Chinese-American Business Customs: a Comparison of Cultural Similarities and Differences

A study of the relationship between the Chinese and American culture and economy, and the subsequent similarities and differences as reflected by the Top 20 Companies in each country.

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Introduction

China has one of the longest continual recorded histories in the world: the Xia Dynasty, China’s first recorded dynasty, dates from 2205 B.C. – 1766 B.C.\textsuperscript{1} While Americans typically view China as the world's manufacturing center, they must not forget that China was once much more technologically advanced than the West. China developed many revolutionary technologies that have indelibly changed Western history.

“At the dawn of this millennium, China was centuries ahead of the West in science and technology. The Chinese, after all, had already invented paper, printing, gunpowder, the magnetic compass, the wheelbarrow, the kite, the crossbow and the sternpost rudder. But because of China's geographic and cultural isolation, it was centuries before its intellectual and technological bounty reached Europe. It took 600 years for the clockwork escapement, for example, to reach the West; the iron chain suspension bridge and the rotary fan took more than 1,000 years to make the trip.”\textsuperscript{ii}

Moveable type printing, which allows the printer to organize words to print copies of one story, and then re-use those words to print another story at a later date, was invented in China during the “Song Dynasty (960-1279), [by] a man named Bi Sheng.”\textsuperscript{iii} Moreover, one article claims that “three of the most important new materials that made their way into Europe from the 13th to the 15th century were paper, cast iron and gunpowder, each of which had
probably been invented in China, each of which also was a fundamental resource for the
development of Western civilization.”

While China is not currently as revered for its technological advancements today as it once was, these inventions serve as a reminder of what the Chinese people are capable of developing and how they have the potential to change the world via their creativity and ingenuity.

Today, China is one of the most frequently talked about countries in the business world, and justifiably so. It is an economic powerhouse whose influence is evermore spreading to the four corners of the Earth and leaving its permanent imprint. Countries are racing to understand China’s growth and desperately trying to become a part of its success. The Economist states “we forecast that the merchandise trade surplus (measured on a balance-of- payments basis) will widen to US$341.4billion in 2008 from an estimated US$305.6billion in 2007. The trade surplus will remain very substantial in 2009.” However, unless people take the time to understand the richness, depth, and beauty of the Chinese people and their culture, their efforts will be inefficient if not unsuccessful.

In today's global economy, there are many books and articles about the American and Chinese government, history, and economy. If a businessman is being relocated, there are intensive language programs to help expedite assimilation, and if there is not enough time to learn basic communication, there are translators one can hire. The most important advice someone will receive before going abroad is to learn the other culture's customs, especially if he or she hopes to earn respect and business from people within that culture. However, few
resources are available in this regard to elucidate this crucial aspect of international business between China and the United States.

The topic of this thesis is “Chinese-American Business Customs: a Comparison of Cultural Similarities and Differences”. What I hope to establish for the readers and individuals who interact with these two great countries is a framework for understanding the main cultural differences in conducting business in China and America.

I will not attempt to summarize the many thousands of years of China’s history, act as if there are not cultural nuances among the 52 ethnic groups in China, nor make inane generalizations. Each business deal has its own unique circumstances, and the best way to create a mutually beneficial contract is to understand the other party’s perspective. Only then will negotiations be less stressful and more productive. Furthermore, while this is written with the intent to help Americans better understand Chinese customs, Chinese businessmen and women can benefit from these findings by understanding how Americans perceive them, as well as what is the focus of American companies.
Organizational Structure

The topic of this thesis will be discussed in the following manner. I will provide a cultural background of China to lay the foundation for the analysis to follow, review of the influence of Deng Xiaoping, critical role of state-owned enterprises (SOEs), China’s admittance to the World Trade Organization (WTO), and the significance of the Beijing Olympics in 2008, discussing their respective impact on the contemporary Chinese business environment.

Next, I will analyze the Top 20 Chinese and American companies’ mission statements or purpose, employee profile, industry focus, company age and maturity, and revenue metric. I will use this analysis to draw conclusions about how these two countries view the purpose of their top companies and their reason for existence, and how the cultural distinctions are evidenced in these business differences.

From this research, I will note the similarities, differences, and unique features of Chinese business strategy and American business strategy. Finally, I will draw functional conclusions and identify future implications of this research.
Deng Xiaoping -- de facto ruler of China from 1976 to 1997

Subsequent to Chairman Mao’s Cultural Revolution that occurred from 1966 to 1976, which profoundly shaped the psyche of that generation of young individuals, Deng Xiaoping rose to power and directed his country down a path that changed China into an economic superpower. “Following Mao’s death in September 1976, pragmatists within the ruling party, led by Deng Xiaoping, took control of the government and successfully embarked on a course of radical economic reform.”

Deng understood and realized the importance of how China and America would benefit each other economically. In order to strengthen economic ties with what is now the largest importer of Chinese products, “he traveled to the United States...in 1979, opening the way for better diplomatic and economic relations after decades of isolation.” While foreigners may have had delusions of gaining open access to over one billion potential customers, Deng Xiaoping and China had a specific incentive to open up China’s market to the rest of the world. “From the outset, the concept was clear: The [Chinese Communist Party, which is abbreviated as the CCP] wanted only the science, the technology, and all the technical stuff that made a market economy work and to deflect any Western ideas and values from entering China.”

A reporter from the first American newsmagazine bureau in Beijing since the Communists came to power remembers Deng’s first changes. He allowed “public markets [to] spring up all over, selling items ranging from pet mynahs to antique bronzes,” which “filled many Chinese with unaccustomed hope.” After this “experiment”, as some foreigners dubbed this action, Deng “pushed industrial growth at any cost, short of giving up one-party rule.”
During the next fifteen years, under Deng’s direction, the country’s economic reform caused “a quadrupling of China’s real GDP.”

As one of the greatest agents of change within China in the 20th Century, Deng Xiaoping had critics who resisted his plans for progress. “His reforms were controversial and were opposed by orthodox Party officials, who feared they would reduce the Party’s control over the economy and expose China to foreign influences.” In response to these statements, he answered by saying that he always had China’s best interests in mind, and that he was not trying to undermine the country’s political structure.

