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**MBA**

**International Business in Developing and Emerging Markets (IBDEM)**

## **Master Thesis**

# **Cross-Cultural Conflict Management Research in German Companies in China**

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September 2018, Freiberg, Germany

### **Declaration of Originality**

The content of this thesis contains no material that has been included in any other thesis previously accepted for a degree, diploma, or other qualifications in this or any other university or institution. To my best knowledge, all material and results which are not original to this work have been fully cited and referenced.

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Date

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Signature

## **Acknowledgement**

This master thesis represents the finalization of my MBA program International Business in Developing and Emerging Markets (IBDEM) at Technische Universität Bergakademie Freiberg in Germany.

I would like to take this precious opportunity to express my heartfelt gratitude to my supervisor Prof. Dr. Michael B. Hinner, for inspiring me and broadening my studies on cross-cultural conflict management. I will also thank you for conveying to us the valuable knowledge, for all the support from your side to me during my study.

My sincere gratitude also goes to IBDEM programme coordinator Prof. Dr. Johannes Stephan, for delivering us rich knowledge, for all the help, support during the entire MBA programme. Your efforts are a valuable treasure for all IBDEMErs.

Also, I would like to express my appreciation to Ms. Doris Geburek, for spending time in helping me work out my problems during the time of the research.

Finally, I am truly grateful to my dear family, friends, and classmates for all of your help, support, and understanding for my study and life.

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## **Abstract**

Since from China's reform and opening-up policy in 1978, China not only encouraged enterprises to invest overseas but also attracted large scale of foreign investment. Germany is the most significant investment source in China from EU. The economic globalization has made cross-cultural communication and transnational management an irresistible trend, but also caused cross-cultural conflicts in multinational corporations. The research questions are how do cultural differences influence conflicts and conflicts management styles in German companies in China? And how to manage them?

With German invested companies in China mainland as research objects, this thesis studies the culture concepts, conflict theories, Chinese and German cultures, and explores the relationship between culture and conflict management styles. By applying different cultural dimension models, Chinese culture and German culture differences are further discussed. Then using a designed research model that combines three cultural dimensions and the five styles model of conflict management, a case study is conducted to test the hypotheses.

The findings proved the positive relation between different conflict management styles and cultures, especially from the cultural dimensions of individualism, power distance, and uncertainty avoidance. The results also proposed a new research question on how specific cultural values influence conflict management. This research contributed to the study on cross-cultural conflict management, also provided practical suggestions on cross-cultural conflict management from a human resource perspective for overall foreign investors and policymakers.

***Key words:* China, Germany, German Companies in China, Culture, Culture Dimensions, Cultural Conflict, Conflict Management**

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### **List of Abbreviations**

BC	Before Christ
EU	European Union
FDI	foreign direct investment
GLOBE	Global Leadership & Organizational Behavior Effectiveness
UK	United Kingdom
USA	United States of America
WTO	World Trade Organization

## **Chapter 1. Introduction**

### **1.1 Research Background**

Since from the reform and opening-up policy of Chinese government in 1978, the People's Republic of China (hereinafter referred as China) started the "Go-out" economic strategy, which is to encourage enterprises to invest overseas, and also attracted large scale of foreign investment. With the rapid economic development, China became the world's second-largest economies. Riding the globalization trend, foreign investors entered the Chinese market with different internationalization strategies, including exporting, licensing, franchising, and foreign direct investment (FDI) as the highest form. The main FDI modes include establishing wholly-owned firms, and joint ventures. According to the World Investment Report 2018 from United Nations Conference on Trade and development, China mainland (hereinafter referred as China) has become the world's second largest foreign direct investment inflow country in 2017, with the amount of 136 billion of US dollars.

According to the statistics of the Ministry of Commerce of the People's Republic of China, in 2017, a total amount of 35'652 new foreign-invested enterprises were established in China. In 2016, foreign investors found 27'900 non-financial enterprises in China, the region with the fastest growth in the actual use of foreign investment in China came from developed economies in Europe and the United States. The number of new foreign-invested enterprises established in China by major EU countries in 2016 and 2017 were 1'596 and 1'873.

Germany is the largest source of investment in China from the EU. In 2017, the actual use of investment from Germany in China mainland was \$15.4 billion, ranking at top 10 countries/regions of foreign investment in China (in terms of actual use of foreign investment).

Above background shows that economic globalization has made cross-cultural communication and transnational management an irresistible and historical trend. Multinational management and cooperation are essential ways for enterprise resources to be rationally allocated on a global scale, and also an important strategy for enterprises to enhance their competitiveness and improve organizational performance. Furthermore, foreign investment could strengthen the cooperation

between the host country and home country, and also bring in fund, knowledge, technology and management experience, and improve the economic development in the host country (Fan, 1993).

However, as business environment becomes global and diverse, foreign investment not only brings creative ideas and innovation but also causes conflicts between different cultures, reflected on language gap, communication barrier, different value and regulation from local and foreign employees and managers. Due to the inevitable emergence of conflicts caused by cultural differences (Weber, Hsee, & Sokolowska, 1998; Hofstede, 2001), and the significant negative correlation between conflict and organizational performance (Chen, 1998), cultural differences have become one of the leading causes of conflicts even failures in transnational operations (Kirkbride, Tang, & Westwood, 1991).

Conflict is part of human interaction. Cross-cultural conflict is a response when different cultures crash during international management. No matter at the beginning stage of a new project, or at a mature stage of operation, during the daily business and decision-making process in international organizations, there will be contradiction due to the differences between local culture and foreign culture. Although more and more new ideas, concepts and methods become familiar to people, people still naturally doubt, reject the culture shock, due to their inherent cultural inertia, thinking mode and benefit structure (Fan, 1993).

## **1.2 Research Questions**

According to research, the main reason for the multinational companies and joint ventures' failure is ignoring the negative impacts of cultural difference and conflict in organizational business management. Therefore, it is essential to learn how to deal with cross-cultural conflicts in multinational firms.

From a micro perspective, the study of cross-cultural conflict management is to deeply understand the pattern of conflict performance and reasons of conflict in organization and to select appropriate management methods for intercultural conflicts. Therefore, it is possible to build good communication atmosphere in organization, to attract talents, to stimulate managers and employees' enthusiasm and

creativity, which will enable corporation to gain advantage in international market competition, and to achieve corporate growth and success.

From a macro perspective, the study of cross-cultural conflict management is beneficial to help firms rationally choose host market to invest, rather than invest blindly. Cross-cultural management is based on economic globalization, and many times it is the suppression and confrontation of a strong culture against a weak culture. Therefore, solving the problem of cross-cultural conflicts in enterprises affects the survival and development of companies and the growth of the entire economy of the host country and home country.

Many researchers have been studying cross-cultural conflict management and showed that successful conflict management requires excellent knowledge of culture, which, as a system of values, beliefs and behaviors, shapes manager's work style in organizations, and thus influence the team's performance.

It seems apparent that if employees from different cultural backgrounds manage to understand and accept each other's values and behaviors, the multinational firms will create a harmonious work environment and improve business performance. However, it is easier to say than to do, because cultural values are resistant to change or compromise, and so are the cultural-driven behaviors (Peng, 2003).

There has been constant research on cultural differences. However, until Hofstede's (1980) study on cultural values, the research of cultural differences and their impacts become the mainstream of cross-cultural research. Hofstede (1980) built a linkage between cultural values and culture related behaviors and provided a theoretical framework for the later studies. These studies include management (Harrison, 1995), Communication (Gao & Ting-Toomey, 1998), and conflict management (Ting-Toomey, 1991).

To understand Eastern and Western cultural conflict management, researchers have focused on Chinese overseas, but with limited attention to the Chinese communities in China mainland. However, China mainland is the largest Chinese

community in the world. Although Chinese over the world share same cultural roots, due to the specific local influences of political, economic and social systems, the Chinese in Hong Kong, Taiwan, Singapore, or other foreign countries do not hold the same values, beliefs, and attitudes as mainland Chinese do. Furthermore, China mainland has undergone several periods of significant changes, from the Anti-Rightist Movement in 1957 to the Great Leap Forward in 1958, to the Cultural Revolution from 1966 to 1977, and the Reform and Opening-Up policy in 1978. Thus, a proper understanding of Chinese culture in China mainland is vital for foreign companies for successful business performances (Peng, 2003).

Previous empirical researches showed interests in general Sino-Foreign joint ventures or Sino-American joint ventures. There have been limited studies on Sino-German joint ventures and German wholly-owned companies in China mainland. Germany is a primary European FDI source in China, and Germany is also one representative of the Western culture. *How do national cultural differences influence conflicts and conflicts management in German invested companies in China? How to manage these cross-cultural conflicts?*

This thesis focuses on cross-cultural conflict management research in German companies in China and will take Chinese and German employees and executives in German companies in China mainland as research object for universal and practical research results. In this research, German companies in China include German wholly-owned companies and Sino-German joint ventures. There could also be cultures from other countries in the companies, but the main culture streams in German companies in China are generally Chinese culture and German culture, therefore, this thesis focus on Chinese culture and German culture. Conflicts are those between employees with all position levels. This thesis aims to examine the influences of national cultural differences on conflict management in German invested companies in China mainland, to test and verify cultural theories within conflict management, to provide practical suggestions for cross-cultural conflict management to German companies in China, and for overall foreign investors and policymakers.

## **Chapter 2. Literature Review**

One of the main questions this thesis tries to address is how culture influences conflicts and conflicts management. To find the answer, a profound review of the literature on culture and conflict is essential. In this chapter, to understand the culture, various definitions, concepts, cultural dimensions, and organizational culture theories are studied. As the research objects are German companies in China, both Chinese culture and German culture are discussed. After a theoretical study of the concepts of conflict and cross-cultural conflict, there are also cultural studies of conflict management from both western and Chinese perspective.

### **2.1 Culture Theories**

#### **2.1.1 Concepts of Culture**

Defining culture is not easy. One can find hundreds of definitions of culture from scholarly literature. A standard and precise explanation of culture is the language, values, beliefs, traditions, and customs people share and learn. Culture can affect how people think and act, and how they judge other people. Every culture has its own rules (Samovar, 2016).

Hofstede (1980) defined culture as the collective programming of the human mind that distinguishes the members of one human group from another. Trompenaars (1993) suggests that members of a given culture will share a common history and therefore hold common attitudes.

In recent years, culture is often described as a set of values adopted by the group of people that define the way of life for that particular group. Cultural values translate into norms, beliefs, and morals, and are reflected in the laws and practices of the society (Adler, 2017). Edgar Schein (1992) defined culture as a pattern of shared basic assumptions that the group learned as it solved problems and is considered to be valid and thus is passed on to new members as for a correct way to perceive, think, and feel about those problems.

The research program Global Leadership and Organizational Effectiveness (GLOBE) defines culture as shared motives, values, beliefs, identities, and interpretations of significant events that result from common experiences of

members of the group and transmitted across generations (House, 2004).

Culture can be seen as consisting of visible and invisible levels, like an iceberg. One can easily see the top, but most of it hides under the water. On the top level, it is the visible aspects of culture, the structures, and processes, such as language, technology, systems, etc. A deeper level is of strategies and philosophies, such as ideas and goals. The deepest level also the invisible level consists of unconscious beliefs, perceptions, thoughts, and feelings (Schein, 1992).

Culture also consists of different layers that influence the individual behaviors. The main layers of culture include national culture, organizational culture, group culture, and individual culture (Hollensen, 2014).

Culture consists of many elements, such as language, social structure, religion, values, and attitudes (Morschett, 2015). Language is considered the primary discriminant of culture. Countries differ in languages. Both verbal language and nonverbal language are important ways of communication. Verbal language refers to the vocal sounds and written symbols. Nonverbal language relates to gestures, facial expressions, and other forms of body language. Social structure determines an individual's role within society. Cultures differ in different degrees of social groups. For example, in many Western countries, the social standing of individuals is mainly a function of their performance, but in Eastern countries, the social standing of the group that individuals belong to determines their social status. Religion shapes individuals' attitude toward life and work. Religion plays an essential role in many countries. Values are considered as principles and standards that are accepted by members of a culture. Attitudes relate to actions, feelings, and thoughts as a result of values (Griffin & Pustay, 2013).

### **2.1.2 Cultural Dimensions**

Cultural dimensions are fundamental concepts that help to understand cultural differences (Phatak, 2009). There are many cultural dimension models, such as Hall's (1976) High context vs. Low context cultures framework, Hofstede's (1980) cultural dimensions model, Trompenaars' (1993) model of national cultural differences, GLOBE's (House, 2004) 9 cultural dimensions.

**(1) Hall's High Context and Low Context Cultures Framework**

Edward T. Hall (1976) introduced the concept of high and low context. In high context cultures, such as China, Japan, people tend to use implicit communications. Context and relationship are more important than words. In low context cultures, such as Germany, USA, the communication is usually direct and explicit, the message is communicated almost entirely by words.

The characteristic of high context culture is that only a small amount of information is transmitted through coding. A society with high context culture pays attention to the "context" of interpersonal communication, rather than "content." People emphasize building social trust, highly appreciate relationships and friendships, and maintain relatively long-term relationships. In such a society, communication is often implicit, but people are very sensitive to implicit information and can understand its meaning. Individuals have learned to read the implicit information from their early ages. Trust is the basis for people to fulfill the agreement. The agreement is often made in a verbal form, not in written form. The insiders and outsiders are easier to identify, and it is difficult for outsiders to enter the insiders' group. In the process of business negotiation, people pay less attention to time, but they are rigid in form.

The characteristic of low context culture is just the opposite. In the process of communication, a large amount of information already exists in clear coding. A society with low context culture pays attention to the content rather than the context of the process of interpersonal communication. The society with low context culture does not pay much attention to the relationship between individuals. It seems unnecessary to deeply understand each other. Communication is often direct, and people are educated early in life to express their meaning accurately and precisely. Law is the basis for fulfilling the agreement, and the agreement must be determined in written form with legal effect. The boundaries between outsiders and insiders are not very clear. During the negotiation, people pay attention to time and efficiency but pay less attention to form.



## (2) Hofstede's 6-D Model of National Culture

Hofstede's (1980) model of national culture consists of six dimensions as in table 2.1. The six dimensions of national culture are based on extensive research conducted by Professor Geert Hofstede, Gert Jan Hofstede, Michael Minkov and their research teams. The research is one of the most comprehensive studies of how culture influence values in the workplace. The data was collected from IBM employees between 1967 and 1973 from 80 countries. The data used for analysis covers 50 countries and three regions.

Table 2.1 Hofstede's 6-D Model of National Culture

0	Score		100
More egalitarian	—	Power Distance +	Embraces hierarchy
Collectivist	—	Individualism +	Individualistic
Nurture more important	—	Feminine / Masculine +	Power more important
Comfortable with ambiguity	—	Uncertainty Avoidance +	Ambiguity creates anxiety
Short-term goals first	—	Long-term orientation +	Long-term goals first
Happiness can be bad	—	Restraint / Indulgence +	Happiness always good

Source: Hofstede, 1980

### Power Distance Index

This dimension relates to the degree to which that the members in a society accept unfair power distribution. In a society that emphasizes equality, the power distance between members is small. In a society that emphasizes hierarchy, the power distance between members is relatively large.

### Individualism versus Collectivism

This dimension relates to whether people's self-image is defined by "I" or "We." In an individualistic society, people care about themselves and their own families. In a collectivistic society, people are integrated into small groups with strong cohesiveness since from the day of birth and are protected by exchanging loyalty to the small groups.

**Masculinity versus Femininity**

The fundamental problem here is what motivates people, wanting to be the best (Masculine) or liking what they do (Feminine). Masculine society is driven by competition, achievement, and success. Gender roles are clearly different. Men are considered to be decisive and tough, focusing on career success, while women are supposed to be dignified and docile, taking care of the quality of life. On the contrary, the dominant values in feminine society are caring the quality of life, as the quality of life is the sign of success. Both men and women are considered to be modest, docile and caring for the quality of life.

**Uncertainty Avoidance Index**

This dimension deals with social tolerance for uncertainty and ambiguity. A culture that scores high on this dimension accepts less uncertainty, maintains rigid codes of belief, language, behavior, guidelines, laws, and regulations. A culture with a low score of this dimension tends to impose fewer principles, and ambiguity is more accustomed to.

**Long Term Orientation versus Short Term Normative Orientation**

This dimension associates the connection with the past, challenges of the present and the future. A society with a low score on this dimension tends to maintain time-honored traditions and norms. A society that scores high on this dimension takes a pragmatic approach to prepare for the future development.

**Indulgence versus Restraint**

This dimension is a measure of happiness. Indulgence represents a society that allows relatively free fulfillment of basic and natural human desires related to the enjoyment of life and pleasure. Restraint refers to the satisfaction of a society's inhibitions and the use of strict social norms to regulate it.

**(3) Trompenaars' Model of National Culture Differences**

Trompenaars' model of national culture differences as shown in table 2.2 is developed by Fons Trompenaars and Charles Hampden-Turner (1997), based on a large-scale survey of 8841 managers and organization employees from 43 countries.

