Research on Cultural Risk and Management of Chinese Enterprises' Direct Investment in ASEAN

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Keywords: ASEAN; Direct Investment; Cultural Risk

Abstract: In recent years, with the continuous expansion of Chinese enterprises' direct investment in ASEAN, the risks brought by investment are also increasing. Compared with other risks, the concealment of cultural risks makes them often ignored by enterprises. From the perspective of cultural risk, it first conducts a descriptive analysis of the current situation of Chinese enterprises' direct investment in ASEAN, then analyzes the connotation of culture and cultural risk, and reveals the evolution of cultural risks, and then analyzes the culture of Chinese enterprises in ASEAN Analyze the types of risks, point out the impact of different cultural risks on the investment activities of enterprises, and finally put forward relevant countermeasures and suggestions on the management of cultural risks from the perspective of enterprises, which has been expected to help enterprises better "go out".

1. Introduction

The ASEAN region is located at an important node of the "21st Century Maritime Silk Road". At the end of 2018, among the top ten stocks of China's direct investment in countries along the "Belt and Road", ASEAN countries occupied 7 seats. In 2018, China was in the ten ASEAN countries. The direct investment flow of China reached 13.694 billion U.S. dollars, accounting for 60.7% of China's total foreign direct investment that year and 80% of the total investment flow to Asia. ASEAN has gradually become the preferred destination for Chinese companies to go global. It is worth noting that as the scale of investment by Chinese enterprises in ASEAN countries continues to increase, the risks brought by investment activities are gradually emerging. According to the data on overseas investment by Chinese companies in 2019 released by AEI, among the projects that blocked China's direct investment in ASEAN from 2014 to 2019, there were 17 projects with a value of more than US$100 million, involving US$27.64 billion. The main industries involved were mining, Transportation, energy, and real estate industries. Therefore, while "going out", companies must always be alert to various risks.

2. The concept of culture and cultural risk

About the concept of culture. Hofstede defined culture as: "A member of a nation A collective mental model distinguished from members of another nation"[1]. Hill believes that culture is a system of values and norms that a group of people owns and designed for survival [2]. On the connotation of cultural risk. Luo Liangzhong [3] believes that cultural risk refers to the possibility that the actual benefits deviate from the expected goals due to the complexity and uncertainty of cultural environmental factors in the process of international operations, and even lead to the failure of business activities. Rapaille [4] believes that the core problem faced by enterprises in the process of transnational operation is the problem caused by the differences of different cultures. From a global perspective, the ultimate failure of more than half of foreign direct investment is due to the failure of the management of multinational companies to resolve cultural risks brought about by cultural differences [5]. Cultural risks are controllable. Zeng Rongping [6] believes that like other risks, cultural risks can be identified and controlled. Zhu Nanping[7]`believes that cultural risk comes from cultural differences. Cultural differences are mainly manifested in the differences in language, thinking style, national psychology, social habits, values, beliefs, customs, religions, etc. of investors, managers, and practitioners of different countries and nationalities.

3. The cultural risks of Chinese enterprises' direct investment in ASEAN

3.1 Communication risk

Language is an important feature of culture. The risk of communication failure due to language communication barriers and communication misunderstandings is the communication risk. Oral communication risks will increase the internal management cost and investment decision-making efficiency of the enterprise, while the written expression risks appearing in formal occasions will often cause serious economic losses to the enterprise. In international direct investment, English is generally used or as a common language According to the popularity of English and Chinese, the risk levels of communication in Southeast Asian countries can be divided into low, medium and high. Countries with lower risks are Singapore and Malaysia. Among them, Singapore is the only country that uses Chinese as an official language. Malaysian Chinese can basically talk in Mandarin or English. Vietnam, the Philippines, Thailand, and Brunei are medium-risk countries. In the Philippines, Brunei, Thailand and other countries, the popularity of English is relatively high. Cambodia, Laos, Myanmar, Indonesia and other countries are high-risk countries. Due to the influence of French colonization, Laos and Cambodia use French and their native languages as official languages, and the popularity of English is not high. Myanmar and Indonesia are multilingual countries. There are more than one hundred ethnic languages in the country.

3.2 Risk of conflict of values

For the study of values, Hofstede was the first anthropologist to divide them into dimensions and levels. Hofstede and his descendants divided cultural values into six dimensions. Currently, only the six-dimensional scores of China and the six ASEAN countries can be obtained from personal websites, as shown in Table 1.

Table.1. The Scores of China and the Six ASEAN Countries in the Cultural Dimension of Hofstede

Country	PDI	IDV	MAS	UAI	LTO	IVR
China	80	20	66	30	87	24
Philippines	94	32	64	44	27	42
Malaysia	100	26	50	36	41	57
Tailand	64	20	34	64	32	45
Singapore	74	20	48	8	72	46
Vietnam	70	20	40	30	57	35
Indonesia	78	14	46	48	62	38

The power distance (PDI) indicator is usually a measure of the acceptance of the unfair distribution of power by the disadvantaged groups in society. Malaysia’s score on the power distance index is as high as 100, which shows that the disadvantaged groups in Malaysia have a higher degree of acceptance of this high-level system and authoritarian cultural concepts. This is closely related to Malaysia’s constitutional monarchy system. Individualism and collectivism (IDV) reflect the degree of individual integration into the group. China and ASEAN countries have low scores on this indicator. The main reason is that due to the influence of the ancient male farming and female weaving and the agricultural economy, the people in the region are more inclined to collectivism.

