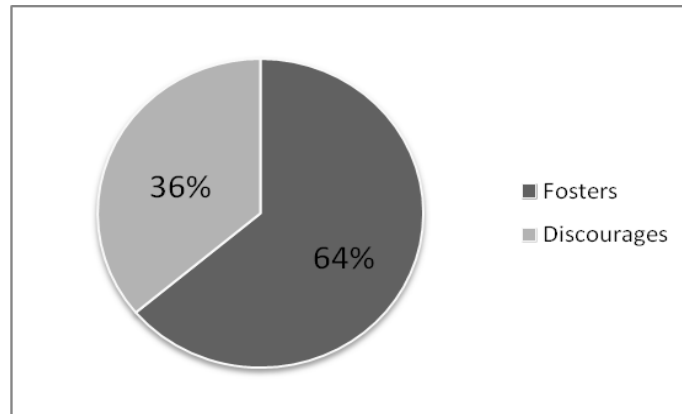


Moreover, several factors have major influence on the final decision as whether to enter the foreign country's market. Such factors include the geographical location, economic forces, cultural factors and politics and legal practices (Figure 15). The most influential factor for companies is economic forces (33 %), closely followed by geographical location (31 %). Politics and legal practices and cultural factors are also important, but not as much as these last ones. Still, it can be seen, on the basis of the companies' answers, that culture is a factor that has impact on international business.

4.4.2.2 Culture as an important factor in international business

As seen in the previous section, culture is a factor that has impact on international business. All factors can influence business either positively or negatively. If there is a positive influence, the factor fosters international business; by contrast, if there is a negative influence, the factor discourages it.

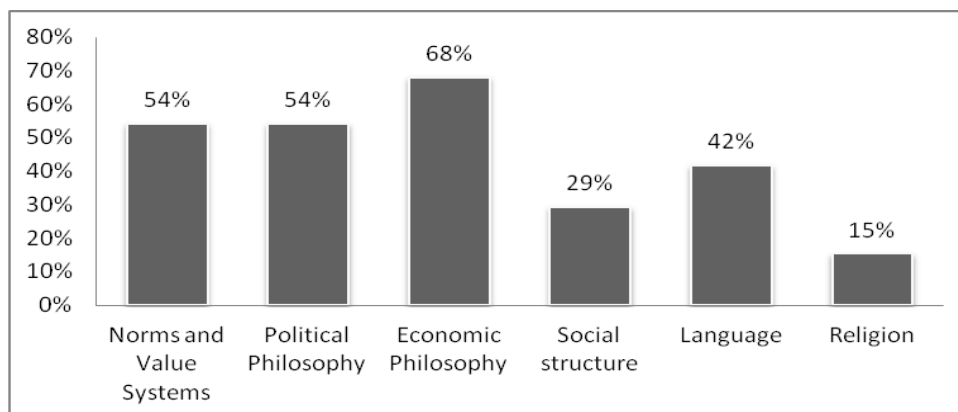
Figure 16: Culture's impact on international business in %



As the survey indicates the foreign country's culture does have a positive impact on business. Almost two thirds (64 %) of the companies answered that the culture factor fosters international business and one third of them (36 %) that it does not (Figure 16). Thus we can assume that in general culture tends to have a positive effect and to foster international business; this confirms the central role of culture in business.

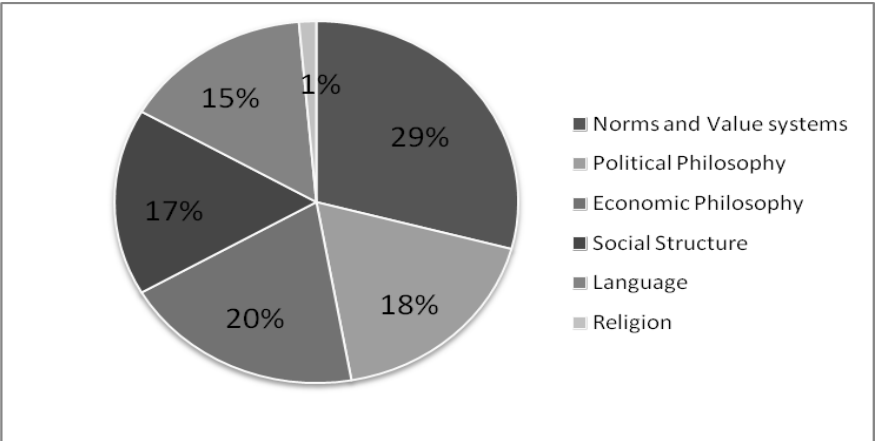
Culture is deeply rooted in certain societies and it emerges from the combination of different components such as religion, norms and values system, social structure, economic philosophy, political philosophy and language. Each of these components can have a different value of importance in a certain culture and can mostly determine it.