Table 2.2 Trompenaars' Model of National Culture Differences

Universalism	versus	Particularism
Individualism		Communitarianism
Neutral		Emotional
Specific		Diffuse
Achievement		Ascription
Sequential		Synchronic
Internal control		External control

Source: Trompenaars, 1997

### **Universalism versus Particularism**

Universalism refers to the value orientation based on formal “rules.” It is the belief that people’s ideas and practices can be applied anywhere without restriction. Business meetings are featured as professional, rational arguments and attitude. People see one reality or truth that is the agreed part. According to Trompenaars’ research, there is a high universalism in countries like the United States, Canada, the UK, Australia, Germany, and Sweden. Particularism refers to the value orientation based on “relationship.” It is the belief that people’s ideas and practices must be adjusted according to the situation. Cultures with high particularism emphasize relationships and see reality as more subjective. It is essential to know the people one is doing business with. There are small talks during meetings in a particularistic environment. Countries that are highly particularistic include China, South Korea, Indonesia.

### **Individualism versus Communitarianism**

Cultures with individualism refer to people seeing themselves as individuals, while cultures with communitarianism refer to people seeing themselves as part of a group. Trompenaars’ research yielded some interesting findings. It is not surprising to see the United States as highly individualistic, but Mexico was also found to be individualistic with a shift from the previously communitarian culture. This finding is in contrast to Hofstede’s earlier research, which found Mexico to be collectivist, and demonstrates the dynamics and complexity of culture. Countries with high communitarianism include Germany, France, China, and Japan.

**Neutral versus Emotional**

Neutral culture refers to a culture in which people suppress or control their emotions. Countries with neutral culture include Japan and the United Kingdom. Japanese and British act calm, try not to show their emotions. Emotional culture refers to a culture in which people love to laugh, talk loudly, and greet with enthusiasm. Netherlands, Italy, and Spain are typical countries with emotionally exposed culture. When people from neutral culture and emotional culture do business together, it is important for them to be ready to the different emotional response.

**Specific versus Diffuse**

In a specific culture, individuals have a large public space. They are willing to share this public space with others but guard their private area strictly. Individuals are often open, outgoing, and more direct. Managers in organizations often separate work from private life strictly. In diffusion culture, an individual's public space and private space are overlapping. Entering one's public space also opens one's private area, and work and life are often inseparable. The United States has a typical specific culture, while China and Germany have diffusion culture.

**Achievement versus Ascription**

Achievement-led culture means that people's functions and identities must be consistent. Achievement culture gives one who has high achievement high evaluation, no matter who the person is, as long as the person achieved success, the society will recognize him or her. One's status and influence depend on one's achievement, namely education level, experience, and job performance. The United States, Australia, and Switzerland are achievement-oriented countries. Ascription culture determines that people's status and identity are based on factors such as their birth, age, gender, and social relations. China is ascription-oriented culture. Achievement culture determines people's social status based on what people "do." Ascription culture determines people's social status based on what people are.

**Sequential versus Synchronic**

A sequential culture is in which people like events to happen in chronological order. The punctuality is essential. People make schedules of their lives with specific and clear deadlines, and they do not tolerate the waste of time. "Doing things right" is

more important than “doing the right things.” In synchronic cultures, people often work on several things at the same time. The schedule can be changed according to the situation, and the flexibility of time is more appreciated.

### **Internal control versus External control**

In internal control culture, people control their environment. In the external control culture, people are controlled by the environment.

### **(4) GLOBE’s 9 Cultural Dimensions Model**

Professor House (2004) and his team led the “Global Leadership and Organizational Behavior Effectiveness Research Project” and draw new nine cultural differences with the collected data based on the analysis of the influential cultural dimensions in the past 20 years. This programme comprised a network of 170 social scientists and management scholars. The study is based on the survey of 17’000 managers across 62 cultures. The model is shown in table 2.3.

Table 2.3 GLOBE’s 9 Cultural Dimensions Model

Performance Orientation	measures the degree to which a collective encourages and rewards group members for performance excellence.
Assertiveness	measures the degree to which individuals are assertive, confrontational, and aggressive in a relationship.
Future Orientation	measures the extent to which individuals engage in future-oriented behaviors.
Humane Orientation	measures the degree to which a collective encourages and rewards individuals for being fair, generous, caring, and kind to others.
Institutional Collectivism	measures the degree to which organizational and societal institutional practices encourage and reward the collective distribution of collective action.
In-Group Collectivism	measures the degree to which individuals express pride and loyalty in their organizations or families.
Gender Egalitarianism	measures the degree to which a collective minimizes gender inequality.
Power Distance	measures the extent to which the community accepts and endorses authority, power differences.
Uncertainty Avoidance	measures the extent to which society, organization, or group relies on social norms, rules, and procedures to avoid the unpredictability of future events.

*Source:* House, 2004

Above cultural dimensions are helpful to understand the cultural differences, but as Hall's and Hofstede's cultural dimensions provide better linkage for the relationship between culture and conflict management, therefore, this study will apply Hall's and Hofstede's cultural dimension models for further research but ignore Trompenaars' model. As GLOBE's project took company managers as the research object, which directly reflects the cultural differences in business context, GLOBE's culture dimensions will also be applied later to learn Chinese and German culture differences.

### **2.1.3 Organizational Culture**

Organizational culture is defined as a system of shared norms, values or beliefs among members of the group (Hughes, Ginnett, & Curphy, 2009). Organizational culture is the collection of traditions, values, policies, beliefs, and attitudes that constitute a pervasive context for everything we do and think in an organization (Mullins, 1992).

Different models of organizational culture have been developed. One such model was developed by Hofstede (1980) who surveyed over 100'000 IBM employees around the world and identified four dimensions of national culture that influenced the employees' business behavior. These four dimensions include Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, Masculinity versus Femininity. Later on, a fifth dimension, Long-Term versus Short-Term Orientation was added.

In addition to the IBM study, Hofstede (2005) also conducted another study that specifically focus on organizational culture and identified six dimensions of organizational cultures: Process Oriented versus Results Oriented, Employee Oriented versus Job Oriented, Parochial versus Professional, Open System versus Closed System, Loose Control versus Tight Control, Normative versus Pragmatic.

Henry (1979) took Hofstede's (1984) Power Distance and Uncertainty Avoidance scores and created a matrix of the preferred organizational style associated with specific national cultures.

However, this study will be based on the theories of the national culture, instead of organizational culture, because national culture is the root source influencing people's behaviors.

## **2.2 Chinese Culture**

### **2.2.1 China: History, Economy, and Politics**

China is on the eastern part of Asia, west coast of the Pacific Ocean. China has a land area of 9.6 million square kilometers, about 1.39 billion population, 56 ethnic groups, and a cultural history of over 5000 years.

Chinese civilization was established by the Xia Dynasty in the 21<sup>st</sup> Century BC. Chinese history can be divided into four epochs: ancient times (from antiquity to 1840), old democratic revolution (1840-1919), new democratic revolution (1919-1949), and the People's Republic of China (1949-).

The economy and culture were well developed in ancient China. At the apex of the Chinese feudal society, the Han and Tang dynasties (agriculture, handicrafts, weaving, and shipbuilding) were advanced. Ancient China was also the home of the four great creations: paper making, printing, gunpowder, and the compass, which had a profound influence on human history. Influential thinkers such as Confucius, Lao Zi, and Sun Zi (the author of The Art of War) all lived in ancient China (Hucker, 1975).

The Opium War (1840) was a turning point in Chinese history. In 1842, the corrupt Qing court signed the Treaty of Nanking with Britain, resulted in losing China's national sovereignty, and marked the reduction of China to a semi-colonial, semi-feudal country. The situation continued till the Revolution of 1911, when Sun Yat-sen led the bourgeois-democratic revolution, ended the rule of the Qing Dynasty, established the provisional government of the Republic of China, and ended the monarchy that had lasted for 2'000 years (Leung, 1992). The May Movement against imperialism and feudalism took place in 1919. Two years later, with the help of the former Soviet Union, the Chinese Communist Party held its first National Congress and founded the Communist Party of China. After nearly three decades of hard struggle, including civil wars against the Kuomintang headed by Chiang Kai-shek,

and the war against Japan after the first Party Congress, the Communist Party of China, led by Mao Zedong, proclaimed the founding of People's Republic of China, on October 1, 1949 (House, 2004).

Over the next three decades, following the economic recovery in the previous three years (1950-1952), China underwent several major political movements, including the socialist transformation (1953-1956), large-scale socialist construction (1957- 1966), and finally the Cultural Revolution, which lasted for ten years (Peng, 2003). The Cultural Revolution brought great disasters to the country and the people and caused the most severe setbacks and most damaging losses since the founding of the People's Republic of China (Meisner, 1999).

The Cultural Revolution left the Chinese economy on the verge of collapse (Meisner, 1999). Fortunately, in 1978, the Party held its historical Third Plenary Session of the Eleventh Congress and decided to open up to the outside world and started the economic reform. Ever since then, China has not engaged in any large-scale political movements but instead has focused on building socialist modernization with Chinese characteristics. Before the reform, the Chinese economic system has the following four main features: state ownership, central planning, local government involvement, and dominance of the Chinese Communist Party (House, 2004).

After 25 years of rapid economic growth that lifted millions of people out of poverty, China is growing in prosperity and confidence. With China's entry into WTO in 2001, China is becoming more and more powerful as a world economic power in the 21<sup>st</sup> century.

### **2.2.2 Chinese Cultural Characteristics**

There are five schools of traditional Chinese philosophy: Confucianism, Daoism, Mohism, Militarism, and Legalism (Wang & Chee, 2011). Confucianism has always been the most valued philosophy in China and continuously influenced Chinese people and formed the Chinese culture. It is a combination of virtues and ethics, used as a guide to the changing and adapting environment and society (Hucker, 1975).



The five constant virtues of Confucianism are benevolence (ren), righteousness (yi), propriety (li), wisdom (zhi), and faith (xin). They are the guidelines for people's behaviors. Ideologically there are four major virtues in Confucianism: class system, obedience, doctrine of the mean, and benevolence (renqing) (House, 2004). These four virtues are closely connected to each other. The class system refers to maintaining the ancient rules and proper ordering of positions in society. It is impossible to obey orders without obedience. Despite the orders and expectations of obedience, there are always conflicts. When conflicts occur, the doctrine of the mean (avoiding extreme, also translated as moderation) is the principle to manage them. Confucius believe that any extreme ideas would lead people astray and cause social chaos, and therefore urged people to control their emotions and restrain their desires to not lose insight and the ability to remain to obey superiors in any circumstance. Renqing refers to being kind, benevolent, righteous, or respecting the feelings of the other people. According to Confucianism, renqing is an internalized moral virtue that is more powerful than laws, because laws can force people to obey temporarily, but only moral virtues can teach people to have a sense of shame, which will then prevent them from doing bad things at any time, and urge them to be kind and righteous (House, 2007).

Chinese society is structured around social networks of relationships (guanxi) in which people live. When dealing with interpersonal relationships, one has to be careful with renqing (individually internalized sense of moral responsibility) and mianzi (face). All these can be seen as major Chinese cultural characteristics and deeply rooted in Confucianism.

**Guanxi.** The Chinese word "Guanxi" refers to the concept of connecting people according to the specific relationship between these people (Hui & Graen, 1997). A survey conducted a few years ago on Chinese citizens showed that most Chinese believed that guanxi is important in their daily lives, and preferred to use guanxi connections rather than normal bureaucratic channels to solve problems (Yeung & Tung, 1996). Western business people who have done business with China also know that companies wanting to do business in China need not only plan, fund, good product, but also guanxi (Murphy, 1996). As an essential part of Chinese business culture, "Guanxi" is now also famous for foreign investors.

The reason guanxi is so important is that China is a country “ruled by people” (ren zhi), not by law, and the predefined nature of guanxi determines the behavior (House, 2004). The concept of rule by people can be seen as a result of the belief in morality as defined under Confucianism. According to Confucius, rule by ethics (li zhi) is preferred over rule by law (fa zhi) and made China ruled by people. The dependence on people rather than the law would naturally facilitate the practice of guanxi, as an individual rather than the institutional authority defines what is allowed to do in a particular context at a particular time. Even the central government reach agreements with provincial and municipal governments through complex bargaining negotiations. To some extent, it is correct to say that without guanxi, nothing happens in China (Murphy, 1996).

Guanxi has a very long history in Chinese business culture. With the right guanxi, organizations can minimize the risks and frustrations when doing business in China. Research indicates that guanxi-based business variables have a significant and positive correlation with firm’s market performance in China. Guanxi can even be used as a positioning strategy in the Chinese market (Hinner, 2005).

***Mianzi (face).*** As explained before, renqing is one of the Confucius virtues, and mianzi is almost inseparable from renqing. In Chinese society, individuals are expected to control their anger, hate, and desire, if one lets one’s emotions prevail, one will cause the other to lose “face.” Over a hundred years ago, Arthur Smith (1894) pointed out that in China the word face does not simply mean the front part of the head, but is “literally a compound noun of multitude, with more meanings than we shall be able to describe, or perhaps to comprehend” (Smith, 1894, p.16).

There is a Chinese saying that “mianzi is like the bark of a tree; without which, the tree dies.” People who have lost mianzi in Confucian societies are more than social outcasts, as a loss of mianzi brings shame not only to the individuals but also to their family members, leaving them unable to play their roles in society (Yeung & Tung, 1996). In Chinese history, some people have killed themselves to save face (Smith, 1894).

The concept of mianzi is interesting because it also involves the influence of other cultural concepts. For example, the Chinese generally prefer consensus to simple majority rule when making decisions. If people have different opinions about a decision, they will keep pushing the decision to superiors until a consensus is reached, so that those whose ideas were rejected would not lose face. Mianzi here is mixed with the high power distance in Chinese society. (House, 2007).

Mianzi or face in China means the respect, pride, and dignity. In Chinese culture, face has value; it can be earned or lost. People can earn more face by their appearance in the society through their efforts such as hard work, good reputation, etc. Face can also be earned from someone else. Face can be given to someone by praising or complimenting that person in public. Just as face can be given, it can be lost by criticizing someone in public or directly saying “no” to that person. The root of the “face” is harmony. Chinese society values harmony. Not causing someone to lose face is an important part of maintaining harmony (Hinner, 2005).

Since Face is so crucial to the Chinese, there is nothing more embarrassing than losing one’s face. The Chinese are sensitive to having and maintaining face value in all aspects of social and business life. It is especially important to understand this point when communicating with Chinese people (Hinner, 2005).

## **2.3 German Culture**

### **2.3.1 Germany: History, Economy, and Politics**

The Federal Republic of Germany, referred to as Germany (referred to as West Germany before the reunion), is a republic of the Commonwealth of Western Europe. It is next to Denmark in the north, the Netherlands, Belgium, Luxembourg, and France in the west, Switzerland, and Austria to the south, and the Czech Republic and Poland to the east. The country composes of 16 federal states, with capital Berlin, a territory of 357,167 square kilometers, and the largest population of 82.67 million in the European Union. The country is dominated by Germans.

The German ancestors were ancient Germans living in Central Europe. In the 10th century, the Germans established the Holy Roman Empire, later split. In 1871, the kingdom of Prussia unified the German Empire except of the Austrian Empire. In

1914 and 1939, Germany provoked two world wars and defeated. In 1945, it split into Eastern and Western two parts. On October 3, 1990, the German Democratic Republic (referred to as East Germany) officially joined the Federal Republic of Germany to achieve the unity. Germany is now the largest economy in Europe and one of the founding members of the European Union. It is also an important member of international organizations such as NATO, the Schengen Convention, the G8, and the United Nations (House, 2007).

Germany is a highly developed capitalist country, one of the four largest economies in Europe. Its social security system is perfect, and the living standard of citizens is high. The high-end manufacturing, represented by automobiles and precision machine tools, is also an important symbol of Germany.

### **2.3.2 German Culture Characteristics**

*“The Germans make everything difficult, both for themselves and for everyone else.”*

—J. W. Goethe

It has been a common knowledge that it is difficult to describe Germany and the Germans. German is difficult. But there are still some findings of German characteristics through studies in business context.

German has a strong belief in principles and fixed standards. According to Hofstede, religions have a strong impact on the German confidence in rules and principles. In the Christian belief, if one follows the rules of the Bible, one will get the eternal reward. Therefore, the majority of Europeans including most Germans follow the rules for guiding their behaviors to gain certainty of their future (Hinner, 2005).

According to Lang (1998), European possess a strong belief in legal foundations. Therefore, these regulations form the basis of their principled outlook on life. Particularly, German executives value agreements highly because they believe that rules and ethics should always be followed. In Germany, contractual documents determine the content agreed by both parties. In general, German contracts entail the consent of all parties and make remedies available in case of

dispute (Mole, 1995). Also, Tompennaars (1993) emphasizes that Germans take the written contract as a fixed and unchangeable document, which can only be adjusted under exceptional circumstances. However, the Chinese take agreements and contracts changeable if necessary, which stands in sharp contrast to German style.

The implementation of work standards and the detailed planning also reflect the European belief in the formalization of life through regulations. The development of complex planning and supervising tools are due to strong uncertainty avoidance in European societies. Hence, to avoid future uncertainties, German executives have a rigid framework of strategic plans, corporate policies, and rules (Mole, 1995). Precise production standards also play a significant role in German's pursuit of perfection and certainty. So German engineers define product quality according to carefully designed and objective standards, and they expect workers to fulfill the norms. Similarly, German managers recognize legal contracts, plans, and standards as firm and rigid (Hinner, 2005).