Masculinization and feminization (MAS) reflect society's emotional attitudes towards gender. On this indicator, China and the Philippines score higher, indicating that society is more inclined to masculinity, while Thailand scores only 34. It seems that Thai society is more inclined to feminine temperament. The uncertainty avoidance (UAI) indicator measures the degree of panic among members of society about future uncertainties. Thai society will often find ways to avoid future uncertain events, while Singapore will often choose to accept it frankly. Long-term tendencies and short-term tendencies (LTO) reflect individuals' attitudes towards reality and the future. The reason is that Chinese society generally advocates long-term planning, while the Philippines is more influenced by Western culture and is more willing to focus on the present. The self-indulgence and restraint (IVR) indicator reflects the degree to which members of society control their desires or instincts. ASEAN countries' scores on this indicator are basically similar, but significantly higher than China's, indicating that ASEAN countries' societies are more willing to choose to enjoy life.

3.3 Risk of religious conflict

The ASEAN countries have different religious beliefs, and the religious forces within the country are complex. Religious forces fighting each other will trigger religious conflicts. Frequent religious conflicts will cause large-scale fights in conflict areas, accompanied by beatings, smashing, and looting The emergence of crimes such as fire and burning will cause local companies to suspend work to avoid chaos, and at worst, cause the loss of corporate fixed assets. Frequent religious conflicts seriously affect business operations and even threaten the personal safety of expatriates [8]. Among the ASEAN countries, Malaysia, Brunei and Indonesia mainly believe in Islam. Indonesia is the country with the largest Muslim population in the world; Vietnam, Singapore, Thailand, Myanmar, Laos and Cambodia are mainly Buddhists; the Philippines is a Catholic country. When companies invest in host countries, they need to take into account various religious taboos. For example, Islam prohibits eating pork, drinking alcohol, and mixing non-halal foods. At the same time, women are required to wear headscarves in terms of clothing. Christian taboos number 13 and Friday. There are five precepts in Buddhism, which are to abstain from killing, stealing, licentious, utterly speaking, and drinking.

3.4 Business etiquette risk

When companies invest directly abroad, they need to respect the business etiquette of the host country. This is not only conducive to the formation of good cooperative relations, but also conducive to better reflect the fine cultural etiquette of the Chinese nation. ASEAN countries have unique business and social etiquette, such as Cambodia, Thailand, Laos, and the Philippines. It is impolite to use your left hand to point to others or to accept items with your left hand. In Malaysia, the head and shoulders are sacred parts and cannot be touched at will. When talking with Indonesians, avoid sensitive topics such as politics and religion. The Vietnamese believe that when the host and the guest meet, they should address each other, otherwise it will be regarded as impolite behavior

4. Cultural risk management strategy

4.1 Appropriate direct investment entry mode and cross-cultural management plan

There are two main ways for enterprises to enter foreign direct investment: cross-border mergers and acquisitions and greenfield investment. In practice, the company's personnel of the acquired company will not undergo drastic changes or only It is the adjustment of corporate executives. In this case, the company pays attention to preventing communication risks and business management risks. At the same time, companies need to consider appropriate cross-border mergers and acquisitions cultural integration plan. There are 4 types of cross-cultural integration after the merger: cultural absorption, cultural retention, Cultural integration, cultural reverse mergers and acquisitions [9]. When companies consider greenfield investment, they must pay attention to the customs and religious beliefs of the project location. Generally, companies can adopt the following strategies when investing in green space: minimization strategy, utilization and learning strategy, and localization strategy [10].

4.2 Diversified cross-cultural training activities and human resource management

Companies must hire host country employees for foreign direct investment activities, especially in greenfield investment. How to make new employees accept the parent company’s culture and at the same time allow parent company employees to adapt to the host country’s local culture, and ultimately achieve cultural integration and innovation is to develop corporate cross-cultural The key to training activities. Cross-cultural training content: knowledge and understanding of the other party’s national culture and original organizational culture; training on cultural sensitivity and adaptability; training on cross-cultural communication and processing capabilities; training on the other party’s advanced management methods and business philosophy. Through such cross-cultural training, not only can improve the efficiency of decision-making, but also promote the timely communication of information and enhance the cohesion of the enterprise. At the same time, due to the risk of communication and expression, multinational companies should give priority to those who can proficiently use the host country’s language, understand the local culture or have the life background of the host country.

4.3 Necessary cross-cultural risk warning mechanism and risk response system

The cultural risk prudential law can be used to assess the potential cultural risks in ASEAN direct investment, and it is mainly divided into four categories:Steps: The first is pre-screening and the establishment of a cultural risk prudent team to collect information on the target country’s national culture, target country’s religious beliefs, upstream and downstream industry corporate culture, and host country’s employee values; the second is based on the information collected in the first step Integrate and compare the corresponding cultural characteristics of the home country enterprises to evaluate the opportunities and costs of potential cultural risks. The third is to conduct a comprehensive cultural evaluation of investment activities, and conduct organizational culture, business methods, and marketing plans for new enterprises to be established in the future.If cultural risks have occurred, they should immediately activate the cultural risk emergency management team, first correctly identify and scientifically rate cultural risks, and trace the culture The cultural differences behind the risks, while formulating specific action plans, carry out risk management within the enterprise, and at the same time employ a cultural public relations team to deal with cultural risks that may further escalate. Cases of cultural risks should be included in the corporate culture database in a timely manner so that they can be used as cross-cultural training materials in the future.

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