Figure 17: Most influential cultural dimension



The most important determinant of culture is economic philosophy, since it was selected almost 50 times which corresponds to 68 % (Figure 17). Political philosophy and norms and value systems follow it, each scoring similarly (54 %). The least important component is religion; this is not surprising given that both in developed and developing cultures religion appears to play an increasingly marginal role.

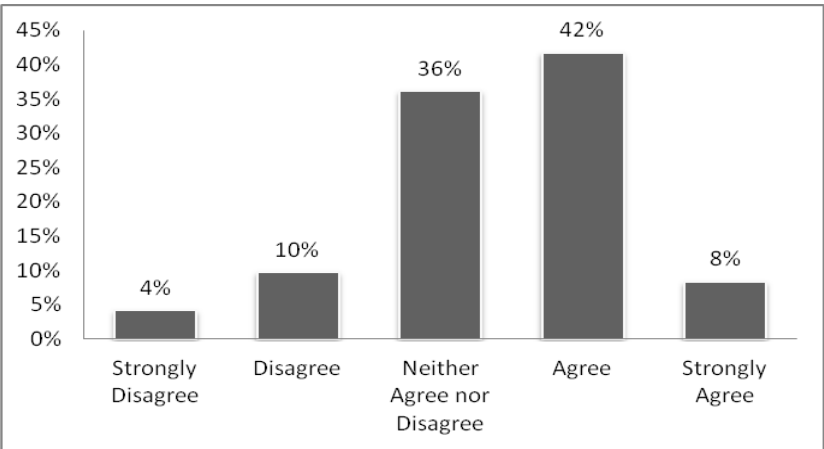
Figure 18: Cultural determinant that differs mostly between China and EU in %



The same determinants were used to find out where Chinese and European cultures differ the most. Most of the determinants obtained similar score, except for religion, that was selected as an answer the least number of times. Also to be noticed is that norms and values system is the determinant where China and EU have the highest cultural gap (Figure 18).

Finally, this section’s aim was to find out whether culture represents an important factor. The evidence so far suggests that this is the case. This was further confirmed by the companies themselves as indicated in the following graph (Figure 19).

Figure 19: Culture as an important factor

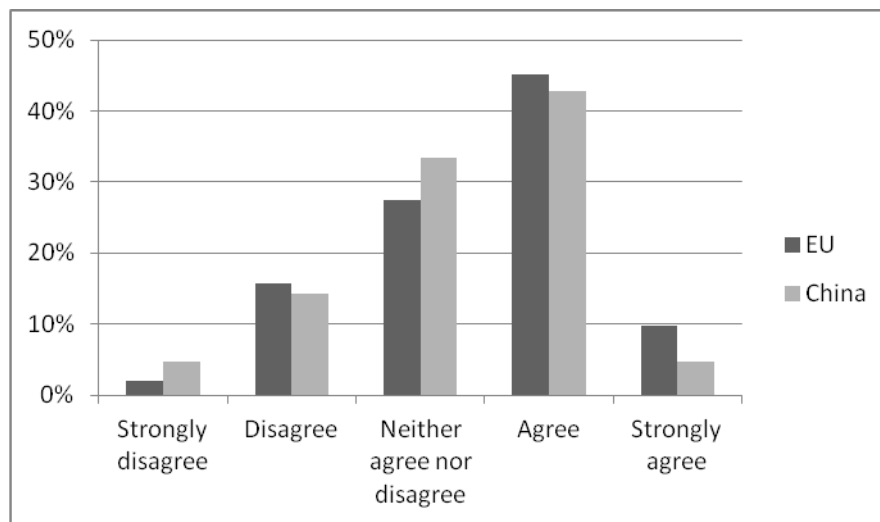


4.4.2.3 Hofstede's cultural dimensions in relation to international business

Hofstede's cultural dimensions are important indicators for cultural dynamics in certain countries. The first among these five dimensions is masculinity versus femininity, that suggests how well societies cope with biological differences between the two sexes and how this influences international business.