## **2.4 Cross-Cultural Conflict**

### **2.4.1 Concepts of Conflict**

What is a conflict? According to Putnam (2006), conflicts are struggles between two or more interdependent parties who have or perceive incompatible goals. There is no conflict-free world. Conflicts occur when people do not have the same opinion. Conflicts can arise whenever people interact with one another. Conflicts are unavoidable and universal during any interpersonal relationship, and sometimes they can help work difficulties out. According to Deutsch (1973), conflict is neither good or bad, but what counts is the response to the conflict, i.e., the communication.

Conflicts have different levels of intensity: **low, medium and high** (Gamble & Gamble, 2005). When the conflict intensity level is low, interactors do not want to harm each other but try to find a way to solve the problem. Medium intensity occurs when interactors wish to leave the conflict as the winner but have no desire to destroy each other. When intensity is high, one person wants to hurt or even destroy the other seriously.

Conflicts can also be classified as **pseudo conflicts, content conflicts, value conflicts and ego conflicts** (Gamble & Gamble, 2005). Pseudo conflicts appear

when people think there is a conflict, but in reality, there's no actual conflict. Content conflicts arise when people hold different opinions about matters of fact, for example, the solution to a problem. Solving the content conflict through logical reasoning is possible. Value conflicts occur when people hold contradictory beliefs. Values are often firmly attached to the communities one has been born and raised in. Ego conflicts arise when interactor struggles with leaving a situation as winner or loser which could reflect one's self-worth. When this happens, the conflict issue itself is no longer important, as one believes oneself to be right.

According to DeVito (2009), conflicts take place in different contexts such as **physical, sociopsychological, temporal and cultural context**. Physical context means the location of conflicts, whether in public or in private, with friends or strangers. Sociopsychological context describes whether the atmosphere is friendly or hostile if there is equality or power structure. Temporal context means if it is a series of conflicts or a single conflict if the conflict occurs after stress or relaxation. Cultural context describes how people of different cultures handle conflicts.

Conflict goals describe the desired outcome of a conflict. Usually, people have more than just one goal, and sometimes they are unsure about their intentions. Conflict goals can be classified as **Content goals, Relational goals, Identity goals, Face-saving goals, Process goals**. Content goals deal with the question: What exactly is the problem? Relational goals deal with the nature of the relationship. Identity goals deal with the self-presentation question. Face-saving goals contain the question: Will the outcome of the conflict saves my face? Process goals deal with how the conflict is handled.

Conflict goals can be challenging to achieve. Many people are often not fully aware of their goals which is why goals can change during the conflict. People also often have multiple goals of conflicts. Sometimes the primary goal may dominate, but the unspoken secondary goals may represent the "real issues" fueling the conflict. Sometimes conflict goals are incompatible with each other. Thus, it can be very challenging to solve an ongoing argument.

To resolve the conflict, the involved parties need to remind themselves that everyone has different goals. Everyone needs to consider their own goals and the goals of the others. To coordinate different goals, people use information about their partner's goals, their ideas, and beliefs to build their resolution strategies. One of the problems in a conflict conversation is that people often won't reveal their goals and are not willing to talk about them. People tend to assume their partner's goals during a process of solving incompatible goals because conducting conflict conversations is one of the most challenging situations in any relationship. Thoughtfulness to the goals of others requires responsiveness and sensitivity, as well as the ability to sympathize with someone. People who tend to ignore the goals of others and only pursue their own goals will risk the relationship with others (Canary & Lakey, 2013).

Conflict frames describe different ways in which people think about and respond to conflict. How people frame a conflict can influence the direction of it (Elliot, Kaufmann, & Shmueli, 2013). When people retell a story, some elements may be dropped, and others added to make it more plausible or dramatic. There are several frame categories, such as substantive concerns, identity/roles, conflict processes, relationship issues, and moral judgments. They are implicit conceptions of conflict issue which can become significant at any given time (Berger, Roloff, & Roskos-Ewoldsen, 2010).

#### **2.4.2 Concepts of Cross-Cultural Conflict**

Cross-cultural conflict is also called cultural conflict. Cultural conflict refers to the process of confrontation between different forms of culture or cultural factors. Cultural conflict is caused by differences in the nature, characteristics, functions of different cultures, and when the cultural differences are not adequately controlled or managed (Zhu, 2000).

Cultural conflicts in multinational companies refer to disputes and frictions during the operation of international firms in host country caused by differences in values, ethics, responsibilities, behaviors, and attitudes brought about by different cultural backgrounds. These differences include not only the cultural characteristics of people with different nationalities in the host country but also the behavior

alienation of people from home country caused by cultural differences and cultural shock in the new cultural background in the host country (Huang, 2004).

Organizational culture conflict is the psychological and behavioral confrontation among people in the organization caused by different forms of corporate culture. But in this thesis, the cultural conflict means the conflict created by national cultural differences.

Multinational firm in different cultural regions and backgrounds will inevitably face friction and collisions from social domains of different cultural systems. Different cultural environments, as well as various economic, social, and political factors, will undoubtedly create greater cultural differences. The objective existence of cultural differences will inevitably cause cultural conflicts among enterprises, and corporate managers and employees will psychologically respond to the “cultural shocks.” Therefore, cultural differences have become an important factor affecting the management effectiveness in multinational companies and made it difficult for managers (Jin, 2001).

Cross-cultural conflict is an interactive process. “Interactive behavioral process” refers to the two-way exchange between two or more individuals in a multicultural environment to facilitate the completion of tasks or the construction of interpersonal relationships. This process means that cross-cultural conflicts will eventually lead to cross-cultural integration. Cross-cultural integration refers to the process of mutual absorption between different forms of culture or cultural characteristics. In the process of integration, various cultures reshape each other, and the cultural traits interpenetrate each other, combine with each other, and eventually merge into one (Deng, 2004). The fusion of cultures embodies the similarity between different cultures. The similarity not only improves harmony but also accumulates power so that the different cultures can be used by each other.

#### **2.4.3 Types of Cross-Cultural Conflict**

According to different classification criteria, cross-cultural conflicts can be divided into different types.



Cross-cultural conflicts in this thesis are national cultural conflicts. National culture is the fundamental belief and value shared by a country or a nation. Culture has many characteristics and can be reflected from different perspectives. According to Hofstede's theory of cultural dimensions, the cultural dimensions of different countries, ethnic groups and organizations are different. National cultural conflicts refer to conflicts caused by cultural differences in cultural dimensions. The influence of national culture is strong and long-lasting. Although foreign managers work in Chinese environments on a daily basis, they still retain many foreign national cultural values. Therefore, national cultural conflicts in foreign-invested companies in China are often difficult to change. If it is not resolved promptly, it will have a devastating effect on the performance of the company.

According to the intensity of the external performance of cross-cultural conflict, cross-cultural conflicts can be distinguished as **explicit conflicts and implicit conflicts**.

Explicit cross-cultural conflict refers to the communication mistakes made by both parties due to differences in the ways of expression (language, demeanor, gestures, expressions, behaviors, etc.). Because different social environments and cultural backgrounds breed different customs and behaviors, even the same emotions often have different meanings while expressed in different cultures. These cultural differences often lead to communication obstacles and explicit conflicts. Explicit cross-cultural conflicts are visible conflicts that are manifested in a sharp and intensifying external form. They are the most common conflicts in Sino-foreign joint ventures. They are not conducive to cross-cultural communication, but because they are easy to detect, they can be eliminated by understanding each other, so that it generally does not lead to the failure of management.

Implicit cross-cultural conflict refers to the disagreement between the two parties in the subconscious due to differences in values, business ideas, and management styles. Such conflicts generally lurk in people's mental areas, such as their minds, ideas, and emotions, and cannot be identified from their words and actions. Therefore, implicit conflicts are like the glaciers hidden under the surface of the sea. They are not easy to be aware of and will not have a significant impact on

the management within a short time. However, when hidden conflicts accumulate to a certain degree, they will endanger the company's business operation and survival. In international corporations, the implicit intercultural conflicts mainly reflected on the business concept, decision-making model, human resource management, political, economic and legal aspects.

According to the areas where conflicts arise, conflicts can be divided into **external and internal conflicts**.

External cross-cultural conflicts refer to conflicts that arise in external contacts. The establishment of a foreign wholly-owned company or joint venture involves major issues such as national interests and local construction. It must be reviewed and approved by the local government. Therefore, starting from the establishment, the firm will undoubtedly deal with the local government. As the social environment and legal environment of different countries are different, the regulations, processes, and procedures formulated by the government are often very different. Foreign management personnel will encounter some cross-cultural conflicts in their contacts with the Chinese government. Also, most of the joint ventures produce products that target the Chinese local market and consumers. If the shape, style, appearance, packaging, service, advertising, and sales of products do not fit Chinese people's cultural quality, lifestyle, customs, and specific aesthetic needs, then the sales could often be a problem.

Internal cross-cultural conflicts refer to the conflicts that arise between the management and employees of the company. Employees come from different countries and regions, and the differences in cultural backgrounds, politics, legal systems, values, business ideas, and decision-making methods inevitably lead to conflicts. For example, the interpersonal conflicts between expatriates and Chinese employees, disputes in the decision-making of the board of directors, etc. If the company fails to coordinate internal cross-cultural conflicts, it will hinder the development of the enterprise.

According to the impact of cross-cultural conflict on foreign companies, cross-cultural conflicts can be divided into **functional conflicts or cognitive conflicts and non-functional conflicts or emotional conflicts**.

Functional conflicts are generally task-oriented. This type of conflict is also called cognitive conflict. The cognitive conflict results from the inconsistency of the objectives and methods of completion of the tasks between Chinese and foreign managers, as well as disagreements with the work. Such conflicts include that foreigners don't fit Chinese management system, differences in business philosophy between the two parties, disputes over major decisions, differences in strategy formulation, and the authority to develop products. These conflicts often affect the construction of corporate culture and the direction of future business development. Cognitive conflict is beneficial to the quality of decision-making because the synergetic synthesis of arguments from different perspectives is generally superior to the respective viewpoints themselves and is helpful for brainstorming and coordination (Wang, 2007).

Non-functional conflict, that is, emotional conflict, is caused by suspicion or dissatisfaction among individuals. Such conflicts include expatriates' sense of racial superiority, misunderstandings, and obstacles in communication between Chinese and foreigners, and interpersonal relationship conflicts. These conflicts will affect the cooperation between the two parties (Jehn, 1995).

The cross-cultural conflicts studied in this thesis are internal conflicts. The types of internal cross-cultural conflicts in firms are diverse and intricate. They include both explicit and implicit conflicts, as well as cognitive and emotional conflicts.

#### **2.4.4 Performance of Cross-Cultural Conflict**

The traits of different cultures determine the value system of the managers, which in turn determines their business philosophy and management models, then inevitably infiltrate all aspects of planning, organization, commanding, coordination, and control of management. In the meantime, different cultural backgrounds will lead employees to adopt different attitudes towards various management activities of the

company. The conflicts caused by the cultural differences influence all aspects of management activities and are prominently reflected in business philosophy, leadership style and decision management, communication management, and human resources management.

### **(1) Cross-Cultural Conflict in Business Philosophy**

Business philosophy is an accurate reflection of the culture in economic aspects. Managers from different cultural backgrounds have different business concepts. These differences will create great conflicts in the process of the realization of the business objectives and the implementation of plans.

Regarding business objectives, German managers emphasize brand, quality, and profit maximization while Chinese managers pay more attention to efficiency, sales, and fast development.

Regarding planning management, Chinese managers, based on subjective judgments and experience, often set “unrealistic” business targets, which, in the opinion of the Chinese managers, helps to encourage the team and also leave some space to complete original objectives. Also, plans in Chinese enterprises are sometimes designed for the inspection of superiors. Managers believe that plans should be revised at any time according to changes in the actual situation. Therefore, the implementation of the plans is not very strict, and often the plan will not be completed. German managers focus on the feasibility of the plan and the scientific nature of it. They collect relevant data and information and apply mathematical methods such as statistics and operations to select the optimal plan. The targets are usually backed up by bottom-up analysis and trends. In daily work, employees must follow the procedures, which ensure the strict implementation of the plan. These conflicts lead both Chinese and German parties to complain each other: Chinese complains that Germans are too rigid, while Germans complain that Chinese are arbitrarily overwhelming.

### **(2) Cross-Cultural Conflict in Leadership Style and Decision-making**

China is a society with a high power distance. At the same time, it is a society that emphasizes relationships, human feelings, and face. The relationship between

superiors and subordinates has a strong emotional color. Therefore, the leadership style of Chinese managers reflects the patriarchy and paternalistic leadership. In the power structure of Chinese enterprise, there is a core that is connected by blood, region, or friendship. Critical positions are often taken by people in the group, such as family members or close relatives. In Western management culture, there is usually a clear division of labor to the corporate sectors and responsible persons, and by the precise management rules, follow a series of authorization rules to enable enterprises to operate in a standardized manner, and form orderly, supporting, and systemic principles.

The patriarchal leadership style of Chinese managers is also reflected in the authorization. The Chinese managers assign tasks to employees; employees are rarely empowered. In the process of completing the work, the subordinate passively obey the superior's instructions. Once problems arise, Managers will take responsibility. While German managers usually set goals for subordinates, give employees full authorization, encourage them to complete tasks independently and autonomously, and measure the achievement of goals by achievement. They generally do not control the way that employees use to complete task. This difference in power distances has caused the top Chinese managers to have more power than top German managers, while the middle and lower level Chinese managers are empowered far less than their German peers. Therefore, Chinese middle and lower level managers are not good at making decisions, which is also the most different behavior characteristic between Chinese and German managers (Liao, 2003).

In the way of decision-making, due to the influence of the traditional Confucianism, China has formed the decision-making styles with group decision-making and democratic concentration. Generally speaking, China attributes achievements to the collective and tends to separate the responsibilities of decision-making rather than being brave enough to take responsibility. Due to the influence of individualist culture, German managers tend to be centralized in decision-making, accustomed to individual decision-making styles. The decision-making body is generally a corporate leader. The decision-making is rapid, and the individual decision-makers undertake the responsibility for decision-making success. Once the decision is found not realistic, it will be corrected immediately.

Different Chinese and German decision-making styles bring considerable challenges to management, especially in Sino-German joint ventures. In joint ventures, people always consciously or unconsciously make judgments based on their value standards, without an active understanding of values and codes of the different culture, resulting in negative comments on the different decision-making styles of each other. These negative comments make it easy for people to disrespect the opinions of the managers of the other party. It is then difficult to reach consensus on some decision-making issues and thus easily lead to conflicts, which ultimately leads to inefficient or even ineffective decisions (Xi, 1988).

### **(3) Cross-Cultural Conflict in Communication Management**

#### **Cross-cultural conflict in communication**

The famous management scientist Mintzberg found that most managers spend almost 50% to 90% of their work time on communication with people (Wu, 2003). In German companies in China, the communication between Chinese and German is more difficult and time-consuming. Language, customs and history cultural differences easily cause communication barriers, resulting in poor information exchange and uncoordinated cooperation.

The working language of foreign-invested companies in China is English. As English is neither the mother language of Chinese nor of German, thus, one can imagine that the language gap between Chinese and German is not small. The differences in expressions between Chinese and German, such as language, manner, gesture, facial expression, and behavior, also often cause misunderstandings in communication. For example, when German managers talk to Chinese people, they are used to looking into each other's eyes. But this makes Chinese employees very uncomfortable. Chinese employees generally do not look directly at their superiors, which shows their respect for their leaders. In Germany, people look at each other's eyes with confidence and honesty. Otherwise, it seems timid, distrustful of others. When a Chinese employee sees a leader whose position is higher than himself, he or she usually unconsciously reveals a humble expression, behaves uneasily, and even deliberately walks away. This looks unfriendly to German. The misunderstanding of communication caused by cultural differences creates obstacles for the establishment of trust between Chinese and German, and cause conflicts.

Different cultures have different communication styles. Different communication styles will lead to communication obstacles and conflicts. Regarding communication habits, the style of the Chinese people is very different from that of German. German culture belongs to a low-context culture. German emphasizes straightforward communication, and often delivery all communication information in clear words, without implied meaning beyond the strings. This kind of low-context culture is oriented towards individualism and focuses on pursuing personal goals. Due to the influence of low-context culture, German employees concentrate on pursuing personal goals and adopt a positive attitude towards conflict. They believe that competition is fair and reasonable, conflicts in organizations are natural phenomena. Appropriate conflicts can lead people to question the status and thus trigger change and innovation. Therefore, Germans are more tolerant of conflicts than Chinese, and conflict management methods are also more confrontational and competitive (Tian, 2007). Chinese people pay attention to the forms and processes of communication, the purpose of communication is to promote the establishment of relations, while German's communication focuses on results. Therefore, it is concise, and the purpose of communication is to improve work efficiency. This kind of difference will bring a lot of inconvenience to the daily conversation, and lead to misunderstandings and eventually lead to conflicts.