“Deng roundly condemned those who repeatedly raised the issue of the socialist or capitalist nature of reforms, or who insisted that Chinese reforms were following a capitalist path. To judge their essence, Deng was convinced, it is necessary to start from one sole criterion: to what degree they favored socialist productive forces, strengthened the aggregate national might of the socialist state, and raised the people’s standard of living. Deng called for all of the contemporary world’s advanced methods of economic management and regulation (including those from the developed capitalist countries) reflecting the laws of the modern socialization of production to be mastered and adapted for use in China.”

Deng died on February 19, 1997 when he was 93 years old. However, in what could be one of his most important decisions, he had begun to groom a successor which helped to
ensure that his passing would not bring about a sharp political change. Thus, Deng Xiaoping will not only be remembered as the man who turned China into an economic powerhouse, but also for his foresight and leadership in creating a succession plan that added stability to the Chinese government.

“The transition to the next generation of leadership—to Deng’s successor—has been under way for several years...Deng did not play an active role in the leadership after his health began to deteriorate in 1993. [His successors] thus had several years to operate without Deng’s direct guidance. Deng’s longevity probably served to mute leadership differences and to enforce cautious, consensus-oriented policies.”

State-Owned Enterprises -- SOEs

“When the CCP [Chinese Communist Party] started the [economic] reform, state-owned enterprises not only dominated the economy, they actually were the economy. They were also a major part of the CCP’s social and power base.” If the citizenry is employed and the economy is healthy, then the government is typically a popular one. Therefore, the SOEs were a tool used by the Chinese government not only to build the economy as the leaders saw fit, but also to employ the population. “One of the social functions of large SOEs...is to create job opportunities for excess employees, and for the children and even the relatives of their employees.”

As a result of this purpose, the SOEs developed excessive employment levels and general inefficiency. When Deng Xiaoping began the economic reform in the late 1970s, his
objective was to improve the SOEs and provide them access to the best industry practices around the world.

“By opening up to the outside world, the CCP hoped that the state-owned enterprises would then be equipped with modern technology, machinery, and production methods. By introducing and adopting certain market factors, the CCP hoped that the state-owned enterprises would have the incentive to perform. In addition, the CCP hoped that the state-owned enterprises would adopt modern and scientific management; be productive, efficient and competitive; become the power engine of the new economy and revenue source for the central government; and, more importantly, solidify the CCP’s vital social and power base. The CCP tried, failed, tried again, failed again, tried once more, and failed once more.”

In 1997, an article in the Economist stated that “the government intends to concentrate its efforts on some 1,000 of the biggest industrial SOES while leaving the remaining 117,000 to their fate.” This coincides with what the Chinese leaders had been trying to do since the beginning of the Chinese economic reform: strengthen its biggest and most promising SOEs and hope that the remainder would improve on their own. However, the leaders understood that one consequence would be a loss of employment for some of its citizens employed by those SOEs that were unable to survive. “The dismantling of state-owned enterprises caused large-scale layoffs and urban unemployment, the rural – urban income gap and the gap between southern coastal areas and the inland widened, and overall income inequality increased.”
Since unemployment was an anticipated result from economic reform, the government realized that it needed to prepare a solution for this undesirable outcome. In a collectivist society, especially China, the government is always concerned with employing its citizens, as is explained in the section titled “Employee Analysis” on page 33. Therefore, in order for the much needed reform to occur, the government had to have a plan to provide new jobs to the recently laid-off workers.

“Jiang Qiangui, vice-minister of the State Economic and Trade Commission [said in 2002] the key to guarantee success [in restructuring SOEs] was to use all possible means to help re-employ those who were to lose their jobs. Creating more large companies and enterprise groups which were strongly competitive in the world market was the solution for the SOEs strategic restructuring... [They would do this by] creating more training and re-employment opportunities for laid-off workers.”

Proportion of SOEs which Suffered Losses From 1985 to 1995
The Chinese government’s foresight in creating training programs and new work opportunities for laid-off workers quickly paid off. “It has been reported that from 1985 to 1995, the proportion of SOEs that suffered losses rose drastically, from 9.6% to 33.8%. This is a reflection of the reform decision to strengthen the economy by allowing SOEs to become more efficient. Those which were unable to reform were discarded, leaving only the strongest to compete internationally.

One article helps explain why this large-scale layoff was not an overwhelming problem. “Although the contribution of SOEs to China’s total industrial output has dropped significantly, from 78% in 1978 to 26% in 1997...they remain the main source of basic inputs for the economy, and employment and social welfare for the vast majority of urban workers.” Due to the government’s anticipation of the failure of weaker SOEs, they were able to reallocate the workforce into successful SOEs. This preserved the integral role of SOEs in the Chinese economy despite their overall decrease in output. This demonstrates the importance of SOEs and how the government uses them to fulfill the needs of its citizenry.

While inefficient SOEs struggled and failed as a result of reform, certain large SOEs thrived as the government had hoped. For example, “in 2000, PetroChina [China’s second highest ranked company] invested funds to increase the oil-refining capability in Lanzhou in order to reach ten million tons per year. The percentage of the GIOV [Gross Industrial Output Value] of oil refining in the local industry increased by 9.5 per cent in the years 2000 to 2005.” Likewise, local governments profited from successful local SOEs because they were financially connected with the SOEs.
“In fact, local governments appeared to benefit tremendously from this restructuring process: not only did they obtain a certain portion of the revenue from their local SOEs, but they also commanded an explosively growing part of the extrabudgetary funds from local SOEs after reform. From 1979 to 1992, the amount of extrabudgetary funds from SOEs increased dramatically, at an annual rate of 17.7%, while the annual rate of increase of budgetary revenue from SOEs was only 7.2% over the same period.”xxvi

The landscape of SOEs was dramatically restructured by China’s economic reform, but the role of SOEs as agents of social welfare remained the same. From 1979 to 1992, SOEs experienced large annual budgetary rate increases. Extra budgetary funds increased 17.7% and budgetary revenue increased 7.2% per annum during this time period. The stronger and more efficient SOEs benefitted from the reform, and their success resulted in tremendous overall economic growth.