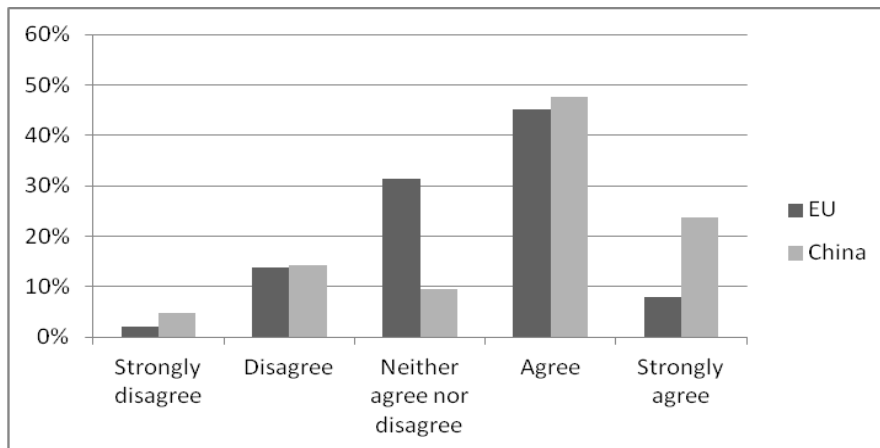
Most of the companies that participated in the survey agree that a male oriented culture does have an effect on their business. However the effect may not be that strong, since 29 % of the companies claim that masculinity does not have a significant influence (Figure 20). The distributions are similar for both, Chinese and European companies, suggesting that companies were providing almost the same answers regardless to their cultural background. The biggest gap between European and Chinese participants can be seen in the answer "strongly agree", since 10 % of European companies strongly agree that masculine mentality influences international business, while on the other hand only 5 % of Chinese companies share the same opinion.

Figure 20: Masculine mentality and its influence on international business



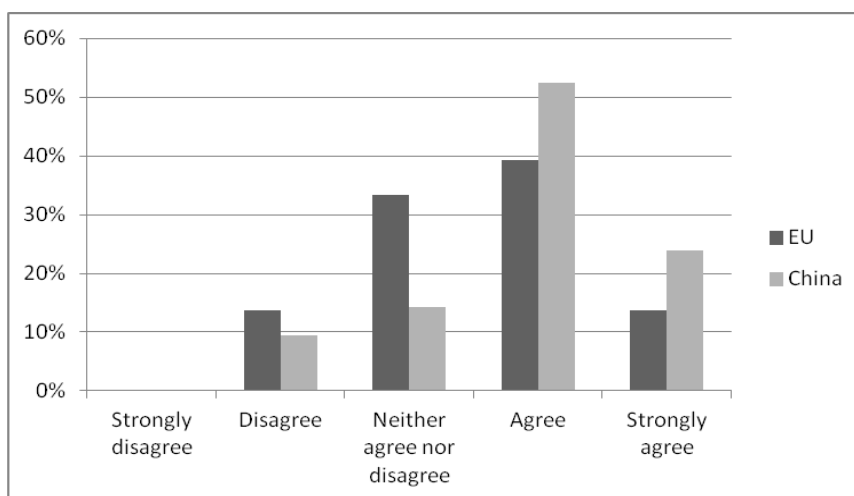
The second dimension mentioned is power distance, which shows how power is distributed in a certain society and suggests whether there are inequalities in it. There is some disparity in the distributions suggesting that companies from China and EU have different perceptions of the extent that power distance affects business. The average European company perceives the impact of power distance on business to be less significant than the average Chinese company; 31 % of European companies believe that power distance has a neutral effect on international business, while only 9 % of Chinese companies have such an opinion. On the other hand 23 % of Chinese companies strongly agree that power distance influences international business while only 8 % of European companies do (Figure 21).

Figure 21: Power distances and their impact on international business



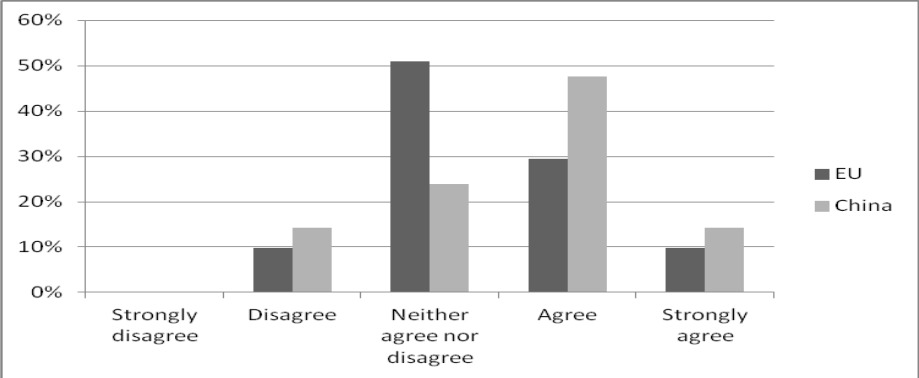
Concerning now long-term orientation, it is significantly higher for East Asian countries, which is in accordance with the theoretical chapters of this study. In fact, none of the companies strongly disagree that long-term orientation has an impact on international business. The options “strongly agree” and “disagree” scored low values. Most of the companies agree that long term orientation influences their business having a positive impact. But differences can be seen in the distributions of answers from EU and China. While Chinese companies find that long-term orientation influences international business more strongly than do European companies. This is evidenced first by the differences in values for the answers “agree” and “strongly agree” between Chinese and European companies (10 percentile points more in the case of Chinese companies). Furthermore, while 33 % of European companies believe that long term orientation has a neutral influence on their business, only 14 % of Chinese companies share the same opinion; this corresponds to a 19 percentile points gap. (Figure 22).