Also, Chinese people prefer "unidirectional" communication, which means listening more and speaking less. This passive communication style often makes German confused. When German managers ask Chinese employees for ideas or feedback, Chinese employees respond with silence and seldom provide feedback. To German managers, silence indicates no objection. The emotion of the Chinese is introverted. Chinese do not like to criticize or make suggestions openly. In particular, subordinates do not show any dissatisfaction with their superiors. Even if they are dissatisfied, they would rather swallow up for peace. In contrast, Germans are willing to discuss issues openly and point out each other's shortcomings. Subordinates express their dissatisfaction with their superiors. Differences in these ways of communication often result in misunderstandings between the two parties and lead to conflicts.

**Cross-cultural conflicts in interpersonal relationships**

Regarding human relationships, due to the influence of Confucian ideals of “harmony,” Chinese culture emphasizes a long-term, reciprocal interpersonal relationship. In management practice, managers often adjust actual work according to interpersonal relationships. Because the harmony of human relationships is more important than the profit index, achieving organizational harmony and establishing good interpersonal relationships are considered as critical managerial duties. The relationship between managers and employees often coexist in two ways, the professional relationship between the superior and the inferior and the friendship. In individualistic-oriented German organizations, managers emphasize the value of profit goals more often, ignoring the social environment and the value of personal goals. Harmony and interpersonal relationships are considered meaningful only when they affect output. Although it is easier to communicate with superiors and subordinates, apart from working relationships, the relationship between them is mainly represented by contractual employment relationships.

The differences between Chinese and German cultures in dealing with interpersonal relationships often lead to conflicts inadvertently. In Sino-German joint ventures, interpersonal relationships are often the biggest headache for German investors. They think that Chinese society is like an endless network, full of all kinds of intricate and complicated relationships. To build such a network is very difficult for German investors but it is also very important. Many investors spent millions or even tens of millions of dollars before they formally entered China to build the network. German managers of joint ventures believe that the establishment of interpersonal relationships in daily work is an endless “trivial matter” and time should not be wasted on these “trivial matters.” Instead, these times should be used to handle the major issues in business. While Chinese managers believe that if there is no guarantee of personal relationships, there will be too many uncertainties in handling matters only according to the rules and regulations, establishing good interpersonal relationships helps companies to avoid risks. Therefore, the Chinese managers’ energy in interpersonal relations is much higher than that of German colleagues.



#### **(4) Cross-Cultural Conflict in Human Resources Management**

Regarding human resources management, Chinese culture follows the principle of “people-oriented and ethics-first.” while the German cultural system advocates pursuing a series of strict and scientific personnel management systems. Both Chinese and German human resources management models with different styles have brought challenges to the human resources management. These problems are mainly caused by cross-cultural conflicts, and are summarized as follow:

##### **Cross-cultural conflict in talent selection and promotion**

In the criteria for selection of personnel, German culture believes in "personal competence" and pays attention to the comprehensive capabilities of personnel, including technical background and communication skills. China pays more attention to one's political quality, personal history, and interpersonal communication qualification, talents selected must be modest and prudent, follow superior's arrangements, and get along well with their colleagues. Talents selected based on this selection criteria are often very obedient, but they do not necessarily possess organizational and managerial talents.

Regarding promotion, the German is more concerned with providing opportunities for the rapid development of potential executives. New employees can be promoted quickly if they can demonstrate their abilities in the work. It is also possible to enter the decision-making level, which is very difficult to achieve in Chinese culture, because the Chinese promotion mechanism pays attention to age and seniority.

##### **Cross-cultural conflict in performance management**

Regarding performance management, because of the interpersonal relationship involved, China and Germany have different performance evaluation systems, which makes it difficult for both Chinese and German parties to reach consensus. China's performance evaluation system is based on traditional experience judgments, sometimes even takes the relationship distance between employees and superiors as the standard. It focuses on employees' work attitude and qualifications and lacks standardized and quantitative assessment indicators. In the eyes of German managers, such an assessment is ineffective and unfair. The German performance evaluation

system emphasizes individual responsibility and production efficiency. It generally adopts a 360-degree comprehensive performance assessment method. It conducts a scientific, thorough and objective evaluation of each employee according to the quantitative assessment indicators, and evaluates the results and employees and linked to the salary scale. Chinese believes that this will cause employees with poor performance to lose face and undermine collective solidarity and harmony. Regarding the punishment system, German managers believe that employees with poor performance may be penalized for salary reduction, demotion or dismissal, while Chinese managers believe that these severe measures are not conducive to the development of interpersonal relationships.

### **Cross-cultural conflicts in employee compensation and benefits**

German employees are accustomed to the flexible remuneration system, which is usually adjusted once a year, and their remuneration is determined based on their work responsibilities and personal performance. Companies respect personal privacy when wages are paid out. Regarding employees' salary adjustment, Chinese emphasizes the consideration of employees' qualifications and academic qualifications. Due to differences in the compensation systems between Chinese and German parties, there is a considerable gap in wage levels between Chinese employees and German employees in the same company. This difference is a potential cause of conflicts between Chinese and German employees (Peng, 2003).

The relationship between enterprises and employees in Germany is a single working relationship. The mutual understanding between enterprises and employees is limited to the scope of work and never involves the private life of employees. The relationship between Chinese companies and employees is not limited to working relationships. Chinese employer not only cares about the quality of work of employees but also cares about the quality of life of employees beyond their working hours, including the quality of family life. Regarding welfare, Chinese employees rely heavily on enterprises to provide a part of their livelihood security and social welfare. However, while in joint ventures, Chinese employees will not receive these living security benefits provided by companies, which makes Chinese employees lack a sense of collective belonging.

**Cross-cultural conflict in incentive mechanisms**

In Sino-German joint ventures, due to cultural differences, the same incentive mechanism will lead to different results. The choice of incentive mechanism is determined by the need of employees. People from different cultural backgrounds have different needs. Maslow's hierarchy of needs theory believes that "self-value realization" is the highest goal of human being. This cultural value is reflected in the incentive mechanism of German enterprises: emphasis on individual responsibilities, attract talents through high wages, motivate core personnel through equity and stock option plan, and allow employees to share company profits through an extensive employee stock ownership plan. In China, the incentive mechanism is based on stability. Sometimes, spiritual encouragement is more effective than material stimulation to inspire employees' creativity and loyalty to the company. Reflected in the incentive mechanism is to focus on the role of the department, link incentives with the collective, encourage employees to share income and profits. To maintain the balance between the company's employees, Chinese managers are accustomed to working on internal coordination. This culture shock between traditional Chinese and German cultural ideas will lead to conflicts in the process of establishment and implementation of incentive mechanisms. These conflicts will lead to problems in the incentive management of German companies in China.

**2.4.5 Features of Cross-Cultural Conflict**

According to the types and performance of cross-cultural conflicts described above, the features of cultural conflicts can be concluded as follow:

**(1) Objectivity of Cross-Cultural Conflicts**

Cultural conflicts caused by cultural differences are inevitable in cross-cultural organizations. It can be said that the objective existence of cultural differences in foreign companies determines the objectivity of cultural conflicts. The differences in politic and economic cultural environment of the host country and home country, the variations of management culture and organizational culture of two parties in the joint venture, and the differences in national culture and individual culture between Chinese and German personnel have led to cultural conflicts between Chinese and German parties in the company. In the different stages of business development, the crossover, collision, and conflict of culture are happening all the time.

## **(2) Complexity of Cross-Cultural Conflicts**

The connotation of culture is exceptionally rich. It is reflected in many aspects such as language, education, religion, social organization, values, and aesthetic standards. At the same time, the culture of a country is usually a long historical accumulation, and it is still changing and evolving (Yu & Jia, 1997). Therefore, cultural conflict is a complex variable for management in the foreign-invested company. The types and performances of cultural conflicts are not always the same in different periods and development stages of a particular joint venture. These various forms of cultural conflicts are dynamic changes, and their impact on the transnational operations of enterprises is multifaceted, affecting the entire process of multinational companies' operations.

## **(3) The Level of Cross-Cultural Conflict**

According to Edward T. Hall (1976), culture can be divided into three categories: formal norms, informal norms, and technical specifications. Formal norms are the basic values of human beings and criteria for judging right from wrong. They can resist the forces from the outside to change them. Therefore, the conflicts caused by formal norms are often not easy to change. Informal norms are people's living habits and customs, and so on. Cultural conflicts caused by informal norms can be overcome through longer-term cultural communication. Technical norms refer to people's knowledge, technology, experience, etc. They can be obtained through the learning and can easily be changed. From this perspective, the degree and types of cultural differences and cultural conflicts caused by different norms of culture are different.

## **(4) Controllability of Cross-Cultural Conflicts**

Cross-cultural conflicts can be identified and controlled, but due to the complex causes of cross-cultural conflicts in the business process in joint ventures, there are certain specialties in the control and management of conflicts. This requires managers to fully identify the causes and processes of cross-cultural conflicts, correctly diagnose the impact of cross-cultural conflicts, and control and manage them in a planned and systematic manner. For example, when an intercultural conflict develops or is about to develop into a dysfunctional state, managers must effectively control cross-cultural conflicts and try to minimize the adverse effects of

the conflict. Under certain circumstances, some cross-cultural conflicts within joint ventures are unnecessary. Once this happens, it will hinder internal communication and cooperation. Therefore, it is necessary for managers to assess the situation, control beforehand, and take precautions.

### **(5) The Integration of Cross-Cultural Conflicts**

Cross-cultural conflicts and cross-cultural integration have always been accompanied, and the process of resolving cross-cultural conflicts is also a process of cultural integration (Zhang, 2006). The task of cross-cultural management is to seek common things that reflect the essence of various cultures from different cultures so that they can survive in various cultural environments. The management of Sino-German joint ventures is based on a cross-cultural basis. On the one hand, the differences between different cultures lead to mutual exclusion and cross-cultural conflicts. On the other hand, the interrelationships between different cultures lead to mutual absorption and the promotion of cross-cultural integration. Therefore, cross-cultural conflicts and cross-cultural integration in Sino-German joint ventures are two aspects of cultural convergence that always co-exist and transform, but cross-cultural conflicts will eventually lead to cross-cultural integration. This is a long process and a tortuous process. It requires all members of the joint ventures not only to learn from each other's original cultural patterns but also to form new values through mutual learning.

### **2.4.6 Influence of Cross-Cultural Conflict**

#### **(1) Positive Effects of Cross-Cultural Conflicts**

First, cross-cultural conflicts help stimulate new ideas and promote innovation in joint ventures. When various ideas meet together, new ideas may occur. The most significant feature of Sino-foreign joint ventures is the integration of two or more national cultures. While solving a problem, each member of the joint venture may analyze from one's perspective and judge according to one's logical way. Analysis of the problem will result in a more thorough understanding of the problem, general opinions, and various options. Multiple options not only increase the flexibility of enterprise management but also enhance the skills and ways to solve problems, thereby improve enterprise innovation.

Second, the solution to the cross-cultural conflicts will eventually produce a multi-cultural superposition effect. When the Sino-foreign joint ventures start their cooperation, cultural differences will create some conflicts in management, systems, and personnel. Cultural conflicts enable employees of different nationalities to learn from each other in communication and exchange ideas. After a period, both Chinese and foreign parties can understand, absorb the advantages of each other's culture, and apply them to the management practices to achieve the superposition of both cultural edges. The new cross-cultural enterprise management model that is suitable for the company will eventually form a unique culture that is unique to the joint venture, and will exert its enormous influence on the dominant culture, resulting in a "1+1>2" effect. The settlement of cross-cultural conflicts has made Chinese and foreign parties more trustful, making it easier for the joint venture parties to seek common ground while reserving differences and reaching consensus in the long-term development of the company so that the company will continue to grow and expand and remain invincible in market competition.

Third, cross-cultural conflicts help improve the joint venture's resilience and adaptability to the environment. Sino-foreign joint ventures are often in a complex and ever-changing international environment. This requires joint ventures to have strong environmental adaptability. The cultural diversity within a joint venture means that the company has multiple values and management behavior patterns. To adapt to different internal and external environmental characteristics of the company, different values, and management behavior patterns have to adjust to each other and integrate with each other in conflict. Also, cross-cultural conflicts will lead to the emergence of disagreement between the parties to the joint venture. In the process of resolving these differences, the management level of the company and its ability to respond to emergencies will also be improved. This will lay a good foundation for the company to enter the international market. For the survival and development of Sino-foreign joint ventures, managers from different cultural backgrounds can consciously perform role transitions, more adequately understand the needs and expectations of consumers in another culture, formulate a nationally-oriented market for corporate customers, develop strategies for products and services that are popular to customers with their cultural characteristics. It is the collision and conflict of multiculturalism that makes managers of Sino-foreign joint ventures more confident

when dealing with customers with very different cultural backgrounds. Therefore, cross-cultural conflicts can significantly increase the resilience and adaptability of Sino-foreign joint ventures to the environment.

Fourth, cross-cultural conflicts will inject new vitality into joint ventures, which will help promote internal organizational reforms and adjustments. When cross-cultural conflicts occur, unreasonable or inconsistent organizational structures and institutional systems appear in companies, and the exposure of problems facilitates the transformation of corporate organizations. Before the reform of the business leaders, to form a culture that requires change, they will significantly promote the existence of a crisis or potential crisis. It is not easy to create such a culture. Cross-cultural conflicts can provide opportunities for change at this time. At the same time, the existence of cross-cultural conflicts also requires that business leaders make appropriate changes and adjustments to improve their ability to adapt to the environment. Therefore, the ability to innovate through cross-cultural conflicts is also the driving force for corporate reform.

## **(2) Negative Impact of Cross-Cultural Conflicts**

First, cross-cultural conflicts increase the complexity of the internal management of joint ventures. In joint ventures, employees from different countries have different values, religious beliefs, different needs, expectations, and work motivations. It is difficult to form unified and standardized management at work, which increases the complexity and difficulty of the management work and may even lead to confusion and conflict in the joint venture's operation and management (Culpan, 2002). For example, employees from different cultural backgrounds often express their dissatisfaction with managers with different ways of responding. If employees of German cultural background do not agree with their superiors' opinions, they will discuss this matter with their superiors publicly, because German culture emphasizes work efficiency and they like to face contradictions. Most Asian employees, such as Chinese employees, often express their dissatisfaction with their supervisors with silence, but Japanese staff usually exchange opinions with their superiors afterward because Japanese people pay more attention to interpersonal relationships. If managers do not understand the different ways of responding dissatisfaction to the boss by members of different cultural backgrounds, they cannot simply identify the

result of cross-cultural conflicts, nor can they guide and control the management problems caused by this intercultural conflict. Greater confusion has led to severe consequences that are irresistible. This shows that the existence of cross-cultural conflicts has dramatically increased the difficulty and complexity of joint venture management.

Second, cross-cultural conflicts increase the difficulty of decision-making and reduce the effectiveness of decision-making. The negative impact of intercultural conflict on decision-making effectiveness in enterprises is mainly reflected on two aspects. The first is in decision-making. Different cultures have different behavioral norms and ethical standards, etc. There may be different views, opinions, and opinions on the same thing. Therefore, when making decisions, the members of the joint venture must be out of their cognitive standards and value standards. It is the management personnel who often hold their own opinions. From the standpoint and perspective of analyzing problems and solving problems, as well as language and other communication obstacles, it is difficult to reach agreements and decisions that are acceptable to everyone. The consequence is that corporate decision-making is slow, and it takes a lot of time and effort. It is difficult to formulate effective plans and strategies in response to changes in the internal and external environment of the company. The second is in the implementation of decision-making. In a joint venture, based on different cultural backgrounds, inner members of the company often have different understandings of the same decision-making scheme. Even if the understanding is similar, the principles, procedures, and methods of implementation may be inconsistent. These will inevitably lead to different behaviors in the implementation of decision and plans by them, resulting in conflicts among members. The predetermined decision-making goals are difficult to achieve.

Third, cross-cultural conflicts weaken the market competitiveness of joint ventures. First, cross-cultural conflicts will increase the transaction costs of joint venture management. Due to the complexity of the intercultural conflict itself, it has led to difficulties in managing the joint venture. In China's business environment, there are many characteristics of political and opportunistic behavior. Therefore, joint ventures are faced with greater uncertainty and risks, which will inevitably impose higher requirements on supervision, communication, and negotiation in the



establishment and operation of joint ventures, thereby increasing transaction costs. Cultural conflicts not only improve the complexity of managing multinational strategic alliances but also increase the future uncertainty of joint ventures. To deal with the complexity of management and uncertainty in the future, joint venture partners have to sign more contracts, carry out more organizational coordination and supervision activities, to result in the contractual costs, coordination costs and supervision costs of joint ventures. The increase has resulted in the waste of internal resources of the enterprise and has fundamentally violated the principle of the efficiency of the market economy. Not only has the company's business objectives been challenging to achieve, but it has also even jeopardized the survival and development of the enterprise. Second, cultural conflicts have made the decision-making of enterprises slow and implemented. Poor, unresponsive to changes in the market, often lose a large number of favorable market opportunities, thereby significantly increasing the business risks, usually in a passive position in the competition (Geringer & Colette, 1990).