World Trade Organization -- WTO

The World Trade Organization, referred to as the WTO, currently has 151 members world-wide. To put that number into context, the U.S. Department of State recognizes 194 independent states world-wide. The WTO was founded on January 1, 1995, and is designed to “deal with the rules of trade between nations at a global or near-global level.”xxvii Nearly a quarter century after Deng Xiaoping came to power and reformed the Chinese economy, China was admitted to the WTO on December 11, 2001.
There are three main reasons why China joined the World Trade Organization, or WTO:

1. To reform and revitalize state-owned enterprises, or SOEs
2. To obtain a vote in the WTO
3. To increase economic growth

The first motive of why China joined the WTO is that China’s SOEs were languishing and needed to be reformed and revitalized. The Chinese leaders at the time viewed the country’s admittance into the WTO as an impetus to create the needed change. The weak SOEs would either rise to the challenge to comply with the WTO standards and face international competition by upgrading and becoming more efficient, or they would be shut down. In order to continue the economy’s growth, the issue with the SOEs needed to be rectified. Therefore, the Chinese decision makers viewed the WTO as the way in which to address their dilemma regarding lackluster SOEs.

“The most widely cited reason for China’s push to join is that supporters of liberalization saw it as a way to keep the process of reform going. For example, numerous plans have been initiated to restructure and revitalize state-owned enterprises since the mid-1980s, but only minor progress has been made. With the opening of many sectors to foreign competition, it is expected that numerous state companies will either have to rise to the occasion and compete successfully or close.” xxviii
The second explanation why China pursued WTO membership is that, as a member nation, it would have a say in shaping the international trade laws and regulations by which it was already subjected to by other organization members. WTO membership would give them a vote in how other countries tried to regulate trade relations with China, and hence its economy. “Once a member, Chinese negotiators would have some influence in making the rules of international trade and therefore be able to weigh in on the issues that concern them.”

The Chinese also viewed WTO membership as a way to continue to increase its economic growth, which is the third main reason they joined the WTO. As a member, “quotas blocking more Chinese imports will be phased out as part of the terms of China’s membership...these changes will help increase China’s exports.” With trade restrictions on its exports removed, the Chinese economy would be able to grow without having restricting artificial limits. “As a leading trading nation, China needs the opportunity of market access and the legal guarantee of consistent and non-discriminatory trade rules offered by the WTO.”

The United States has been intimately tied to China’s WTO membership. An article in the Christian Science Monitor in 2000 stated that “last November, China and the U.S. reached a historic agreement on the terms under which the U.S. would push for Chinese World Trade Organization membership. For the U.S., the pact held out the promise of significantly lower tariffs on exports to China. But before those cuts take effect, Congress has to vote to end its practice of renewing China's trade status on an annual basis.” Consequently, in 2001, “President Bush finalized terms allowing the U.S. to grant China permanent normal trade relations [PNTR] status by certifying to Congress that China’s WTO accession agreement meets
all of the U.S.’s requirements.”xxxiii This is important because “the WTO accession obligations are not based on a rule of one size fitting all...as a rule of thumb, larger potential Members are forced to accept conditions above the level of existing WTO members.”xxxiv Therefore, since America granted China PNTR status, it helped China overcome the hurdle of more stringent trade requirements.

The admission process for China’s admission into the WTO was lengthy. There was a great debate over whether or not China was to be classified as a “developing country”, which would grant it more time to meet the requirements to which all member nations are subject. After arduous debates, when it was determined that China would be granted WTO membership, “the full protocol was thousands of lines of tariffs and specific agreements covering approximately 1500 pages.”xxxv

As a result of its admittance into the WTO, the Chinese government has had to relinquish some of its control over the economy.

“The Chinese government is now held accountable to the WTO on major matters concerning foreign trade and investment. It has to standardize its regulatory framework across the country on the basis of its commitment to the WTO to ensure uniform enforcement of foreign trade and investment policies. This commitment obliges local governments to relinquish parts of their economic autonomy to central government and increases local governments’ accountability to central government. In addition, the obligation to publish all the laws and regulations on foreign
trade and investment involves increasing the transparency and predictability of the Chinese business environment.“xxxvi

There are important implications of China’s admission. James McGregor, a Mandarin speaker who consults on business relations with China, believes “China’s entry into the World Trade Organization in 2001 and the country’s desire to transform local companies into global leaders is bringing more international practices into China by the day.”xxxvii However, his biggest concern is a lack of understanding of the cultural differences by foreign executives who wish to impart their will upon Chinese companies.

One of the most frequently voiced complaints about China’s compliance with WTO regulations is regarding Intellectual Property Rights, or IPR. The government has been attempting to fix this prevalent problem within its borders, but is asking foreigners to be mindful of the cultural implications of such a change. “In 2004, the PRC [People’s Republic of China] Constitution was revised to include concepts of property rights and human rights.”xxxviii It is estimated that “93 percent of films sold in China in 2005 were pirated,”xxxix so China argues that if it eliminates IPR violations, some of its citizens will consequently be out of work. As was discussed in the section titled “State-Owned Enterprises” on page 10, the Chinese government is continuously trying to keep all of its constituents employed, and this has been an issue with its SOEs. Nonetheless, China has taken measures to quell this international demand and asks for the international community to be patient as it informs its large population about the importance of the new requirements. Evidence that China is taking action to remedy this problem is that it is investigating more IPR cases than in the past and is combating the technology used by the pirating industry.
“The annual number of infringement cases investigated by the PRC [People’s Republic of China] General Administration of Customs has nearly quadrupled between 2001 and 2005. More recently, the PRC government has adopted a more fundamental solution to software piracy, which requires all manufacturers of personal computers in China to pre-install licensed operating system software.”

In conclusion, China’s WTO membership has been both an impetus and a result of reform. Membership has brought about closer economic ties between China and the U.S., and it has caused great changes in its international economy. “To ensure that the country can adapt to future challenges, China’s 11th Five-Year Plan (2006-10) offers a new development strategy focused on technological innovation and growth driven by domestic demand.”

The 2008 Beijing Olympics

China earned the role as host for the 2008 Olympics on July 13, 2001, and has been working feverishly since then to prepare for the event. “Come August, over 10,000 athletes, 70,000 working personnel and 21,000 registered members of the press will gather in China’s capital. Entries to the PRC [People’s Republic of China] by foreign nationals are expected to exceed 4.6 million, representing an estimated RMB [Renminbi, or RMB, translates to “People’s currency”, and its unit is the Yuan] 4.5 billion [$ .6416 billion U.S.] worth of consumption.”