Figure 22: Long term orientation influence on international business



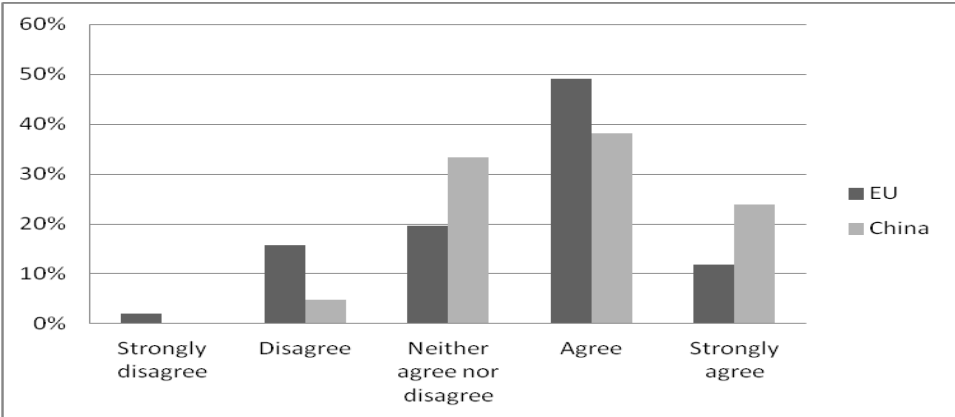
Moreover, for collectivistic mentality, none of the companies strongly disagree, but contrary to long term orientation, the respondents seem to believe that strong ties among people have neutral influence on international business. Regarding collectivistic mentality there is the biggest divergence in the answers by Chinese and European companies. While European companies (51 % of them) believe that collectivistic mentality has a neutral impact on international business, Chinese companies (48 % of them) agree that collectivistic mentality does have an impact on international business. Therefore, the difference concerning neutral influence is very high (the highest among all dimensions) amounting to 29 percentile of points. The reason for such a disparity of answers is in cultural scores for this dimension, since China has a much lower IDV index than the European Union (Figure 23).

Figure 23: Collectivistic Mentality



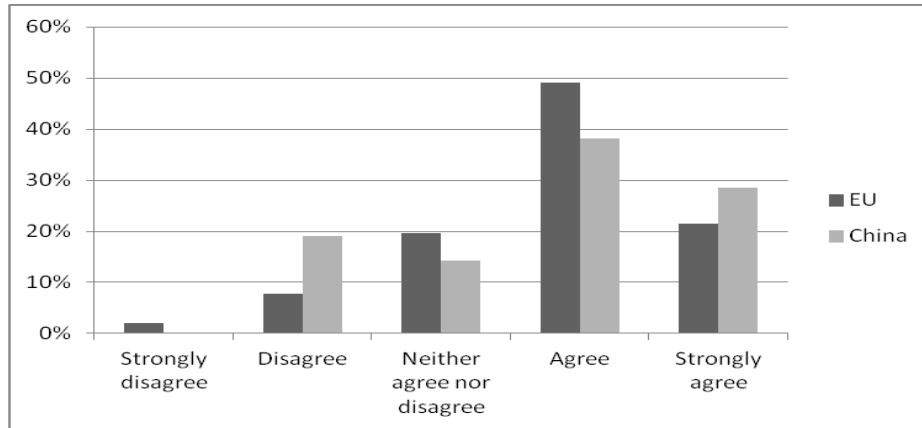
Companies that participated in this survey see uncertainty avoidance as the dimension that has the highest influence on their business, with almost half of them (46 %) agreeing with that statement. Other companies answered quite differently and this is shown by the similarity of the scores for “disagree”, “neither agree nor disagree” and “strongly agree”. Further, for almost all items there is a difference between answers for Chinese and EU companies of about 10 percentile points (Figure 24).

Figure 24: Uncertainty avoidance influence international business



Despite the fact that language does not belong to Hofstede’s dimensions, it is still an important part of culture that can influence international business, as seen in the figure below.