Fourth, cross-cultural conflicts undermine the human relationships in joint ventures and weaken the trust between the two parties. A joint venture is a capital equity synergy. The powers, obligations, responsibilities, risks, and returns of all parties involved in the investment are integrated into the enterprise. Its synergy is reflected in the fact that the assets of the parties are not merely summed up. The rights and interests of the parties are not simply distributing, but organically complement each other, and focus on overall benefits. As representatives of interests, joint ventures in Sino-foreign equity joint ventures are often accustomed to considering issues in their interests and considering joint ventures as “the United Nations” and at the expense of other benefits or the interests of Sino-foreign joint ventures. With its interests, this creates cultural conflicts characterized by excessive national self-esteem. As a result of frequent conflicts, the two joint ventures will be warned and guarded against each other. They will have mutual suspicion and prejudice. Failures will first be considered from a negative point of view, leading to tensions between the two sides. They may even lose confidence in cooperation between the two parties, and they doubt the necessity of continuing cooperation.

## **2.5 Cultural Studies of Conflict Management**

### **2.5.1 Conflict Studies from Western Perspective**

Conflict management is usually not an easy process. How people manage conflicts is usually influenced by their cultural values (Borisoff & Victor, 1989). People from different cultures have different understanding of conflict and adopt different conflict management strategies. The most common view is that members of individualistic cultures are more confrontational than the members of collectivistic cultures.

Ting-Toomey (1985) concluded that among the various studies on culture and conflict, “relatively little theoretical work has been devoted to a systematic examination of the conceptual linkage between conflict and culture” (p.71). Although some researchers (e.g., Hwang, 1997; Kazan, 1997; Ting-Toomey, 1985) proposed some theoretical frameworks about the relationship between culture and conflict management, empirical confirmations of those frameworks are lacking. Among the few frameworks linking culture and conflict management, Kazan’s theory and Ting-Toomey’s framework carry more weight (Peng, 2003).

Hofstede’s dimensions of cultural values, especially the individualism-collectivism dimension has been widely used as a framework to study how cultural differences affect people’s behaviors and conflict management. According to Hofstede (1980), members of individualistic cultures tend to be low-contextual, while members of collectivistic cultures tend to be high-contextual. Hall’s (1976) concept of high and low context cultures supported Ting-Toomey’s (1985) theory of conflict and culture and provided a direct link between culture and conflict management. Based on these assumptions, Ting-Toomey (1985) also borrowed the concepts of instrumental and expressive conflicts to theorize about how cultural members perceive, interpret, and manage conflicts.

Instrumental conflict is characterized by “opposing practices or goals,” and expressive conflict is characterized by “desires for tension release from hostile feelings.” In a conflict episode, members of low-context cultures tend to view the conflict as instrumental. They can separate the conflict from individuals involved in it. As a result, they usually deal with conflict in direct or confrontational styles. On the contrary, members of high-context or collectivistic cultures tend to see the

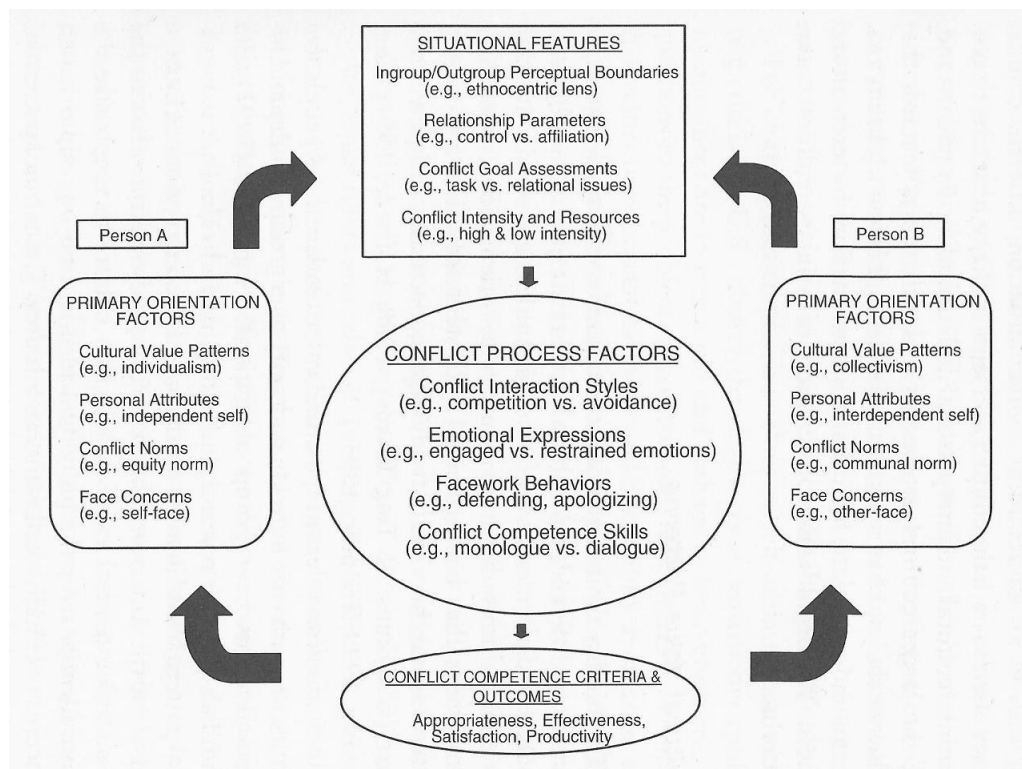
conflict as expressive and cannot distinguish the conflict from individuals involved in it. They usually deal with conflict in indirect, non-confrontational, and passive ways.

Conflict potential is bounded by cultural demands and cultural constraints. Cultural demands refer to the set of cultural standards that a group of individuals ascribes to. Cultural constraints include cognitive constraints, cultural emotional constraints, and cultural behavioral constraints. Cultural demands and cultural constraints largely determine how conflict is managed. In a low-context culture with low-level of cultural demands and cultural constraints, individuals act by their own rules, and conflict potential is high. Individual differences and opinions are valuable, and conflicts are often managed directly. Conversely, in high-context culture with high-level of cultural demands and constraints, conflict potential is low, because individuals have common rules to follow. Public confrontation is usually avoided (Peng, 2003).

Ting-Toomey's theory is not perfect, because the relationship between conflict and culture is considered as static. In an actual situation, individual cultural members may adopt non-confrontational conflict strategy; collectivistic cultural members are not always confrontational. And the external environment was not considered as an element affecting conflict management styles.

Ting-Toomey and Oetzel (2001) introduced a Culture-Based-Situational Conflict Model as in figure 2.1 to help understand the cultural and situational factors that influence intercultural conflict communication.

Figure 2.1 The Culture-Based-Situational Conflict Model



Source: Ting-Toomey & Oetzel, 2001, p. 29

This model contains four clusters of factors that influence conflicts between people from different cultures.

**Primary orientation factors:** They shape the interpretation of different situational and relationship features and constitute the fundamental differences between cultures, such as value patterns, personal attributes, conflict norms, and face concerns.

**Situational and relationship boundary factors:** They indicate how one evaluates a particular situation and the relationship with the conflict party. They are determined by ingroup-outgroup boundaries, the perception of the relationship and different goal types, as well as the evaluation of the conflict intensity.

**Conflict process factors:** They influence how conflict parties feel about the conflict. The factors are the communication behaviors that the conflict parties use

during the conflict, such as conflict interaction styles, emotional expressions, facework behaviors, and conflict competence skills.

**Conflict competence criteria and outcomes:** Individuals use four criteria to evaluate how they managed the conflict: appropriateness, effectiveness, satisfaction, and productivity of the conflict.

Based on Glen's (1981) model of associative and abstractive cultures, Kazan (1997) proposed a theoretical framework of culture and conflict management. Glen's associative culture corresponds to high-context cultures, and abstractive culture is similar to individualistic cultures. This framework consists of three different models of conflict management, including the harmony model, the confrontational model, and the regulative model. The conflict process is divided into three stages: antecedent conditions, thoughts and emotions, and behavior. Conflict management occurs at each stage of the conflict process in all three models.

In the harmony model, conflict management begins with efforts to prevent rather than actually resolve any conflict, and cooperative behavior is emphasized to handle conflict. In the confrontational model, conflict is openly recognized, and certain level of conflict in the organization is considered desirable. To resolve conflict, confrontation and compromise are employed. In the regulative model, bureaucracy is often used to manage conflict.

Kazan's framework is unique in that the third party's role in conflict and the results of management have been adequately treated in each model. In the harmony model and regulative model, third parties are frequently involved in the conflict. In the confrontational model, third parties don't play a key role.

Kazan's theoretical framework offers the possibility to study conflict management strategies across cultures from different dimensions. However, this framework needs empirical confirmation, and situational factors related to conflict have not been addressed.

Although many researchers have studied how conflicts are managed, most of these studies were conducted from a single cultural perspective. Limited intercultural research on conflict management has been conducted. Among the limited studies of cross-cultural conflict management studies, some comparative researchers found that Chinese are more likely to avoid conflicts than Westerners and concluded that in managing conflicts Chinese are more concerned with maintaining interpersonal relationships. The other different studies also showed that Chinese prefer compromising and avoiding styles of conflict management, while westerners prefer competing and collaborating styles. These cross-cultural studies on conflict management contributed to the understanding of how culture affects conflict management, but they were all built on theories developed by Western scholars. This is obviously a limitation (Peng, 2003).

### **2.5.2 Conflict Studies from Chinese Perspective**

Some scholars conducted studies on conflict management from a native Chinese cultural perspective and examined how conflict was perceived and managed by the Chinese people in Chinese cultural context.

For example, Hwang (1997) proposed a model on conflict management. This model combines Chinese cultural forces such as *guanxi*, *face*, interpersonal harmony, and favor, because they are the main cultural factors that determine how conflict is managed in Chinese society. Hwang (1997) proposed two dimensions on conflict management: the dimension of “pursuing vs. discarding personal goal” and the dimension of “maintaining vs. ignoring interpersonal harmony.” Hwang argued that if a person chooses to discard interpersonal harmony, he may choose to confront the conflicting party, and if the person chooses to maintain interpersonal harmony, he may choose to endure the other conflicting party. Hwang believed that Chinese people are not always non-confrontational and avoiding in interpersonal conflicts. On the contrary, they may select different conflict management approaches, including confrontation, endurance, or compromise, depending on how the other conflicting party is classified and what one cares about (Peng, 2003).

However, Hwang’s model is only a conceptual framework and has not been developed and tested empirically. In Chinese culture, *face*, *favor*, and *guanxi* are

challenging to measure. In most cases, the size of face, the strength of guanxi, and the amount of favor depend on various factors. Unless we know how to measure these concepts, it is challenging to predict what the best strategy is to handle a conflict, and whether a conflict is effectively handled.

Yu (1997) argued that conflict is seen as something bad and destructive by the Chinese and viewed negatively. This perception of conflict explains why the Chinese have a high tendency to avoid interpersonal conflict. Yu (1997) further pointed out that all the conflict management styles adopted in Western societies can also be found in the Chinese context. Yu (1997) used Mao's (1960) conceptualization of Mao dun (conflict or contradiction) to view conflict from the perspective of Chinese mainland. This is a unique cognitive process to understand how Chinese people view conflict, as this concept has rich culturally specific connotations, and "the meaning of Mao dun in modern Chinese is far beyond its original meaning" (Yu, 1997, p.65). As China is a socialist country, and the ideology of Mao (1960) has dominated Chinese society for decades, a study from this perspective is necessary.

Wu (1997) traced and analyzed an indigenous conflict management method, ideological work. This approach was a major communication approach mainly for the management of individual-collective conflicts, especially during Mao's period in China. In that period, ideological work was more of a one-way, top-down mind persuasion using Mao's thought rather than a two-way, symmetrical communication. The focus of this strategy is to sacrifice personal interests for the benefit of the collective.

Since Chinese people have been under the influence of Mao's thought for a long time, understanding this way of historical communication approach will help us better understand the evolution of conflict strategies adopted by Chinese people and the potential cognitive contents. More empirical research is needed to find out how practical this approach is, and whether it is still a preferable approach for the management of individual-collective conflicts today.

These studies explored the theme of conflict management from social and cultural perspectives, which are different from those of western researchers and

reveal a series of conflict episodes ignored by previous Western researchers. A crucial aspect of these researchers is their Chinese origin. Most of them were born and grew up in China. Their relationships with China make them more insightful of and sensitive to Chinese cultural forces, their strength, and the interaction of these forces in interpersonal communication and conflict management than their Western counterparts. At the same time, how Chinese people manage conflict during their encounters with other cultural members is an area that should be studied by researchers from both Western and native Chinese perspectives.

Empirical research drawn on Hofstede's (1980) dimensions of cultural variability and other conflict models or theoretical conceptualizations have been generating new perspectives to enhance intercultural understandings and providing new research clues. Due to the selected sample for research and the lack of data from China mainland, the empirical research also has its flaw.

The common point of various studies and researches from Western and Chinese perspectives is that the cultural value frameworks that always receive intercultural researchers' attentions are individualism-collectivism and power distance (Ting-Toomey & Oetzel, 2001).



## Chapter 3. Theoretical Framework

### 3.1 Cultural Dimension Frameworks

In chapter 2, Hall's high context and low context cultures framework, Hofstede's 6-D model of national culture dimensions, Trompenaars' model of national culture differences, and GLOBE's nine culture dimensions are introduced to understand cultural dimensions. However, in this chapter, Hall's high context and low context cultures framework, Hofstede's 6-D model of national culture dimensions, and GLOBE's nine culture dimensions will be applied to compare Chinese and German cultural differences.

#### 3.1.1 Hall's High Context and Low Context Cultures Framework

According to Hall's (1976) high context and low context cultures framework, Germany has the low context culture, and China has the high context culture. The specific characteristics can be described as in table 3.1.

Table 3.1 China's High Context Culture vs. Germany's Low Context Culture

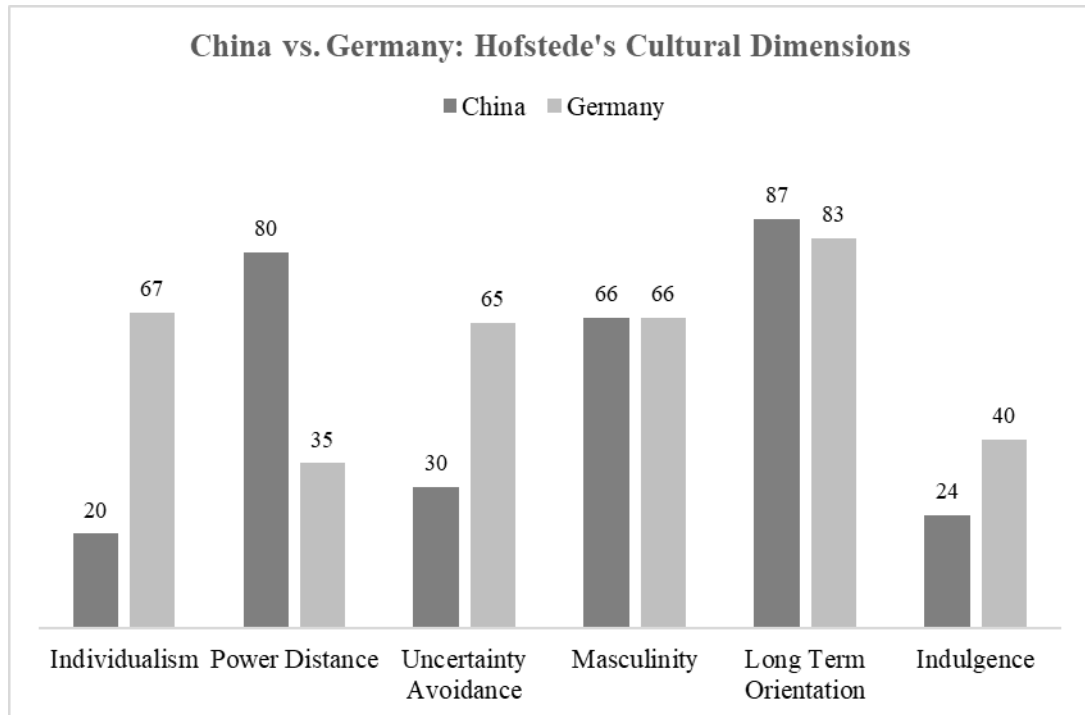
Characteristic	High Context China	Low Context Germany
Communication	Implicit, indirect	Explicit, direct
Sense of Self and Space	Formal handshakes	Informal handshakes, hugs
Dress, Appearance	Indication of position in society, religious rule	Dress for individual success
Eating Habits	Eating is a social event	Eating is necessary, fast food
Time Consciousness	Time=relationships	Promptness is value, time=money
Family and Friends	Extended family, loyalty, and responsibility, respect old age	Nuclear family, self-oriented, value youth
Values and Norms	Group conformity, harmony	Independence, confrontation of conflict
Beliefs and Attitudes	Hierarchical, respect for authority, individuals accept destiny, gender roles	Egalitarian, challenge authority, individuals control destiny, gender equity
Mental Process and Learning	Lateral, holistic, simultaneous	Linear, logical sequential, problem-solving
Business/Work Habits	Relationship oriented, rewards based on seniority	Deal-oriented, rewards based in achievement

Source: Hollensen 2014, p.248

### 3.1.2 Hofstede's 6-D Model of National Culture

According to Hofstede's (1980) 6-D Model, a good overview of the deep drivers of Chinese and German culture is shown in figure 3.1.

Figure 3.1 China vs. Germany: Hofstede's Cultural Dimensions



Source: Hofstede, 1980

The figure shows that China has a much lower score on individualism and uncertainty avoidance than Germany, much higher score on power distance, same score on masculinity, very close score on long term orientation and indulgence.