In order to prepare for this large influx of spectators, athletes, support personnel, press, and capital, China has opened its coffers to build world-class facilities to accommodate this
special event. “According to official statistics, the nation’s total investment in the Games amounts to RMB 280 billion [$39.9218 billion U.S.]. Sixty-four percent of this has been swallowed by the construction of infrastructure, including venues, equipment, and transportation.”

In anticipation of the flood of capital spending during the Games, Chinese banks are establishing more venues to facilitate service.

“During the Games, the Bank of China will establish temporary service centers in the Olympic, Media, and Athlete villages, as well as the International Broadcasting Center. All these service centers will have extended business hours. In addition, the bank plans to install 2,500 ‘point-of-sale’ (POS) devices in major visitor-related sites such as airports and hotels, and ensure that all Bank of China ATM and POS machines accept foreign bank cards.”

China has spent a lot of money preparing for the Olympics, but it hopes to earn a good return on this investment. “Since Los Angeles unexpectedly reaped a profit in 1984 for the first time in the history of the modern Olympics, the quadrennial event has become an economic bonanza for host cities. Barcelona, for example, achieved a profit of US $26.05 billion in 1992. The Olympic-related economy in Beijing is also picking up as the big event draws near.”

Collectors items, such as coins, stamps, and other memorabilia have begun to balloon in price. “The “Olympic Fuwa Commemorative Coins” originally sold for RMB 108,000 [just over $15,400 U.S.]. Only 1,000 of these sets were made.” Additionally, other early collectors’ items have traded for as much as “eight to 10 times their original price.”
The Olympics have brought a focus on China’s incredible pollution problem. Host cities for previous Olympics have taken measures to reduce pollution in their cities, but none have gone to the extremes China has. “Other previous host cities such as Athens, Seoul and Los Angeles also reduced their traffic and shut factories during their Games.”

“To win the Games, Beijing promised a "Green Olympics" and undertook environmental initiatives now considered models for the rest of the country.” In an effort to mitigate the pollution, “local organizers have announced plans to close industries and clear roads of traffic that make Beijing one of the world’s most polluted cities.” The Chinese closely monitor the air quality in Beijing every day. During the last week in December, 2007, they experienced a setback despite overall progress.

“The gray, acrid skies rated an eye-reddening 421 on a scale of 500, with 500 being the worst. Friday rated 500. Both days far exceeded pollution levels deemed safe by the World Health Organization...[but] the city needs one more [“Blue Sky day”], defined as scoring below 101, to reach its goal of 245 Blue Sky days this year. These improving ratings are how Beijing hopes to reassure the world that Olympic athletes will not be gasping for breath next August.”

China is shutting down high polluting factories and restricting traffic in an effort to clean up the air. “In Beijing, there also are plans to curb the use of autos and halt construction before the Games to clear the air...more than 40 other pollutant-generating factories in Beijing also will close this year, according to the Beijing Municipal Bureau of Industrial Development. The move, tied to the Olympics, follows the closure last year of some 29 factories in industries
ranging from cement kilns to paper. Some 18 factories that voluntarily closed in 2007 were compensated with a total of $3 million.iii

Despite China’s effort to clean up the air quality in time for the Games, some believe the actions will not be enough to resolve the issue. “The IOC [International Olympic Committee] report follows news stories criticizing conditions that could force athletes to wear masks and a recent decision by the world’s top marathoner [Ethiopia’s Haile Gebrselassie] to skip that event in Beijing.iii" Even with this announcement, the Chinese people are optimistic. “A survey of Beijing residents revealed that an overwhelming number saw the Olympics as an opportunity for "Chinese officials [to] show their capability in dealing with tough issues," Zhong [an associate professor of journalism] says.iv

The Chinese view the Olympics as a chance to show their culture to the world. In September of 2007, the Chinese government announced “The State Grid Cup Contest, Call for Essays - One World, One Dream, Worldwide Chinese Expecting 2008 Olympics."lv The purpose of this event is to provide “an opportunity for all Chinese around the world to express their understandings of, experiences about and good wishes for the 2008 Olympics.”lv According to one employee, ““We will meticulously select the various Chinese elements, and unfold the essence of Chinese culture for the world,” she says confidently."lvii

The world eagerly waits to see if China will be ready in time for the Olympics, and the Chinese hope to prove the international community that it can competently host such a monumental event, show the world their culture, and make a good return on their upfront investment to build the infrastructure and facilities for the Games.
Effective Business Practices

Aside from the common objective of earning revenue, the business focus of the top Chinese and American companies mostly differs in measuring success and the purpose of the corporation. Nineteen out of the Top 20 Chinese companies are State-Owned Enterprises, also known as SOEs. However that isn’t to say that up to forty-nine percent of the company is not a joint-venture, publicly owned via stock, or allied with another company to obtain an objective. While essentially all of the Top 20 Chinese companies are SOEs, every one of the Top 20 American companies is publicly owned by stockholders, and their sole purpose of operation is to increase shareholder wealth. Therefore, ownership of the company is in and of itself a major disparity between the two countries and it is also the source of several main cultural business differences.

“According to the State-owned Assets Supervision and Administration Commission (SASAC), there were 138,000 state-owned enterprises (SOEs) in China in early 2006 (latest available data). The agency oversees “central SOEs”; of which there were 159 by January 2007 (these are SOEs under the administration of the central government). Li Rongrong, director of the SASAC, has said that the government would like to get rid of unprofitable SOEs by 2008, focusing on the creation of 30–50 globally competitive SOEs by 2010. SOEs typically have severe losses, inefficient allocation of resources and poor management; however, there are plenty of SOEs striving to transcend this legacy.”

viii
This excerpt highlights the opportunity for many SOEs to benefit from a consulting firm showing them how to more efficiently allocate and use resources, as well as train management to be more proficient. As research has shown, American companies tend to be more efficient than their Chinese counterparts [see the section titled “Employee Analysis” on page 33], and many American consulting firms, such as Deloitte, McKinsey, and Bain, specialize in increasing a company’s productivity.