Figure 25: Language as an important factor in international business

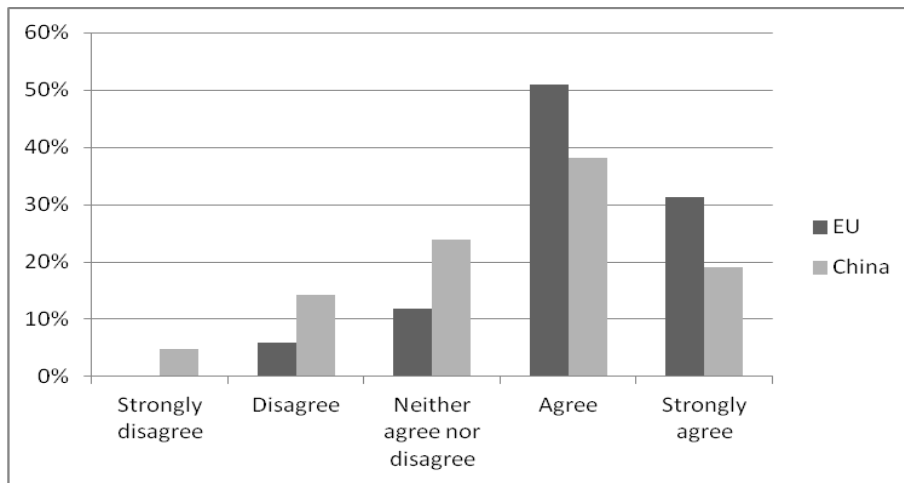


In fact, the distribution of answers regarding language is similar to the one for uncertainty avoidance - almost half of the companies agree that language is an important factor that impacts international business. Furthermore, 24 % of the companies strongly agree with this and only one company strongly disagrees with this. Moreover, 17 % companies share the opinion that language has a neutral effect on international business and 8 % of them disagree with this (Figure 25). Language as well is a dimension for which Chinese and European companies have a different perception, given that the divergence between their answers amounts on average to 7 percentile of points.

4.4.2.4 Adaptation to cultural differences

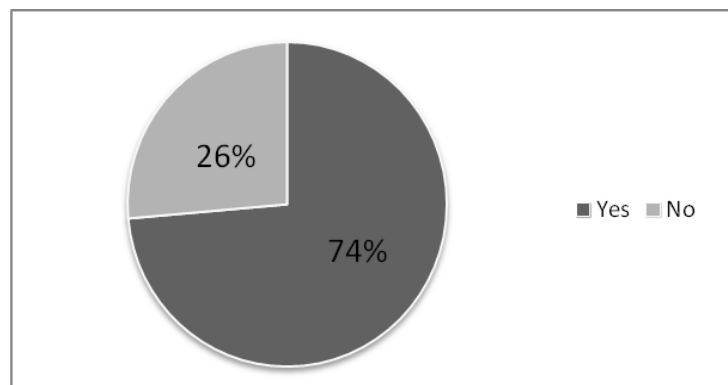
The big gap between European and Chinese culture was calculated in the previous chapter (cultural distance). A similar conclusion was reached through the questionnaire, with 75 % of the respondents agreeing or strongly agreeing that there is a big cultural gap between these two societies. Only 8 % of the respondents disagree and just 1 % strongly disagrees with this statement. While Chinese companies believe that this gap is not so big, European companies see it as much larger. The divergence of answers between Chinese and European companies is high, since the answers differ in average by 10 percentile points (Figure 26).

Figure 26: Gap between European and Chinese culture



In conclusion, most of the previous answers confirmed that culture and its dimensions influence international business and that there is a big gap between European and Chinese culture. The last question concerns adaptation to cultural differences. According to the responding companies, this latter dimension is also very important in order to reach a better performance and long-lasting relationship with business partners (Figure 27).

Figure 27: Adaptation to cultural differences in international business in %



4.5 Main findings

Conducted research is not representative regarding the issues that occur in the process of implementation and therefore cannot provide valid general answers. Nevertheless it is an interesting illustration of how culture influences international business between China and European Union. The main findings of research are the following:

- The importance of being present on the Chinese market is getting higher every year;
- The Chinese market is a good example of companies' need to adjust their business models, and since it is hard to become successful in China, it helps them to become better in performing business on an international stage;
- Companies can perform international business in several different ways and one of the most used modes is international trade (used by 49 % of the companies that participated in the survey) followed by foreign direct investments (used by 26 % of the companies that participated in the survey);
- One of the most influential factors related to entering a foreign market is culture, but there are still other factors such as geographical location, economic forces and legal practices that have a stronger influence on companies' decisions;
- Culture can either foster or discourage international business – 64 % of participating companies believe that it fosters it;
- There are many determinants of culture and the most important one is economic philosophy followed by norms and value systems and political philosophy;
- Chinese and European cultures differ a lot, which was confirmed with the calculation of the index of national CD. Also, the cultural determinant 'norms and value systems' is the one where these two cultures differ the most;
- Most companies (42 %) agree that culture is an important factor in relation to international business;
- Hofstede's cultural dimensions are important for decisions in international business;
- Prevailing of masculinity in certain countries has an influence on business performance with this country;
- High scores of LTO index are more significant for Asian countries, meaning that more long-term oriented thinking can have an influence on business decisions;
- Collectivistic mentality is the only one among Hofstede's dimensions that has neutral effect on international business;
- Uncertainty avoidance is also a determinant that impacts international business,
- Power distance shows how power is distributed in a certain society and it also has an influence on decisions in international business;
- Language does not belong to Hofstede's dimensions, but it is an important part of culture as well, so it influences international business;
- Besides index of national CD made by Kogut and Singh, the survey undertaken also shows that there is a big cultural gap between Chinese and European culture;
- Companies that participated in the survey agree (74 %) that adaptation to cultural differences is important in order to reach better performance and long-lasting relationships with business partners;
- The interviews suggest that the best way to learn about a foreign culture is to travel abroad, start in a foreign country with business activities, visit trade fairs, enlarge existent social network and be flexible.

The findings allowed me to answer all questions that were set as guidelines for this master thesis. I found out that there is a big gap between Chinese and European culture. This was confirmed both by Kogut and Singh index of national CD and answers from the questionnaire. Furthermore, I managed to discover that cultural differences foster and accelerate trade and FDI between China and European Union. Nevertheless, there was not completely adequate data to examine the two modes of performing international business individually or make distinction between them. Hofstede's cultural dimensions were set as the background for both researches and through the answers received I managed to see which of them have an influence on international business and which of them do not have. Also, no further distinction was made to see how they influence only trade on one hand and FDI on the other. By providing answers to these questions I achieved the purpose of this master thesis.

Through the findings of the current analysis I could reach the *main goal*, set on the beginning of this master thesis, but not fully. It allowed me to see that cultural dimensions that were defended by Hofstede do have an influence on international business in general. I could not find out which among dimensions influence only FDI or/and only trade. Nevertheless, all the other goals were reached, since this thesis includes the examination of Chinese and European cultures' characteristics, gives definitions about foreign direct investments and trade, provides an explanation of cultural dimensions with a support of Hofstede's theory, offers an empirical explanation about relations between international business and culture and adds a contribution to science based on interpretations of previous researches and analysis of gathered data.

On the basis of the revised theory, previous research and my own analysis, I managed to *partially confirm* the main hypothesis, meaning that **differences in cultural characteristics of China and EU play an important role and influence international business between them**. Hypothesis was not fully confirmed since the results of the analysis provide only illustrative overview about the selected subject so we cannot generalize any of the results, yet they can be a good guide for rethinking of cross cultural issues in international business between EU and China. On the basis of analysis I found out that cultural differences between Chinese and EU influence international business, but no further analysis, that would show more dimensions of this influence impact, was created. Therefore the analysis just confirmed one of the most common "rules" in international business.

CONCLUSION

Nowadays, we live in a globalized world where national economies are integrated into the international economy through trade, foreign direct investment, capital flows, migration and the spread of technology. For companies, it is not only important to perform good on a national stage but also internationally. The importance of international business can be also seen in the case of EU and China, where transactions are expanding dramatically every year. China is the most important challenge for EU trade and international business policy, since it is now its second trading partner (after the USA) and the biggest source of imports. Even though international business between EU-27 and China has been quite successful, it would probably be better if there were no cultural differences affecting FDI and trade.

In this master thesis I achieved to find what constitutes the link between dimensions of culture and international business. Furthermore, I analyzed the characteristics of Chinese and European Culture, explained the meaning of foreign direct investments and trade between China and EU, gave a presentation of Hofstede's cultural dimensions and created the link between his theory and international business. Providing reasonable answers to the main research questions I also confirmed the main hypothesis of this study, which stated that differences in cultural characteristics of China and EU play an important role and influence international business between them.

On the basis of my research, I also concluded that companies that are exclusively performing international trade could detect cultural differences between their domestic and host country. Moreover, these differences can influence their business activities and their performance. Accordingly, companies that have also investments in foreign countries have to make even more adjustments in order to have positive outcomes. These adjustments are related to ownership structure (wholly owned subsidiary vs. joint venture) and establishment mode (greenfield investment vs. acquisition). When there is a big cultural gap between host and domestic country (case of China and EU), companies will probably decide for joint ventures and acquisitions. Through the analysis of quantitative and qualitative data, I got an overview of the importance of Hofstede's cultural dimensions. I concluded that only one dimension - collectivism vs. individualism – does not influence international business, while the other dimensions - masculinity vs. femininity, uncertainty avoidance, long- vs. short- term orientation and power distance - have an impact on it. Moreover, the analysis also showed me that culture is important in international business and it is necessary to adjust to differences that result from it in order to have positive results.