Regarding individualism, with a score of 20, China is a highly collectivist culture, in which people care about the group. Considerations within the group affect hiring, and promotions, with more benefits for family members or closer group members. Employee commitment to the organization is low. Relationships with colleagues are close for in-groups but distant or even hostile to out-groups. Personal relationships prevail over task and company. On the contrary, The German society is an individualist one with a score of 67. People focus on their small families. There is a strong belief in the goal of self-value realization. Loyalty is based on personal preferences for people and the sense of responsibility. This is defined by the contract

between the employer and the employee. German style communication is among the most direct in the world with the ideal to be honest, even if it hurts, and by this giving the counterpart a fair chance to learn from mistakes.

Regarding power distance, at 80 China sits in the higher rankings of the Power Distance Index, indicating that China is a society that believes that inequalities among people are acceptable. Individuals are influenced by formal authorities and are generally optimistic about people's capacity for leadership and initiative. There is a large gap between managers and subordinates in the enterprise. Bosses have greater authority and are not easily accessible. Tasks are assigned according to levels of power. Decisions are made by management level. Long-term plans are generally confidential to subordinates. On the contrary, it is not surprising that Germany, whose power is highly decentralized and supported by the strong middle class, is among the lower power distant countries with a score of 35. Common decisions have to be considered by the management. Direct and participative communication and meeting style are common, control is disliked, and leadership is challenged to show expertise.

Regarding uncertainty avoidance, at 30 China scores low on Uncertainty Avoidance. Chinese are comfortable with ambiguity. The Chinese language is full of ambiguous meanings and thus is difficult for Western people to understand. At 65 Germany is among the uncertainty avoidant countries. The score is high, so there is a slight preference for uncertainty avoidance. German has a strong preference for deductive rather than inductive approaches, whether in thinking, presenting or planning: the systematic overview must be given to proceed. Details are equally important in determining whether a particular topic or project is well thought. Germans prefer to strongly rely on expertise to compensate for their higher uncertainty.

At 66 China is a Masculine society, oriented and driven by success. Many Chinese sacrifice family and leisure priorities to work to ensure success. Leisure time is not that important. Many labor workers leave their families behind to developed cities to obtain better work and pay. Chinese students care about their exam scores and ranking very much because this is the main criteria to achieve success or not.

With the same score of 66, Germany is also considered a Masculine society. Performance is highly valued and early required. In Germany, the school system separates children into different types of schools at the age of ten. People emphasize work and draw a lot of self-esteem from their achievements. Managers are expected to be assertive and confident. Social status and titles are important.

China scores 87 in long-term orientation, which means that it is a very pragmatic culture. Germany's high score of 83 suggests that it is also a pragmatic country. In pragmatic orientated society, people believe that truth depends largely on the situation, context and time. They show the ability to adapt traditions easily to changing circumstances, a strong propensity to save and invest, and perseverance in achieving results.

With a low score of 24 in indulgence, China is a restrained society. German culture is also restrained in nature with a low score of 40. Societies that score low in this dimension tend to be pessimism. Also, on the opposite of indulgent societies, restrained societies place less emphasis on leisure time and control the gratification of their desires. People with this may feel that social norms restrain their behaviors, and it is somewhat wrong to indulge themselves.

### **3.1.3 GLOBE's Cultural Dimensions Model**

The Chinese data of the GLOBE Project was collected in Shanghai, which is the largest financial and industrial city in China. Shanghai was selected as the research site because of its rapid development and strategic position in China. With the well-developed infrastructure for utilities, communications, and the commercial climate conducive to foreign investment, Shanghai serves as an ideal environment to investigate changes in values and implications of such changes in managerial practices (House, 2004).

A total of 158 responses were collected from middle managers working in the finance industry (77) and food industry (81) (House, 2004). Table 3.2 presents China's mean scores on each of the cultural dimensions "As Is" (the perceived practices in society) and "Should Be" (how the society should be in an ideal situation). Next to the mean scores are the rankings of the scores in reference to the other scores by the 61 participating countries and regions. Band means the culture

groups. Also presented in Table are the highest and lowest mean scores on each of the dimensions.

Table 3.2 Chinese Culture: Results of GLOBE Survey

<b>Culture Dimension</b>	<b>Mean</b>	<b>Rank</b>	<b>Band</b>	<b>Highest Score</b>	<b>Lowest Score</b>
Performance Orientation					
“As Is”	4.45	13	A	4.94	3.2
“Should Be”	5.67	50	C	6.58	4.92
Future Orientation					
“As Is”	3.75	34	C	5.07	2.88
“Should Be”	4.73	60	C	6.2	4.33
Assertiveness					
“As Is”	3.76	51	B	4.89	3.38
“Should Be”	5.44	2	A	5.56	2.66
Institutional Collectivism					
“As Is”	4.77	7	A	5.22	3.25
“Should Be”	4.56	9	B	5.65	3.83
In-Group Collectivism					
“As Is”	5.8	9	A	6.36	3.53
“Should Be”	5.09	58	C	6.52	4.94
Gender Egalitarianism					
“As Is”	3.05	48	B	4.08	2.5
“Should Be”	3.68	58	C	5.17	3.18
Uncertainty Avoidance					
“As Is”	4.94	10	A	5.37	2.88
“Should Be”	5.28	9	A	5.61	3.16
Power Distance					
“As Is”	5.04	41	B	5.8	3.89
“Should Be”	3.1	12	B	3.65	2.04
Humane Orientation					
“As Is”	4.36	17	B	5.23	3.18
“Should Be”	5.32	39	C	6.09	4.49

Source: House, 2004

GLOBE conducted a study on German societal culture by considering the German population, economy, political system, history, the reunification in 1990, and the GLOBE questionnaire survey (conducted in the second half of the 1990s) about societal cultural practices and values based on a total of N = 471 German middle managers in three different industries (food, finance, and telecommunications) (House, 2007).

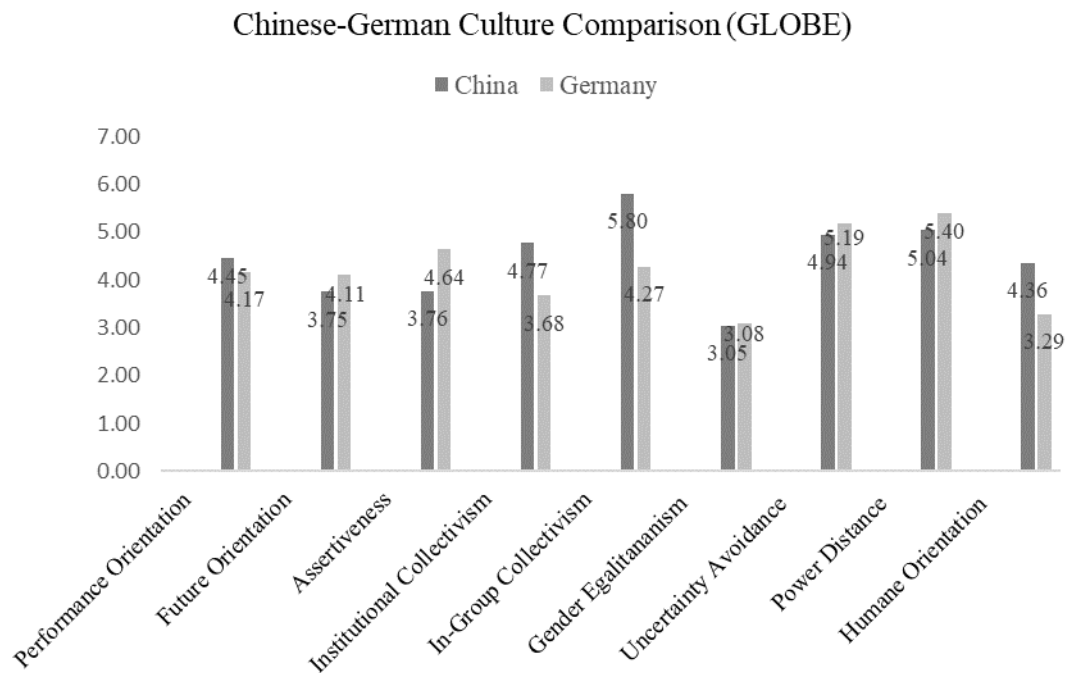
Table 3.3 German Culture: Results of GLOBE Survey

Culture Dimension	Mean		Rank		Band	
	West Germany	East Germany	West Germany	East Germany	West Germany	East Germany
Performance Orientation						
“As Is”	4.25	4.09	22	33	B	B
“Should Be”	6.01	6.09	29	22	B	B
Future Orientation						
“As Is”	4.27	3.95	13	25	B	B
“Should Be”	4.85	5.23	57	52	C	B
Assertiveness						
“As Is”	4.55	4.73	10	4	A	A
“Should Be”	3.09	3.23	55	53	C	B
Institutional Collectivism						
“As Is”	3.79	3.56	54	59	C	C
“Should Be”	4.82	4.68	28	34	B	B
In-Group Collectivism						
“As Is”	4.02	4.52	54	46	C	B
“Should Be”	5.18	5.22	55	53	C	C
Gender Egalitarianism						
“As Is”	3.1	3.06	44	47	B	B
“Should Be”	4.89	4.9	15	14	A	A
Uncertainty Avoidance						
“As Is”	5.22	5.16	5	7	A	A
“Should Be”	3.32	3.94	59	52	D	C
Power Distance						
“As Is”	5.25	5.54	29	13	B	A
“Should Be”	2.54	2.69	44	34	C	C
Humane Orientation						
“As Is”	3.18	3.4	61	56	D	D
“Should Be”	5.46	5.44	30	33	B	B

Source: House, 2004

For a more visualized understanding of Chinese and German cultures comparison, following chart of culture dimensions with values of “As Is” is presented using selected data from table 3.2 and table 3.3. The mean score of “West Germany” and “East Germany” from GLOBE is added together to get the mean score of “Germany” for easier comparison.

Figure 3.2 Chinese-German Culture Comparison (GLOBE)



Source: House, 2004

Above figure shows that generally Chinese culture is very close to German culture. Only on culture dimensions of Institutional Collectivism, In-Group Collectivism, and Humane Orientation, the scores have over 1.0 difference. Chinese culture and German culture are nearly the same on the index of Uncertainty Avoidance and Power Distance, which is opposite of Hofstede's concept. Even there is over 1.0 difference in the index of Institutional and In-Group Collectivism, this result is also very different from Hofstede's culture dimension scores.

According to GLOBE results of Chinese and German society culture survey, the Chinese and German cultural differences can be concluded as in below table 3.4.

Table 3.4 GLOBE Findings of Chinese and German Cultural Differences

<b>Culture Dimension</b>	<b>Chinese Culture</b>	<b>German Culture</b>
Performance Orientation	Hard work and diligence are and should be more highly praised	Not as high as in China, but expected to be higher
Future Orientation	Chinese managers are less long-term oriented, and expected to be more	High future orientation, but should be reduced
Assertiveness	Chinese are and should be more assertive	High degree in assertiveness, but in decline
Institutional Collectivism	Highly collectivist, but expected to be less	Highly individualistic
In-Group Collectivism	Highly in-group collectivist, but expected to be less	Highly individualistic
Gender Egalitarianism	The society favors men more than women	Opportunities are equal for men and women and are expected to be more equal
Uncertainty Avoidance	Chinese society has a high intolerance of uncertainty	High uncertainty avoidance, but in decline
Power Distance	High level of tolerance for inequality of power in society, but the society aspires for more equality.	High on power distance, but expected to be low
Humane Orientation	Chinese are and are expected to be humane.	Low on humane orientation, but expected to be high

Source: House, 2004

According to the data from table 3.2, 3.3, and 3.4, and the visual presentation of figure 3.2, GLOBE's results of Chinese culture and German culture are very distant from Hofstede's. The reason might be the selected samples. Therefore, GLOBE culture dimensions model will not be applied further in this thesis.

For the empirical research in the next chapter, Hofstede's three culture dimensions will be used to test the Chinese culture and German culture differences. These three culture dimensions are Individualism, Power Distance, and Uncertainty Avoidance. These three dimensions are selected because they are what China and Germany have cultural differences on. These three dimensions will also be employed further to identify the relationship between culture and conflict management.



Although Hofstede (1980) did not obtain data directly from mainland China, later findings including Trompaanar's (1995) study improved the applicability of Hofstede's theory to Chinese culture. Hofstede's framework is selected also because this framework is one of the few built on the large scale of empirical cross-cultural research in the workplace, and because these assumptions have been widely applied and generated various results, thereby this thesis can refer to those results for comparison.

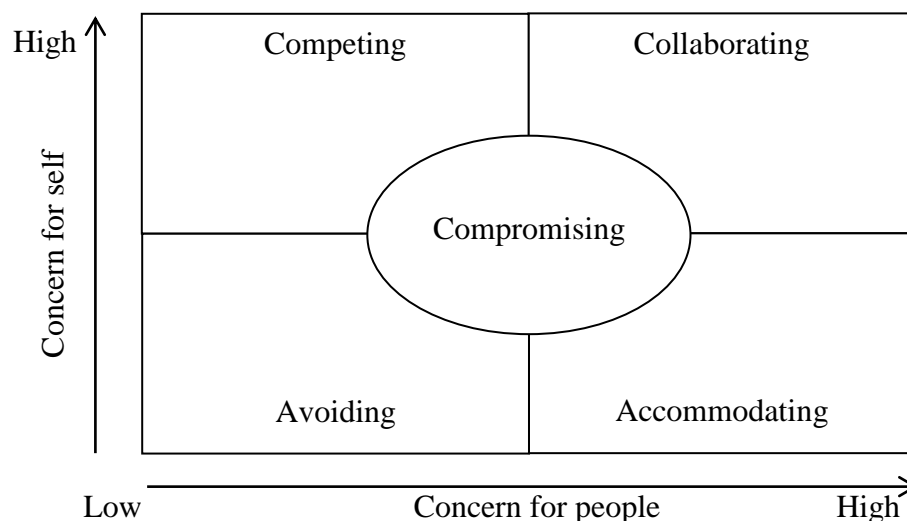
### 3.2 Conflict Management Model

For a systematic study of conflict management, Blake and Mouton's (1984) Five Styles Model of Conflicts is adopted. This model is selected because it has been widely used to study conflict management in intercultural environments and has been proved to be applicable. These studies have generated various results, which this thesis can be compared to.

#### The Five Styles Model of Conflicts

The five styles model contains five basic ways of engaging in conflicts and is helpful in relation to interpersonal conflicts. The model was proposed by Blake and Mouton (1984). It contains two dimensions – concern for people vs. concern for self (Devito, 2009). It consists of five different conflict styles: **avoiding, accommodating, competing, collaborating and compromising**. The model is shown in figure 3.3.

Figure 3.3 The Five Styles Model of Conflicts



Source: Devito, 2009

**Avoiding - I lose, you lose**

Conflict avoiders avoid any real communication about the problem. They try to change the topic at any time when the issue comes up or leave the scene of the conflict. In most cases, a conflict can not be resolved with avoiders. This situation can be seen as “I lose, you lose.” Avoidance allows the problem to grow. As the problem is not solved, it will reoccur after a while (Devito, 2008). Sometimes avoidance is a response to demand. It is also known as a conflicting pattern called demand-exit. One makes demands, and the other tries to escape. That person is unwilling to accept the request and withdraws from the interaction (Devito, 2014). In this case, long-term frustration can be the result (Hybels & Weaver, 2012).

**Accommodating - I lose, you win**

In accommodating one sacrifice one's own needs for another person's needs. The primary purpose is to maintain the harmony of the relationship. This style helps to satisfy the other party and can be seen as “I lose, you win” situation. The disadvantage is that one's own needs are neglected.

**Competing - I win, you lose**

Competition style involves high concern for one's own needs and little for those of others. One party is more interested in winning than the other person's feelings. The conflict would be more verbally aggressive, and it is likely that one will have the desire to blame the other person. It can be seen as “I win, you lose” situation. The conflict is successful if one's own needs are met.

**Collaborating - I win, you win**

In collaborating one's own needs and the needs of the other person's are both important. This style is often seen as ideal. The positions of both parties are important. They solve the problem together. With this style, the problem will most likely to be solved. But it needs a lot of time and willingness to communicate. It can be seen as “I win, you win” situation.