As the core Chinese companies are state-owned, their primary focus is to serve the desire of the state, which is to say that it is to satisfy the demands of its stakeholders. The number one objective of the plurality of the Chinese companies is to be socially responsible, and another main objective is to maintain strategic corporate relationships to preserve harmony. This exemplifies the main difference between Chinese business practices and American business practices, largely due to the ownership structure. Chinese companies are certainly trying to earn profit, but that does not take precedence over serving the needs of the state or maintaining social harmony. Conversely, American businesses, save non-profits, exist solely to increase profit to as high a figure as possible. Therefore, in conducting cross-cultural business, representatives from both countries must be mindful of these differences and consider how a deal relates to the other’s business objective.

The mission statement or purpose statement of the Top 20 Chinese and American companies was analyzed to determine its perceived business focus and competitive advantage. Interestingly, many Chinese companies did not identify a competitive advantage, but rather focused on fulfilling its social responsibility by providing value to the shareholder, community,
government, and humanity as a whole. An example of this is China National Petroleum, which is ranked second by Fortune, employs the second most employees of China’s Top 20 companies (1,086,966), and is second in terms of revenue ($110,520.2 million U.S.). China National Petroleum states that its goal is “...to achieve the harmonious development of the Company on one hand and the society and environment on the other hand”. Similarly, China Mobile Communications, which is the fifth highest ranked Chinese company per Fortune’s review and fifth in terms of revenue ($35,913.7 million U.S.), echoes China National Petroleum’s goal verbatim. China Mobile Communications, precisely like China National Petroleum, states that its objective is “...to achieve the harmonious development of the Company on one hand and the society and environment on the other hand.” Considering the fact that two of the top five Chinese companies have an identically worded goal, the underlying message of stakeholder theory in the stated objective of the Top 20 Chinese companies is significantly different from the Top 20 American companies.

**American Core Mission Statements**
An analogy to help Americans understand the need for strategic relationships to be an expressed and visible goal of a Chinese company is to visualize the Chinese government as a parent company and the SOEs as subsidiaries. If two subsidiary companies have conflicts, then it will cause troubles for the parent company. In order to prevent this issue, the express purpose of many of the SOEs is therefore strategic corporate relationships. While American companies have relationships with suppliers and customers, it is primarily to gain an economic advantage for themselves and to increase shareholder wealth, whereas China’s purpose for the goal is to increase stakeholder wealth.

While most American companies will claim that social responsibility is a focus of their business, the principal focus is always to increase shareholder wealth. For American companies, appearing socially responsible frequently does not immediately add to their bottom-line profitability, but it does increase their value through goodwill and positive brand equity. Research shows that brand equity is the third most common objective of American companies, which provides credence to this assertion. While companies in China and the U.S. differ in how
and why they pursue social responsibility, companies in both countries nevertheless pursue this objective.

The next most common goal among Chinese companies is the pursuit of quality, which can be found in six companies’ mission statements. Quality includes both service and product quality. For example, China FAW Group, China’s highest ranking automobile company, focuses on product quality, whereas Hutchison Whampoa, China’s highest ranking transportation company, pursues a quality workforce.

Like Chinese companies, American companies also focus on quality as a means of gaining a competitive advantage. However, where quality was present in the mission statements in six of the Top 20 Chinese companies, it can be found in 11 of the Top 20 American companies’ mission statements. FedEx, ranked 7th globally and the highest ranked American transportation company, prides itself on service quality, whereas Target, America’s highest ranked discount chain, competes on product quality.

The third most common objective among Chinese mission statements is to achieve and maintain strategic relationships. The Bank of China and the China Construction Bank, ranked seventh and eighth among Chinese companies, respectively, both use strategic corporate relationships as a method by which to achieve a competitive advantage. This shows that Chinese companies place a special emphasis on developing symbiotic business deals, rather than simply trying to get the best deal.
This discrepancy between the numbers of companies who focus on quality across cultures can be at least partially explained by ownership. As American companies are publicly owned, they must serve the demands of the consumer in order to grow. Because consumers have a choice in whom to buy from, a lot of consumers make their choice based on brand and quality, which frequently coincide. Therefore, many American companies have chosen to compete on quality in order to win over customers and beat the competition.

Innovation is the second most common focus of the top American companies.

“Extensive study of incremental innovation by both business managers and academics led to a variety of prescriptions: six sigma quality in manufacturing, concurrent engineering, reduced cycle time, just-in-time inventory management, and phase-gate product development systems, to name just a few. These prescriptions were widely adopted and helped many American companies regain their competitive positions in the world marketplace.”

Brand equity is the third most common focus of the Top 20 American companies. Many Chinese companies have expressed a goal of becoming a recognized global brand, such as is expressed by the State-owned Assets Supervision and Administration Commission (SASAC), but most have not yet achieved the international success of some of the American companies. Procter & Gamble, which is ranked second among American companies overall, and PepsiCo, the top ranked American beverage company, have globally recognized brands which has certainly helped them achieve success around the world.
The major similarity between the business focus of the companies in both countries is the expressed goal of pursuing quality. However, with the recent publicity in the U.S. of contaminated goods having come from China, Chinese companies will have to do even more to ensure their products’ quality and dispel this worry that will be on the forefront of Americans’ minds during negotiations.

The summer of 2007 was defined by one account after another by the likes of Nike, the U.S. Food and Drug Administration, the California Department of Public Health, and Mattel, among others, of contaminated or faulty products that were made in or shipped from China. Unfortunately the media didn’t take the time to fully investigate who was responsible before reporting the stories. China’s response to this negative press, however, was swift and severe. An article by the Associated Press on May 29, 2007, described the Chinese government’s response.

“The former head of China's food and drug administration was sentenced to death Tuesday for taking bribes to approve substandard medicines — including an antibiotic blamed for at least 10 deaths.

Seeking to address broadening concerns over food, the government also announced plans for its first recall system for unsafe products.

The developments are among the most dramatic steps Beijing has publicly taken to address domestic and international alarm over shoddy
and unsafe Chinese goods — from pet food ingredients and toothpaste mixed with industrial chemicals to tainted antibiotics.