There were several limitations during the process of conducting this thesis. Firstly, there is lack of data regarding international trade and culture, so instead of using concrete data I had to make some basic assumptions. The second issue is related to the participation of

respondents in the survey – I realized that companies are not always willing to cooperate and to be involved in research, so it is really hard to get a reliable sample. Furthermore, some of the companies that were willing to cooperate could not do it, because in China they banned Google, therefore it was impossible for them to answer the questionnaire, which was made on that web portal. The final limitation concerns European culture, since it is really hard to define the characteristics of it and find specific characteristics that could be reliable for comparison. Several limitations of the research prevented to make generalization of its findings and hence the research is limited to showing how culture influences international business only in an illustrative way.

Since international business is becoming more important, issues related to culture will also have an increasingly important role on multinational companies' decisions. For their optimal outcomes, more research will be needed to explain the importance of culture on international business, in order to ensure that they will make the best decisions. In the future, it will not only be important to understand which cultural differences exist between home and host country, but also to develop specific business models in order to overcome them.

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Appendix 1: Questionnaire

My Name is Rok Miklič and I am a student in Faculty of Economics in University of Ljubljana, Slovenia.

For my master thesis I am conducting a research about *cultural dimensions and their impact on international business between China and European Union*. With this research I intend to find out what is the link between culture and international business.

Findings of this research are expected to help companies, which are involved in international business, to have a broader understanding of culture and its importance in business.

This questionnaire consists of 17 multiple-choice questions and will take you approximately **5 minutes**.

Your answers will be anonymous and used exclusively for the purposes of my analysis.

1. Select your domestic country:

EU-27

China

2. If you previously selected EU-27, please choose your country:

Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain, Sweden, the United Kingdom.

3. Select your mode of international business (more answers possible):

Trade, Foreign Direct Investments, Licensing, Franchising, Management Contracts, Other

4. Select the factor that mostly impacts decision of entering into a host country:

Economic forces, Geographical position, Politics and Legal practices, Cultural factors, Other

5. The role of culture in international business is important:

1 Strongly disagree

2 Disagree

3 Neither agree nor disagree

4 Agree

5 Strongly agree

6. Do you think that culture fosters or discourages international business:

- 1 Fosters
- 2 Discourages

7. Which of the following determinants of culture do you find the most important (more answers possible):

Religion, Social Structure, Language, Education, Economic Philosophy, Political Philosophy, Norms and Value Systems.

8. Among the following determinants select the one in which Chinese and European culture differ most (only one answer possible):

Religion, Social Structure, Language, Education, Economic Philosophy, Political Philosophy, Norms and Value Systems.

9. Prevailing of masculine mentality influences international business:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

10. Power distances (distribution of power) among people influence international business:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

11. Long-term orientation (time perception) influences international business:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

12. Strong ties among people and collectivism influence international business:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

13. Uncertainty avoidance behavior influences international business:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

14. Language is important factor in international business:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

15. There is a big cultural gap between China and Europe:

- 1 Strongly disagree
- 2 Disagree
- 3 Neither agree nor disagree
- 4 Agree
- 5 Strongly agree

16. Do cultural differences between China and EU foster or discourages international business:

- 1 Foster
- 2 Discourages

17. On the line bellow please write three words that you believe describe your culture:

Appendix 2: Questionnaire results

Table 1: Results from questionnaire part 1 in %

Domestic country		%
	China	29
	EU-27	71
Country within EU		%
	Slovenia	15
	Portugal	6
	France	11
	Czech Republic	6
	Italy	10
	Germany	4
	Netherlands	6
	Bulgaria	3
	Romania	1
	Poland	3
	Hungary	3
	Belgium	1
	Denmark	1
	Slovakia	1
Mode if IB		%
<i>(more answers possible)</i>	Trade	70
	FDI	38
	Licensing	13
	Franchising	8
Most important factor when entering market		%
	Geographical location	31
	Economic forces	32
	Cultural factors	14
	Politics- legal practices	18
	Other	4
Most important cultural determinant		%
<i>(more answers possible)</i>	Norms and value systems	54
	Political philosophy	54
	Economic philosophy	68
	Social structure	29
	Language	42