**Compromising - I win and lose, you win and lose**

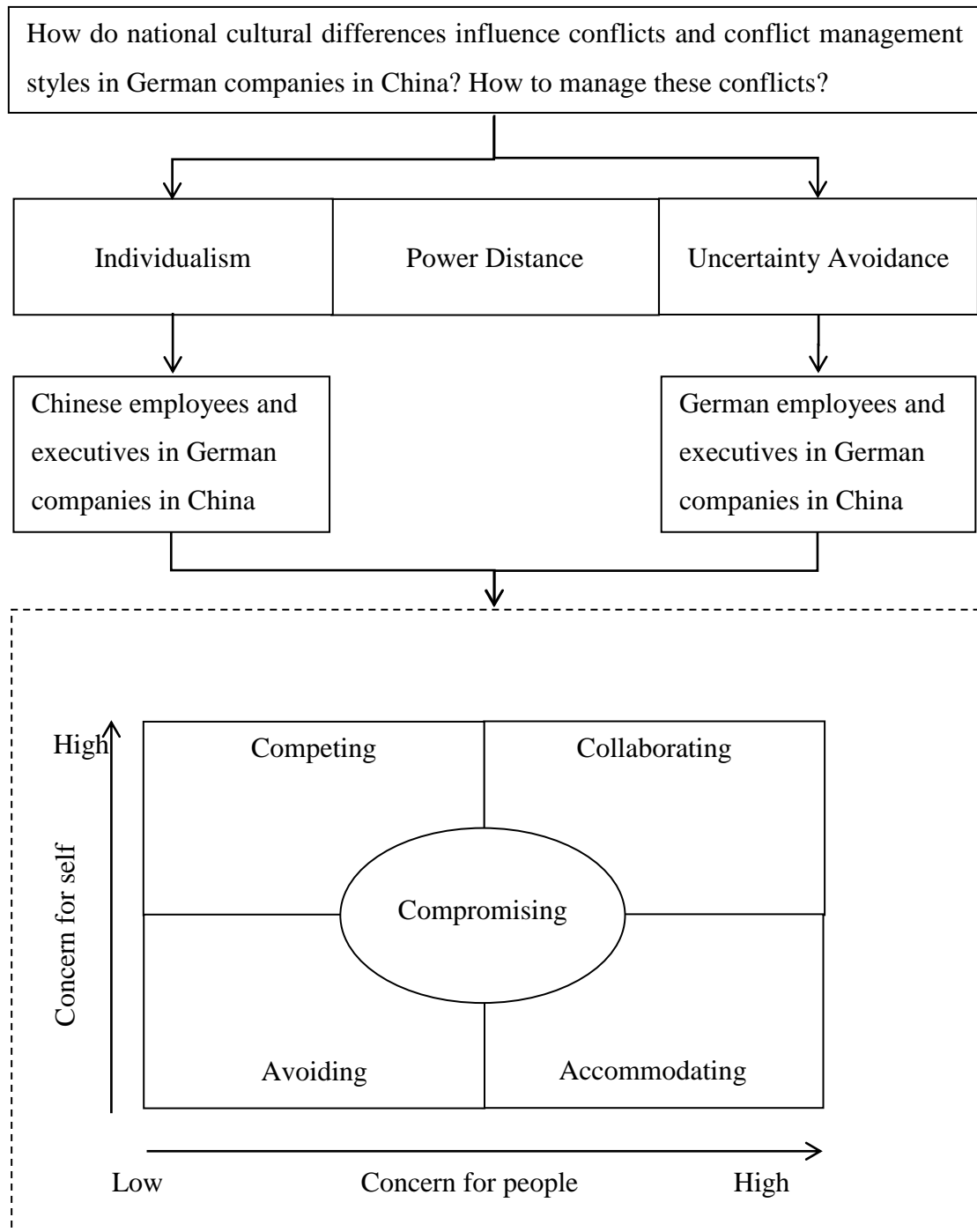
This style is in the middle. There are concerns for one's own needs and for the other's needs. It is like “meeting each other halfway” or “give and take” (Devito,

2008). An agreement is reached quickly, and it helps to maintain a peaceful relationship. The result is an “I win and lose, you win and lose” situation. A disadvantage is that it involves some dissatisfaction over the losses.

### **3.3 The Research Model of Cross-Cultural Conflict Management**

The research model of cross-cultural conflict management formulated for further study in this thesis is a combination of Hofstede’s (1980) three work-related culture dimensions and Blake and Mouton’s (1984) five styles model of conflicts. The structure of this research model is built on the assumed relation between culture and conflict management styles. The model is shown in figure 3.4.

Figure 3.4 The Research Model of Cross-Cultural Conflict Management



This research model starts from the research questions of this thesis. The upper part consists of three variables of culture dimensions; the lower part consists of five variables of conflict management styles. This model is designed to formulate hypotheses to test the relationship between cultural differences and conflict management adopted in German companies in China. The research questions rose at the beginning of this thesis will be answered by testing the hypothesis according to the research model.

Previous literature suggested that conflict is often managed in non-confrontational ways in collectivistic culture with high power distance, and strong uncertainty avoidance than in individualistic culture with small power distance and weak uncertainty avoidance. Based on previous theoretical assumptions and the relation between culture and conflict management, the following hypotheses are formulated:

H1: Members of individualistic culture are:

H1a: less likely to adopt the avoiding style than members of the collectivistic culture.

H1b: less likely to adopt the accommodating style than members of the collectivistic culture.

H1c: less likely to adopt the compromising style than members of the collectivistic culture.

H1d: more likely to adopt the competing style than members of the collectivistic culture.

H1e: more likely to adopt the collaborating style than members of the collectivistic culture.

H2: Members of high power distance culture are:

H2a: more likely to adopt the avoiding style than members of low power distance culture.

H2b: more likely to adopt the accommodating style than members of low power distance culture.

H2c: more likely to adopt the compromising style than members of low power distance culture.

H2d: less likely to adopt the competing style than members of low power distance culture.

H2e: less likely to adopt the collaborating style than members of low power distance culture.

H3: Members of strong uncertainty avoidance culture are:

H2a: more likely to adopt the avoiding style than members of weak uncertainty avoidance culture.

H2b: more likely to adopt the accommodating style than members of weak uncertainty avoidance culture.

H2c: more likely to adopt the compromising style than members of weak uncertainty avoidance culture.

H2d: less likely to adopt the competing style than members of weak uncertainty avoidance culture.

H2e: less likely to adopt the collaborating style than members of weak uncertainty avoidance culture.

All the above hypotheses will be tested using a case study of a typical German company in China. Next chapter is the case study and analysis.

## **Chapter 4. Case Study and Analysis**

In the previous chapter, based on different cultural dimensions, this thesis analyzed the differences between Chinese culture and German culture, then formulated a research model and three hypotheses. To answer the research questions, and further test the hypotheses, this chapter will use a case study of German company V in China as empirical research.

### **4.1 Research Method**

Social research methods include the qualitative method and quantitative method. Quantitative research is the systematic empirical approach to social phenomena through statistical analysis. Qualitative research is a scientific method to gather concepts, definitions, and other non-numerical data. A case study is an in-depth study of a specific context. It is useful to test theoretical models and hypothesis by using them in real-world situations. It may not answer a question entirely but will give some indications (Bryman, 2016).

In this research, a real case of company V is used to test the research model and the hypotheses. This approach aims to find how national cultural differences influence conflict and conflict management styles in the German company in China, and how to manage these conflicts.

### **4.2 Case Study: Company V**

#### **4.2.1 Profile of Company V**

V Group China is the division of the German automotive V Group in the People's Republic of China. V Group China is the largest, earliest, and the most successful international partner in China's Automotive Industry. There are more than ten subsidiary companies of V Group China.

Founded in Germany in 1937, the V Group is one of the world's leading automotive manufacturing companies and the largest automotive manufacturer in Europe. V Group currently owns 12 big car brands. Each brand will represent its brand image in the international automotive market and operate its business as an independent brand. The Group operates 120 production plants in 20 European countries and a further 11 countries in the Americas, Asia, and Africa, and sells its

vehicles in 153 countries. The product spectrum ranges from motorcycles to low-consumption small cars and luxury vehicles. In the commercial vehicle sector, the products range from pick-ups, buses, and heavy trucks. The total number of employees in the world is as high as 642,292 and the number of cars produced per day is more than 44,170.

V Company (Dalian) Co., Ltd. is the first wholly-owned subsidiary invested by German V Auto Group in China.

V Group has invested nearly 200 million Euros in the first phase, with plant covers an area of approximately 180,000 square meters and a planned production capacity of 300,000 units per year. V company invested a total of 232 million euros in its second and third phases. It was put into production in March and April 2012 respectively. The planned production capacity was increased from 300,000 units/year in the first phase to 600,000/year in the second phase and 900,000/year in the third phase.

The main product produced by V Company (Dalian) is a 7-speed dry double clutch automatic transmission that has the latest technology of V Automotive Group. The transmission combines the advantages of two transmissions, a conventional manual transmission, and an automatic transmission, to achieve environmental protection, low consumption, smooth transmission, simple operation and lack of driving pleasure and fun. At present, the company's products mainly supply domestic two-group vehicle manufacturers.

V Company has 2,000 employees. Among them, the number of foreign employees is about 100, from Germany, the United States, Greece, Turkey, Czech Republic, France and so on. The German headquarters dispatched several foreign senior management experts to serve as senior executives in various departments of V Company in Dalian. Among them, the V company's German general manager is responsible for the operation and management of all technical departments, and the Greek deputy general manager is responsible for the management of all business departments. At the same time, the headquarters also dispatched several foreign production start-up supporters to the Dalian factory to be accountable for equipment



machine tool debugging, production line planning, product zero batch production, and mass production. Their primary responsibility is to be responsible for product training and critical issues solutions for Chinese employees. With the continuous increase in market demand, V company has increased investment and increased production capacity three times. The number of employees has also increased from 400 in the initial period of construction to more than 2,000 existing employees. With the continuous expansion of business scope, Company V has also recruited many German employees and Chinese executives in the local market. At this point, the senior management of Company V composes of executives dispatched by the headquarters in Germany and local Chinese executives. Each business unit staff also composes of locally recruited German employees and Chinese employees. At the same time, in addition to German and Chinese employees, V company also hired American employees, Turkish employees, Greek employees, and Czech employees. In this way, V company has become an international “big family.”

V Group China has been a leader in the Chinese automotive market since it entered the Chinese market in 1978. At present, it has become one of the largest foreign-invested enterprises in China.

The German general manager is responsible for all technical departments, including the Production Department (German director), Quality Assurance Department (German director), Planning Department (German director), Maintenance Department (Chinese director), Logistics Department (Chinese director), and Engineering Department (German director). The Greek deputy general manager is responsible for all technical departments, including HR Department, Purchasing Department, Financial Control Department, Public Relations Department, IT, and these departments all have Chinese managers.

V company currently has three kinds of attribute employees, Chinese employees, local expatriates, and foreign dispatched employees. The foreign dispatched employees are employees of the headquarters of V Group; the parent company bears all of their remuneration and welfare. Both Chinese employees and local expatriates are recruited locally by Company V.

V company adopts “expert mode” and “management mode” respectively to develop employees with different attributes. The employees in the production section can adopt the “expert model” for development. The office staff can adopt the “management model” for development. The V Automobile Group has its unique assessment center for newly recruited staff, pending promotion for the foreman, and Promoting supervisory positions have different assessment centers, which provide an objective and fair assessment platform for talent selection and promotion. In the early days of the establishment of V company, V adopted the performance management model under Chinese culture, namely, the “one-way” performance appraisal system. The assessed employees can only listen to the superior's suggestions, and there is hardly any opportunity to put forward opinions. Since 2011, V company integrates the performance appraisal system under German culture and conducts a “two-way” performance evaluation, in which supervisors and appraisal employees communicate with each other in a face-to-face manner, scoring on each assessment factor.

#### **4.2.2 Conflicts Cases in Company V**

##### **Case one: Implementation of the plan**

*V company put into production in early 2010. To ensure production, staff recruitment demand was very high. During the management conference at the end of 2010, Ms. W, the director of the human resources department, put the issue on the agenda. After some discussion, Mr. K, the German general manager, Mr. L, the Chinese deputy general manager, and all the other high-level department directors reached an agreement that from 2011 onwards, all departments strictly followed the recruitment plan made at the beginning of the year. However, in one morning of March in 2011, two directors of the Production Department and the Quality Assurance Department came to Ms. W's office with the application form approved by the deputy general manager Mr. L. Ms. W discussed it with two general managers. To Mr. K, the recruitment must strictly follow the plan agreed and made earlier, otherwise, but to Mr., L, nothing is more important than production and business. Therefore a necessary change of the plan is acceptable so that additional workers can be recruited temporarily for the production demand. During the discussion between the German general manager Mr. K and the Chinese deputy general manager Mr. L, Mr. K directly expressed that the recruitment plan must remain same as agreed before, Mr. L talked about the importance of ensuring the production and*

*business success. In the end, no additional workers were recruited, but the current workers had to over time a lot to keep up with the production demand, and a significant overtime payment was a cost.*

### **Case two: Career discussion**

*Mr. S, Senior Manager of Planning Department of V Company, talked with a Chinese employee who was thought to have high development potential for future career development. Mr. S hopes to understand the employee's professional development path and plan for the next three to five years through this conversation. However, during the conversation, the Chinese employee acted distant to the German director, also did not answer Mr. S's question directly, instead, he started talking about the corporate standards, values, management strategy, employee career development plan, even the future of the Planning Department, and the salary differences between local employees and German employees, just not about his career plan. This employee talked for half an hour, still did not answer the question directly. Mr. S was very confused and interrupted the conversation directly. He was extremely intolerable because something like this happened before in the Planning Department. "I just wanted to understand the employee's plans for his career development. I just wanted to know what level and position he was planning to achieve at V, but why was it so difficult to get a straightforward answer?" Mr. S ran to the human resources department to complain to Ms. W, the senior director of the human resources department after the conversation ended, and required Ms. W to coordinate this with Chinese employees. At the same time, the Chinese employee who was under stress during the conversation also complained to Ms. W: "Why is this foreign director so aggressive?" Ms. W talked to Mr. S and this Chinese employee. She explained to Mr. S that in the Chinese culture, staff members need to retain some room for communication with their superiors. It is incredibly immodest for them to describe their development plan and potential promotions freely. At the same time, she also explained to the Chinese employee that in German culture communication is exceptionally straightforward. After the coordination from human resource, this German director had a discussion with this Chinese employee again, and Chinese employee expressed his career development expectation more directly and clearly, but still not that direct as expected by the German director, and the German director also tried to understand the meaning from Chinese style communication.*

### 4.3 Case Analysis and Findings

From case one, it is easy to see that German highly values agreement and plan, the implementation of the plan is fixed, unchangeable, and rigid. German has a strong belief in the signed agreement, follow the plan strictly, and are difficult or impossible to change. This reflects German's strong uncertainty avoidance. Because uncertainty is highly intolerant in German culture, they develop a sophisticated and transparent system in the firm and follow the rules and regulations. On the contrary, Chinese culture tolerates uncertainty. In Chinese culture, the plan can be flexible. Although the plan is made, due to the necessity, it can be changed or canceled within short notice. This case proves Hofstede's culture dimension of uncertainty avoidance.

However, while applying the research model and testing the previous hypothesis three, the conflict management result of case one is against the hypothesis three. In the last chapter, H3 states that while managing conflicts, members of strong uncertainty avoidance culture are more likely to adopt the avoiding, accommodating or compromising style than members of weak uncertainty avoidance culture, and are less likely to take competing/collaborating style than members of weak uncertainty avoidance culture. According to Hofstede (1980), Germany belongs to strong uncertainty avoidance culture; China belongs to weak uncertainty avoidance culture. Case one also proves that German avoids uncertainty, while Chinese embraces it. While managing the conflict, the German general manager is direct and competing without intention to compromise, the Chinese general manager also tried for his goal, but the result of the conflict shows that the German won. So, regarding conflict management styles, in this case, there was competing at the beginning for both parties, and there was accommodating for the Chinese party in the end. There was no avoiding for each party. Although no additional staff was recruited seems like the agreed recruitment plan was strictly and successfully implemented, the fact that existing workers had to overtime for the production demand, the high overtime payment cost, and the realized production demand implies that there was also compromising or collaborating in some way. The German general manager kept his plan, and the Chinese general manager kept the business target. Furthermore, from a native Chinese perspective, a cost of the relationship harmony was paid by the German general manager, as he did not give a face to the Chinese general manager.

The reason that case one does not prove the hypothesis could be that the previous study conclusion from other researchers might be not correct, or this case is only a single case, and the sample size is small. Therefore, the result is not very representative. However, according to the theoretical research in previous chapters, Chinese people are non-confrontational or avoiding to conflict, and German people are confrontational to conflict. In a business context, especially in a famous company like V, and with high management level position, executives usually already adapted to different cultures and focus on the business goal. Therefore, they know how to manage cultural differences, and their behaviors or strategies are useful for successful leadership style, which is needed in international firms.

From case two, it is not difficult to find the differences between German and Chinese. The distant performance of the Chinese employee in front of his boss proves that Chinese culture has high power distance. The indirect communication style and the communication content about a company or department instead of the personal goal of the Chinese employee prove that Chinese culture is collectivistic/high context. For this Chinese employee, it is not humble to say “I want to be a manager in three years and promoted to director in five years” even if he had this expectation. Saying that is not humble, nor respectable to his boss, because if he got promoted to director, how about his boss? That will hurt his boss’s face and harm the relationship. There might also be other reasons why the Chinese employee did not give the expected answer, for example, maybe due to language barrier, the Chinese employee did not understand the German director’s question, or he understood but could not express well, or he intended to avoid the answer. These are just speculations. The German director encouraged the employee to discuss personal career expectation and asked for a direct answer proves that German culture is of small power distance, individualism/low context. So, this proves Hofstede’s culture dimension of power distance and individualism.

In case two, the conflict occurred when German director wanted a direct answer, but the Chinese employee did not answer. To manage the conflict, the German director interrupted and stopped the conversation shows that this German director used a competing style. The action that this German director went to the human resource director for help also indicates his intention of collaborating style.