Beijing’s No. 1 Intermediate People’s Court convicted Zheng Xiaoyu [the former Head of China’s Food and Drug Administration] of taking bribes in cash and gifts worth more than 6.49 million Yuan ($832,000 U.S.) while he was director of the State Food and Drug Administration, the official Xinhua News Agency said. Those bribes allowed eight companies to get around drug approval standards, it said.

"The Chinese government attaches great importance to the safety and security of food," Foreign Ministry spokeswoman Jiang Yu said at a regular briefing Tuesday when asked about Zheng’s case.\textsuperscript{ix}

This article demonstrates exactly how seriously the Chinese are pursuing quality. In reaction to this sequence of recalls, the Chinese government punished its quality overseer by death, established its first ever recall system for faulty products, and made its dedication to quality internationally known. “Regulators said an investigation involving 33,000 law enforcement officials found illegal food-production and meat-processing operations, fake soy sauce and the use of banned food additives.”\textsuperscript{ixi} The fact that the government mobilized and dedicated 33,000 officials to this specific cause of investigating product quality with such alacrity further demonstrates how sincerely the Chinese government responded to this crisis.

Mattel, Inc., an American company and the world’s number one toy maker, played the following role in this incident.
“Mattel ordered three high-profile recalls this summer involving more than 21 million Chinese-made toys, including Barbie doll accessories and toy cars because of concerns about lead paint or tiny magnets that could be swallowed.

Mattel previously said many of the toys were recalled because of design problems. It also said certain vendors in China or their subcontractors violated Mattel's rules by failing to use safe paint or to run tests on paint.

On Friday, Debrowski acknowledged that the "vast majority of those products that were recalled were the result of a design flaw in Mattel's design, not through a manufacturing flaw in China's manufacturers."

The world's largest toy maker sent a top executive to personally apologize to China's product safety chief, Li Changjiang, as reporters and company lawyers looked on.\textsuperscript{\vspace{3pt}}

Mattel's apology to China is very significant in that it exemplifies the cultural and business differences between the two countries. The recall occurred because American consumers were worried about the quality of the product Mattel put forth on the market. In an attempt to maintain its reputation of quality and brand equity, which is the first and third most common focus of the Top 20 American companies, respectively, it recalled all of the products with a potential defect. Until this past year, China had no recall system, but now it is developing
one which will help make its economy more congruous with America’s and will increase product quality.

The other cultural and business difference the Mattel apology epitomizes is the very integral concept of saving face, with which most Americans struggle. Mattel’s late apology is an attempt to repair the strain it placed on its business relationship with China and the resulting embarrassment from the media’s implications. Had Mattel been more aware of the Chinese concept of saving face from the start, it would have averted damaging its strategic relationship with the Chinese company with whom it works, as well as the Chinese government. As research shows, strategic corporate relationships is the third most common focus of business among the Top 20 Chinese companies, and it is not expressed among the Top 20 American companies. Therefore, the lack of awareness of this particular cultural business difference resulted in a major international incident between these two countries.

The act of a major American company recalling a product is a common trend in the United States that became the standard with the Tylenol Crisis in 1982. In this crisis, Tylenol recalled all of its products as a result of a mad-man who poisoned some of its bottles with cyanide, which caused several deaths. The way in which Tylenol handled the incident actually increased consumer trust in the brand, and it is now taught as an example in American universities of how to properly handle such a crisis.
Employee Analysis

American Employment Distribution

Chinese Employment Distribution
As the top Chinese companies are SOEs, they tend to employ more people than American companies. Nine Chinese companies employ more than one quarter-million workers, three companies employ more than one half-million workers, and two companies employ over one million workers. The combined employment of the top three companies, Sinopec (oil-730,800), China National Petroleum (oil-1,086,966) and the State Grid (energy-1,504,000) is 3,321,766 workers, whereas the next thirteen largest employers combined manage 3,314,206 workers. The average amount of employees per the Top 20 companies is 344,444. In total, the Top 20 Chinese companies employ 6,888,872 workers.

<table>
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<th>Employment Comparison Between Chinese and American Companies</th>
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<tr>
<td>Number of Workers at an Individual Company</td>
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<tr>
<td>250,000 +</td>
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<td>500,000 +</td>
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While just under half of Chinese companies employ at least one quarter million people, just over twenty-five percent of American companies employ at least one quarter million people. Wal-Mart Stores is the largest employer in the United States by 1,173,031 people, as it employs 1.6 million workers; it is therefore a tremendous outlier.
Including Wal-Mart Stores, the average American company employs 268,420 people, but without this outlier, the average drops by about 35% to 198,337 workers. Including Wal-Mart Stores, the average Chinese company has 28% more than the average American company, and excluding Wal-Mart Stores, Chinese companies employ 74% more than American companies. However, the top three largest American companies, Wal-Mart Stores (discount chain-1,600,000), IBM (IT and Computer-426,969), and United Parcel Service (Transportation and Logistics-425,300) employ 2,452,269 workers, and the next eleven combined employ 2,395,425. In total, the Top 20 American companies employ 5,368,394 workers, which is 1,520,478 less than the Chinese companies.

Identifying the fact that these Chinese companies, on average, employ considerably more workers than American companies (344,444 as compared to 268,420) is a unique cultural and economic difference between the two countries. This provides evidence that the Chinese
economy is much more collectivistic than America’s, and that the Chinese companies care more about the amount of people they employ rather than employee productivity, creating a situation where more workers are employed than are actually required. “Indeed, labor is still in oversupply, and job creation remains a top priority for PRC leaders.” An article in the academic journal *Modern China* analyzed the impact of SOEs and their effect on employment.

“The continued commitment of the state to protect SOE workers’ jobs meant that the SOEs faced little competition for labor. Those early wage increases also reinforced the inclination to restrain job growth. While the evidence suggests a decline in monopsony as the 1980s progressed, SOEs continued to create modest numbers of new jobs and to remain highly capital intensive in comparison with other industrial enterprises. An early 1990s decline of product market conditions for SOEs combined with several factors (a reduced availability of external resources, difficulty laying off incumbent workers, and the need for wage increases to keep up with rising non-state enterprise wages) to effect a decisive transition in the general condition of SOEs from underemployment to over employment.”