	Religion	15
Determinant where Chinese and EU culture differ most		
		%
	Norms and value systems	29
	Political philosophy	18
	Economic philosophy	19
	Social structure	17
	Language	15
	Religion	1
Role of culture in IB is important		%
	Strongly disagree	4
	Disagree	10
	Neither agree nor disagree	36
	Agree	42
	Strongly agree	8
Culture's influence on IB		%
	Fosters	64
	Discourages	36
Prevailing of masculine mentality influences IB		%
	Strongly disagree	4
	Disagree	17
	Neither agree nor disagree	29
	Agree	43
	Strongly agree	8
Power distances among people influence IB		%
	Strongly disagree	3
	Disagree	14
	Neither agree nor disagree	25
	Agree	46
	Strongly agree	13
Long-term orientation influences IB		%
	Strongly disagree	0
	Disagree	13
	Neither agree nor disagree	28
	Agree	43
	Strongly agree	17

Table 2: Results from questionnaire part 2 in %

Collectivism influences IB		%
	Strongly disagree	0
	Disagree	11
	Neither agree nor disagree	43
	Agree	35
	Strongly agree	11
Uncertainty avoidance behavior influences IB		%
	Strongly disagree	0
	Disagree	13
	Neither agree nor disagree	24
	Agree	46
	Strongly agree	17
Language is an important factor in IB		%
	Strongly disagree	1
	Disagree	10
	Neither agree nor disagree	18
	Agree	47
	Strongly agree	24
There is a big cultural gap between China and Europe		%
	Strongly disagree	1
	Disagree	8
	Neither agree nor disagree	15
	Agree	47
	Strongly agree	28
Do cultural differences foster or discourage IB (China-EU)		%
	Foster	50
	Discourages	50
Is it necessary to adapt to cultural differences in IB		%
	Yes	74
	No	26

Table 3: Results from questionnaire part 3

Three words that you believe describe your culture*		
	Portugal	Hospitality
		Flexibility
		Risk-lover
	France	Self centered
		Proud
		Genuine
	China	Tactfully
		Condescension
		Fraternization
	Bulgaria	Honor
		Balance
		Work
	China	Realistic
		Humble
		Low-key attitude
	Slovenia	Avoiding risk
		Lack of ambition
		Playing it safe
	China	Civilization
		Conservation
		Reality
	Belgium	Tolerant
		Multilingual
		Secular
	Portugal	Tradition
		Liberty
		Direct
	Germany	Direct
		Bodenstaendig
		Target oriented

Three words that you believe describe your culture*		
	Slovenia	Power of law
	China	Traditional
		Political
		Multiplication
	China	Traditional
		Narrow
	China	Appetency
		Consider situation
		Study
	China	Respect
		Afraid to say 'no'
		Family importance
	Italy	Latin
		Christian
		Friendly
	China	Faithfulness
		Accommodating
		Honor
	China	Sincere
		Open-minded

*On this question was not mandatory to answer therefore there are not answers from all participants

Appendix 3: In depth interview

My Name is Rok Miklič and I am a student in Faculty of Economics in University of Ljubljana, Slovenia.

For my master thesis I am conducting a research about *cultural dimensions and their impact on international business between China and European Union*. With this research I intend to find out what is the link between culture and international business.

Findings of this research are expected to help companies, which are involved in international business, to have a broader understanding of culture and its importance in business.

Your answers will be anonymous and used exclusively for the purposes of my analysis.

- As you are involved in international business with China can you explain why you selected it?
- Which of the country characteristics effected your decision -Economic forces, Geographical position, Politics and Legal practices, Cultural factors; why?
- Which mode of international business do you perform (Trade, FDI, Licensing, Franchising, Management Contracts), why?
- Are there in your opinion big differences between European and Chinese culture?
- Can you explain more deeply where you see differences or/and similarities (Religion, Social Structure, Language, Education, Economic Philosophy, Political Philosophy, Norms and Values systems)?
- Can you explain how have you been coping with differences? Is it necessary to adapt to differences if they exist?
- Do differences or similarities foster or discourage international business between EU and China? How this can be seen in the case of your company?
- According to Hofstede there are several dimensions of culture- individualism vs. collectivism, long- vs. short- term orientation, power distances among people, masculinity vs. femininity and uncertainty avoidance.
- Do you think that in China masculinity is prevailing and how does this effects doing international business?
- Countries and cultures differ also in perception of time. Do you consider that Chinese people are long- or short- term oriented? How does this impact your business?

- Are in China strong ties among people and collectivistic mentality? Does this characteristic fosters or discourages international business?
- Distribution of power is important cultural dimension. Do you think that in China are small or big power distances among people. Is this bad or good for international business?
- In some cultures there is high uncertainty avoidance mentality. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute truth. Do you think China is one of these cultures and how does this impacts international business?
- Do you think that multinational companies will perform better if they would focus more to culture of their host countries and its characteristics?
- What is in your opinion the best way to learn more about the county's culture you are doing business with?