The Chinese employee stopped the conversation as required by his boss shows that this Chinese employee used avoiding and accommodating style. After coordination from human resource, it shows that both Chinese employee and German director used compromising and collaborating styles. The conflict management styles in this case study prove the previous hypothesis one and hypothesis two. Therefore, this case proves that members of individualistic culture are more likely to adopt the competing/collaborating style than the members of collectivistic culture; members of collectivistic culture are more likely to take avoiding/accommodating/compromising style than the members of individualistic culture; members of large power distance culture are more likely to choose the avoiding/accommodating/compromising style than the members of small power distance culture; members of low power distance culture are more likely to select the competing/collaborating style than the members of small power distance culture. The sample size in this case study is also small, but maybe just because the positions of the two conflict parties in this case study are not very high, they have not gained cross-cultural management knowledge. Therefore, it better reflects how culture influences conflict management style.

To sum up, the samples in the two cases from company V are representative in some way, because company V is a leading company in the world and is also a representative of German companies in China, but the sample size is small. Case one and case two proved Hofstede's culture dimensions of individualism, power distance, and uncertainty avoidance. The two cases also showed the relationship between culture and conflict management. Case one does not verify the hypothesis H3. Case two validates the hypotheses H1 and H2.

#### **4.4 Conflict Management Strategies for Company V**

Above conflicts in company V have caused impacts on employee performance, employee relationship and business performance. To avoid, solve, and manage these conflicts due to Chinese and German culture differences, the following strategies are recommended:

##### **(1) Cross-Cultural Management**

**Establish the correct cross-cultural concept**

Establishing a correct cross-cultural concept is a major prerequisite for resolving cross-cultural conflicts. The root cause of cultural conflicts in multinational corporations is multicultural differences. If transnational corporations want to resolve cross-cultural conflicts completely, they must objectively and seriously view cultural differences. As far as company V is concerned, the team of foreign managers composes of senior executives from various countries (Germany, China, Greece, Czech Republic, etc.). These senior managers have different cultural backgrounds and different values. Therefore, there must be cultural differences in company V. However, culture itself has a rather abstract connotation. There is no absolute right and wrong, advantages and disadvantages. Therefore, managers of enterprises should objectively view cultural differences. Culture difference is a double-edged sword. On the one hand, it brings conflicts between executives, senior executives, and employees in the operation process of multinational companies, which makes it difficult to apply new management ideas and concepts to new operating environments in corporate management. On the other hand, this cultural difference will result in a “fresh” perspective due to different values, cultural concepts, behaviors, and modes of thinking. When V company merges German culture with Chinese culture, it should build a corporate culture with a collaborative spirit.

### **Establish a multinational corporate culture communication system**

People often assume that no matter what the situation is, other people will have similar behaviors to themselves. This is a common practice in using their cultural norms and standards as a reference system to assess the way people think and behave in another culture. Especially in the operation of transnational corporations, the essence of this cross-cultural communication is to respect and understand the culture of the host country and the guest country. Only by understanding the culture of other countries, can people understand which ways of thinking and behavior are taboos of other cultures, so that they can effectively avoid unnecessary misunderstandings. Establishing an effective communication mechanism is the basis for effective communication, and it is also one of the successful factors for transnational corporations to carry out cultural management. Employees of different cultures communicate continuously, establish an understanding of each other's culture in long-term, build trust and strengthen internal harmony and solidarity within the organization, and in the long run, can enhance the company's internal cooperation

and external competitiveness. When there is an in-depth understanding of each other's cultural differences, these cultural differences can be identified with each other, which lays the foundation for the ultimate cultural fusion. Ultimately promoting cultural integration in the operations of multinational companies is the most effective method of cross-cultural communication.

### **Establish an integrated multinational corporate culture**

V company organized Chinese employees to strengthen their understanding of German culture, and at the same time, provided Chinese cultural training for German employees, to help both Chinese employees and German employees have a certain level of understanding of each other's culture. At the same time, V company established an effective corporate culture that serves as a carrier of values shared by German employees and Chinese employees. This intangible cultural traction formed in the company guides all employees of V company on the spiritual level and behavior level. At this level, the company's future development strategy is tightly integrated with the individual's career development vision. Together with the company's growth, it ultimately achieves a "win-win" result.

Generally, V company has two completely different cultures, Chinese culture and German culture. From senior managers to ordinary employees, only by recognizing the differences between Chinese and German cultures can they further develop a cultural identity. The conflict caused by different cultural values is often not easy to solve, but the cultural conflicts caused by living habits, cultural customs during the operation of the company can be overcome and avoided through long-term cultural exchanges. The differences in technical specifications mainly refer to the differences in various management systems can be obtained through the learning of technical knowledge and are easy to be changed. It can be seen that the degree and type of conflict caused by these differences are entirely different. Therefore, only the correct identification of differences can be targeted to take effective measures to resolve.

In V company, the main cultural difference between German expatriate executives and Chinese executives or Chinese employees lies in differences in informal norms and technical specifications. The differences in informal norms are



mainly reflected in the fact that German expatriate executives in V companies are not adapting to local Chinese customs regarding living habits and customs. This requires that as the time for dispatch grows, they will gradually merge into Chinese culture and learn from the aspects of Chinese culture that they appreciate. However, the difference in technical specifications is mainly reflected in the different understandings of German executives in the various management systems of production and operation in company V. This requires that German and Chinese executives to jointly explore an operating management model that is more conducive for the long-term development of Company V, and establish an objective and effective management system that is conducive to long-term cooperation between the two parties.

## **(2) Cross-Cultural Training and Development**

Cross-cultural training is an effective way of learning a different culture, and it is also an effective way to resolve cross-cultural conflicts. In addition to investing their energy and financial resources in technical training, enterprises should also strengthen cross-cultural training, especially cross-cultural training for managers and key position experts.

It is suggested that the cross-cultural training content of Company V includes cross-cultural training for expatriates and Chinese employees. The cross-cultural training for expatriates consists of the study of Chinese language, understanding of Chinese traditional culture, learning of local living habits, social norms and customs, and at the same time understanding the corporate philosophy and management of local Chinese companies. The cross-cultural training of Chinese employees includes knowledge and understanding of German culture, understanding of German lifestyle, behavioral norms and customs, and learning the parent company's business management style under German culture. The two-way cross-cultural training through the joint efforts of these two directions can enable employees to understand more about foreign cultures and respect each other's culture. This reduces many unnecessary cultural conflicts.

**Expatriate training**

There are many conflicts between German executives and Chinese executives in company V, German employees, and Chinese employees. These conflicts are all caused by lack of understanding and recognition of each other's culture. Therefore, in company V where Chinese culture and German culture coexist, cross-cultural training will be the most critical task. Cultivating cross-cultural awareness is an effective way to resolve cultural conflicts.

Before the start of the assignment of Germany's senior executives, the German head office of V company in Germany should send executives to conduct cross-cultural training. The training content includes but is not limited to the introduction of Chinese traditional culture, the introduction of the culture of the parent company of Group V, the training course of Chinese language, and the most important thing is to provide training in cross-cultural communication and cross-cultural conflict management capabilities. It is suggested that these training should be conducted by the lecturer of the corresponding native culture nationality. This can avoid misunderstandings due to different languages in the training process.

When the dispatch period begins, after the German executives are sent to China, the human resources department of company V should organize Chinese cultural training for the German national executives, local culture training, and cross-cultural communication courses, and understanding of the V company's Chinese subsidiary culture.

**Local staff training**

When V company was established, it had a strong dependence on German parent company. The key position holders were senior managers and technicians sent by the German parent company to China. As the degree of localization of products and parts has been increasing year by year, V company has gradually cultivated a group of high-quality management personnel and technical personnel, basically getting rid of the previous situation. Due to the continuous development of the company, the demand for local talent has also increased significantly.

Training and development of local employees and the establishment of a talent pool can well meet the needs of the company for local talents. The full use of high-quality local talent can help V company enhance its local reputation and acquire a large amount of social capital to better meet the challenges of the local market.

### **(3) Establish Internally Fair and Externally Competitive Compensation System**

It is essential to establish a relatively fair and competitive compensation and welfare system under the premise of complying with the Chinese Labor Law and relevant local laws and regulations. V company should do salary research every year in the local talent market to understand the salary trends of the same industry and other sectors in the same industry. This is the basis for establishing a competitive compensation system.

The second is to establish a competitive portfolio of the compensation system. The combined compensation system is specially designed for the production line workers. Mainly include fixed salary and variable compensation. Fixed remuneration includes basic salary, insurance allowance, and other allowances (holiday allowance, night shift allowance, heating allowance, etc.). Variable compensation includes performance bonuses, special bonuses, etc. Basic wages are the most important part of ensuring the basic lives of employees. For the group of workers in the production line of production enterprises, it is necessary to ensure that the basic wage portion can account for 50% of all income so that their basic living standards can be guaranteed. The performance bonus belongs to the category of variable compensation, based on the operation of the company in the year and the performance of the employee. Performance bonus can be used as a way of employee motivation.

For the group of management personnel, it is recommended that Company V divides salaries into two major parts, basic salary and year-end performance bonus. A 75% portion of the total remuneration should be used as part of the basic wage, and the remaining 25% as the proportion of the year-end performance bonus. Only by designing such salary structure of this group of employees can the company stimulate and motivate those highly educated, highly qualified personnel to

strengthen loyalty for the company, provide long-term and stable service to the company, reduce the flow of talents to competitors and reduce the recruiting costs.

For the particular group of foreign employees, it is recommended that Company V includes all foreign employees into the local pay policy. For this group, it should be consistent with the local management remuneration policy. Enterprises must establish a compensation system based on job value. Whether employees are local or foreign, their basic salary is determined by their contribution to the company. Of course, for foreign employees living overseas, other benefits will be supplemented by overseas subsidies. With the simplest system of “equal pay for equal work,” the basic atmosphere of the entire company will be fair and just. Then how to establish a relatively fair pay structure based on job value and competency quality? V company has introduced and established a human resource management platform based on the competency model.

#### **(4) Establish Human Resource Management Platform Based on Competency Model**

The integration of German culture and Chinese culture is not only a soft integration of values, behaviors, but also a rigid integration of systems. A human resource management platform based on the competency model that tightly integrates with actual business and positions can be applied for talent recruitment, compensation system, and training, employee career development planning. This can effectively solve the conflicts of Chinese employees and foreign employees in terms of salary, talent selection, and career planning because of different cultures.

#### **(5) Establish a Complete Performance Assessment System**

V company must establish a performance assessment system with quantifiable indicators, as well as a sound performance evaluation process. This enables employees' performance assessment to be measured under a unified index, whether qualitative or quantitative. In the mechanism linking salary adjustments to performance results, material rewards and spiritual rewards generated through fair judgments can quickly promote organizational performance. The excellent index design will also take both team performance and individual employee performance into account. This objective design of the index itself can improve the understanding

and recognition of Chinese employees and foreign employees, also make a tremendous contribution to the integration and collaboration of different cultures.

#### **(6) Human Resources Localization Strategy**

The localization of human resources is a crucial personnel strategy for overseas operations. Localization of human resources refers to the process in which various jobs in foreign subsidiaries of multinational companies are replaced by local personnel in the host country, especially senior management positions and key technical positions. V Group is the world's leading automotive manufacturer. In the 1990s, V Group obtained most of the market share of Northern China. Since 2010, V Company has gradually put its strategic plan into the development of the northwest and south China markets. In order to achieve the target, Company V has to adopt strong localization strategies. These strategies include the localization of manufacturing companies, the localization of parts manufacturing, the localization of parts logistics, the localization of suppliers, the localization of marketing, the localization of talent selection and management localization. The localization strategy is proposed in response to V company's continuous development needs of the Chinese market and is also the basis for the realization of other localization strategies. Among all localization strategies, human resources localization is a long-term strategic goal.

#### **(7) Optimize the Structure of Human Resources and Establish a “win-win” Development Mechanism**

In April 2013, during conversations with all department managers, the human resources department found that German employees took the core positions of various departments of company V. Such personnel arrangements brought great management risks to the organization, as German employees generally have higher turnover rates than local Chinese employees. If there is no reasonable successor plan, the loss of this part of the talent to the organization will be a great loss. On the other hand, through conversations with senior managers in various departments, the Human Resources Department found that as the core positions of the mid-level management staff are all German employees, they used the typical German style of logical thinking, cultural orientation, and communication methods during work. With the traditional “German style,” they were stuck with self-cultural recognition,

therefore could not imagine and understand the needs of Chinese customers. However, V Company's customers are generally all Chinese, and the entire car sales market is also in China. Then how to re-adjust the structure of personnel in various departments to maximize the optimization of company V's human resources?

It is suggested that for the core position, V company arranges one Chinese and one German for the same position. The responsibility and authority of this core position need to be clearly defined. The incumbents of both positions need to be mutual agents. That is, the two incumbents should be very clear about the work of the other person. When one person is on vacation or a business trip, the other person naturally becomes that person's work agent. Such a measure can reduce the management risk to company brought by the talent leaving the core position. What is more important is that through the adjustment of the personnel structure, employees with different nationalities and cultural backgrounds coexist in the same project team or department, they can fully complement the deficiencies caused by cultural differences. By integrating Chinese and German cultural elements in all aspects of the project, providing support when there are cultural conflicts, arranging cross-cultural training programs to enhance German and Chinese employees' understanding of each other's culture, the cultural recognition will gradually form.

## **Chapter 5. Conclusion and Discussion**

### **5.1 Conclusion**

This thesis takes cross-cultural conflict management research in German companies in China as the topic. The motivation of this study is to identify how national cultural differences influence conflicts in German companies in China and find solutions on how to manage the cross-cultural conflicts. The research objects are focused on Chinese employees and executives, German employees and executives in German wholly-owned firms and Sino-German joint ventures in China mainland. Based on theoretical studies of culture and conflicts management, a specific research model was designed to test formulated hypotheses through case studies.

Literature of culture research tells that culture values influence people's behaviors. Different cultures have different features. Chinese culture values "guanxi," "renqing," and "mianzi," which root in Confucianism and last for a long history. German culture is rather difficult to describe, but difficult is the characteristic. Both Chinese and German cultures are influenced by the country's history, economy, and politics. According to different cultural dimension models, especially Hofstede's model, it is easy to see that Chinese culture and German culture have most differences on individualism/low context - collectivism/high context, power distance, and uncertainty avoidance.

Studies of conflict management show that culture does cause conflict. As cross-cultural conflict is caused by cultural differences, then conflict can be managed by managing cultural differences. Conflicts have different types, features, performance, positive influence and negative influence. By learning conflict and conflict management styles, it is not difficult to find a way to manage conflict. Hofstede's individualism-collectivism has been extensively applied to research conflict management from a cross-cultural perspective and generated new perspectives and new clues.

To validate those theories and answer the research questions, a research model combining three culture dimensions: individualism, power distance, uncertainty avoidance, and the five styles model of conflict was designed. Three main hypotheses were also formulated. Then, through the case study of company V, it is

proved that Chinese culture and German culture have differences in individualism, power distance, and uncertainty avoidance. These cultural differences and corresponding conflict management styles verified two hypotheses and opposed one hypothesis.

To sum up, in German companies in China, the primary cultural differences are that Chinese are of collectivism, high power distance, and weak uncertainty avoidance, while German is of individualism, low power distance, and strong uncertainty avoidance. While dealing with conflict management, Chinese are more avoiding, accommodating, and compromising, German is more competing and collaborating. These findings inspire suggestion on strategies for cross-cultural conflict management including cross-cultural management, cross-cultural training and development, and other human resource management solutions.

## **5.2 Limitation**

Although this study successfully tested cross-cultural conflict management theories and hypotheses, answered the research questions, generated some new ideas, there are still some limitations.

First, the literature resource on the relation of cross-culture and conflict management is limited, especially on Chinese and German conflict studies. Among the limited studies, most literature is about how individualism-collectivism influence conflict. It made the research work of this study difficult.

Second, in the research model, only three dimensions were applied to test Chinese and German culture differences and the relation between culture and conflict management styles. Although these three culture dimensions are what Chinese culture and German culture have the most differences on, other cultural dimensions may also influence conflict management. But it then will need more cases or more data.

Third, this thesis used the case study as research method. Case study has advantages and disadvantages. The company in the case study is very representative. However, compared to large-scale surveys, the sample size of case is very small.



Even though this company is representative, a single company still cannot represent all companies to reach a universal conclusion. Therefore, the findings from case analysis may have errors. There might also be biased views in the case influencing the conclusions.

### **5.3 Outlook**

This thesis focuses on German companies in China, discussed and explored the Chinese and German national cultural differences, identified the relationship between culture and conflict management style, proposed some solutions for cross-cultural conflict management. The findings of Chinese and German cultural differences validated previous researches contributed to related knowledge. The research model and research method can also be applied to study other cultural differences. Among the three main hypotheses, two verified the researches from previous scholars, one opposed, thus raising new research question and direction. The case study contributed to empirical research on the relation between Chinese culture, German culture and conflict management. The suggestions for conflict management are also valuable for other multinational companies.

In a word, this thesis contributed to the research of cross-cultural conflict management in multinational companies and provided practical suggestion to overall foreign investors and policymakers. Furthermore, the relationship between conflict management and other cultural dimensions that not applied in the research model in this thesis, and other research methods might be interesting for further examination.

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