This quote highlights the issues SOEs have faced with their laborers and explains why SOEs typically have very large employment figures. However, it only hints at a crucial difference between employment in China and employment in America, and that is the concept of firing workers. In America, layoffs are among the first concerns workers worry about when the
economy slows down or enters a recession. It is a real fear and it motivates people to work hard as to not be fired. However, in his memoir of his experiences working in China for seventeen years, Tim Clissold highlights the Chinese philosophy of layoffs and how it is different from the American perspective.

“As losses mounted, more and more impractical demands came beaming in from the States. Headcount reductions became an obsession. Almost all state-owned businesses were heavily overmanned, but significant layoffs were virtually impossible. There was no social security, so what were these discarded people supposed to do? But still there was a knee-jerk reaction to headcount figures...the lack of a government social security system and the years of reliance on the work unit in socialist China meant that real redundancy plans were almost impossible to implement and that they raised tough moral questions as well.”

Mr. Clissold states that the diametrically opposing views on layoffs between China and America can cause intense conflict for companies, and while Americans may view a reduction in head-count as a quick fix to financial woes, Chinese will not even entertain the notion. In one instance, a Chinese worker who was laid off “strapped explosives to his chest and had barged into Li’s [the factory director’s] apartment at the factory while Li’s family was eating lunch and threatened to blow the whole place up if Li made him redundant.” From what Mr. Clissold suggests, this may be the result of the worker not having Social Security upon which to rely, or
even more likely, the shame of being fired was too much for the man to bear—reflecting back to the Chinese concept of face.

The number of workers a company employs directly affects its efficiency. While there are myriad methods to analyze employee productivity, the statistic that will be used here is average revenue per employee. The American average revenue per employee is $320,000, and the same statistic for the Chinese is $110,000. This suggests that either Chinese employees are, on average, either less productive than their American counterparts or that they are under-utilized.

However, the Chinese possess a natural drive and tendency towards hard work. In an analysis of China’s most successful individuals and entrepreneurs by the U.S. News & World Report, it credits their good fortune to an “intense focus and drive to succeed.”

\textsuperscript{lvii}
Furthermore, many people point to Deng Xiaoping as the catalyst for instilling in the Chinese workforce the goal to achieve wealth, by proclaiming that “to be rich is glorious.” Therefore, it is more probable that the average Chinese worker is not less productive than an American counterpart, but is rather under-utilized in an SOE that is hamstrung by over-employment.

![Average Revenue per Employee (US Million)]

If American companies employed as many workers as Chinese companies, then the average revenue per American worker would fall from $320,000 to $250,000. While this is a noticeable decrease and makes the figure closer to the Chinese statistic for worker productivity, it still does not fully account for the difference between these two economies. If the average Chinese revenue is distributed over the average number of American workers, then their productivity figure becomes $140,000, which is much more comparable to the Chinese statistic of $110,000.
This supports the assertion that the cause for the lower productivity figure for Chinese employees is that they are typically under-utilized. Despite being an overly simplified scenario, this manipulation shows that American workers would be nearly half as productive in the Chinese system, whereas Chinese would be nearly twice as productive in the American system. Therefore, because of this correlation, Chinese and American workers can be approximately as productive as each other, which supports the claim that Americans are not necessarily more productive as Chinese. Consequently, Chinese workers must not be as well utilized as American workers.

In order to fully capitalize on its human capital, Chinese companies should focus on improving management styles through capitalizing on the industry's best practices worldwide. Through a mixture of management training programs, consulting expertise from the world's most knowledgeable firms, and hiring proven professionals, the management at China's SOEs will be better positioned to make the most of its human capital. While this alone will not make up the difference between revenue per employee among these two countries, as there are myriad additional factors that must be addressed as well, this is a crucial step towards closing this gap. With improved management style, employees should be better utilized, innovation more probable to occur, and revenue should increase.

Industry Analysis

China’s Top 20 companies represent ten industries. However, the oil industry earns the most revenue ($242,156.2 million U.S.), followed by energy ($135,151.6 million U.S.), and banking/insurance ($154,303 million U.S.). The top earning company in each industry is
Sinopec, State Grid, and the Industrial & Commercial Bank of China, respectively. The oil industry also employs the most people (1,817,766), followed by energy (1,682,053), and banking/insurance (1,411,710). The top employer in these each industry is China National Petroleum, State Grid, and the Agricultural Bank of China, respectively. Thus, the oil, energy, and banking/insurance industries dominate China’s core businesses in terms of both revenue and employment.

What many Americans may not know about these Chinese industries is that, “on paper, [PetroChina] has dethroned Exxon Mobil as the most valuable company in the world”, “China Mobile is the world’s most valuable telecommunications company”, and “state-owned Industrial and Commercial Bank of China, which was nearly insolvent a decade ago, is worth more than Citigroup.” This impacts the cross-cultural business interactions because these three Chinese companies will wield incredible bargaining power in negotiations, and will likely use this power to alter their respective industries in the future.

In America, the discount chain/wholesaler industry earns the most revenue ($427,398 million U.S.), followed by oil ($365,467 million U.S.), and banking/finance ($216,475 million U.S.). The top earning company in each industry is Wal-Mart Stores ($308,945), Exxon Mobil ($365,467), and Citigroup ($89,615), respectively. The discount chain/wholesaler industry not only earns the most revenue, but also employs the most people (2,079,000), followed by banking/finance (790,425), and transportation (568,300). The top employer in each industry is Wal-Mart Stores (1,600,000), Citigroup (370,000), and United Parcel Service (425,300), respectively.
### Top 3 Companies in Top 3 Industries in Terms of Employment and Revenue Figures

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<tr>
<th></th>
<th>Employment</th>
<th>Revenue (US Million)</th>
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<tbody>
<tr>
<td><strong>China</strong></td>
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<tr>
<td>1</td>
<td>China National Petroleum</td>
<td>Sinopec</td>
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<tr>
<td>2</td>
<td>State Grid</td>
<td>State Grid</td>
</tr>
<tr>
<td>3</td>
<td>Agricultural Bank of China</td>
<td>Industrial and Commercial Bank of China</td>
</tr>
<tr>
<td><strong>Total, Top 3 (China)</strong></td>
<td>4,911,529</td>
<td>$531,610.8</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Wal-Mart Stores</td>
<td>Wal-Mart Stores</td>
</tr>
<tr>
<td>2</td>
<td>Citigroup</td>
<td>Exxon Mobil</td>
</tr>
<tr>
<td>3</td>
<td>United Parcel Service</td>
<td>Citigroup</td>
</tr>
<tr>
<td><strong>Total, Top 3 (US)</strong></td>
<td>2,395,300</td>
<td>$764,027</td>
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One similarity between Chinese and American industries is that the highest earning industry in both countries also employs the most people (Oil in China and discount chain/wholesaler in America). Another similarity is that the oil and banking industries were
among both countries’ top earners. Additionally, four industries in both China and America have at least one company on their respective Top 20 list. Those industries are banking/finance, transportation, food and beverages, and oil. Intriguingly, not only do these industries stand out as highlights in both countries, but they also represent a significant portion of the revenue and employment figures in both countries.

While these four industries are a source of commonality between the two countries, it also highlights the main difference among Chinese and American industries. With the four industries that are present in both the Chinese and American Top 20 companies list, both cultures place upon them varying significance. In China, the banking/finance, transportation, food and beverages, and oil industries represent 56.6% of the revenue and 51.3% of the employment of its ten industries that made the Fortune list. Conversely, the same four
industries in America only represented 39.9% of the revenue and 32% of the employment of the fifteen industries which made the same list.

America has successful companies in the Top 20 from 50% more industries than does China, which suggests that America’s economy is more diversified and developed. Furthermore, it indicates that America has world-class managers that have specialized knowledge which spans a larger spectrum of business than does China. Therefore, China could benefit from American managers’ expertise to help develop nascent industries, and America could recruit managers from the same industries to bring in fresh perspectives and the industry’s best practices, and hence learn from China.
Another major difference has been highlighted by the product quality crisis which occurred in America in the summer of 2007.

“A. T. Kearney, an international management consulting firm, issued a report this week saying that one cause of food safety problems in China was inadequate logistics systems and a lack of cold storage.

The firm said China needed to invest about $100 billion over the next 10 years to upgrade its logistics and refrigeration abilities and to put new standards into effect.

In China, the study said, there are only about 30,000 refrigerated trucks for transporting food; the United States has about 280,000.\textsuperscript{lxix}

This finding by A. T. Kearney suggests that a hindrance in the development of the Chinese industries is inadequate IT integration to aid in the development and standardization of industries. Additionally, this firm’s findings highlight a lack of infrastructure in one of the four industries that both China and America share in common. Therefore, in order to develop and increase its product quality, China will need to invest in basic infrastructure and could benefit from American’s knowledge of how to achieve such a project. In recognition of this, “[China's 11th Five-Year Plan (2006-10)] sets out key policies such as improving rural infrastructure and strengthening the economy of the interior...in an effort to boost consumption.”\textsuperscript{lxx}

While an infrastructure problem is made evident in the food industry, it hints at a larger obstacle which is holding back China’s industries from becoming as broad as America’s. In
anticipation of the large influx of foreign capital and spending at the Olympics, China has discovered a weakness in its banking infrastructure that it is currently repairing. The China Banking Regulatory Commission, or CBRC, is inspecting the IT systems of the country's largest banks in the months preceding the Olympics. It found that “48 percent of China's banks had serious IT management and risk control problems” and that “problems occurred at banks with relatively advanced information technology and risk control ability. Some happened even at a crucial moment,” said Guo [Vice-Chairman of the CBRC]. "It revealed the fragility of our banking information system." In order to maintain its rapid economic growth and adhere to the international standards to which it is now beholden by the WTO, China needs to focus on the development, modernization, and maintenance of its infrastructure.
Of the Top 20 American companies, the average date when the company first began operation is 1912. No American company that made the Top 20 was founded in the 21st Century. FedEx, a transportation company and the youngest company on the list, was founded in 1997. There are eight companies whose origin dates back to before the 19th Century, and the oldest is Bank of America which dates back to 1784.

Conversely, the average date when the Chinese companies first began operation is 1966, which is an average difference of over half a century later than the American companies. The oldest Chinese company, Hutchison Whampoa, was founded in 1828. However, three of its Top 20 companies were formed in the 21st Century, which is a unique disparity between China and America. It is startling that three companies that are so young can be among the best.
companies in a nation that is an economic superpower! The State Grid, which services 88% of China’s national territory, is the country’s largest employer (1,504,000 employees) and the third largest revenue earner (107,185.5 million U.S. dollars), is an energy company that was founded in 2002. The China Southern Power Grid, which is also both an energy company and was founded in 2002. China Telecommunications, a telecommunications company, was founded in the same year as the two aforementioned energy companies. It is difficult for most Americans to understand that a company could rank at the top of Fortune’s list after being in business only five years and could so rapidly accumulate the resources, knowledge, and consumer base to ascend to be one of the nation’s preeminent companies.

Number of Companies Incorporated After 1958

![Graph showing the number of companies incorporated after 1958 in America and China.](image-url)
This great difference in how long China’s and America’s top businesses have been operating can have several key implications. The first of which is the brand equity and the second is more knowledge of the industry. However, a negative aspect of a longer operational history could be that it is more difficult to react to changes in the industry and there is more resistance to change for more established companies. As some of China’s Top 20 companies are so young, they are able to take the best practices and most advanced technology developed by the older companies in the industry world-wide, and start with a world-class facility, technology, and techniques. Conversely, more established companies that must integrate these processes into their existing business model and have their employees accept this change are more likely to meet tremendous resistance. This can create a distinct advantage for young companies because employee resistance to change will be low or negligible, and the business organization can be designed around the industry’s best practices, which makes it more productive.

One advantage older companies have over younger companies is more established brands, and hence trust. A major benefit to brand trust is brand loyalty, which results in consumers choosing their preferred brand over another given a choice, even if the other option has an advantage over the product or service to which the consumer is brand loyal, such as easier accessibility, better pricing, better quality, or other such perquisites.

Another benefit younger companies have over older companies is that they are able to start with the industry’s best practices and most current technological advances. They are able to implement these advantages into their business plan, whereas older companies have to
either modify their existing plan to accommodate these improvements, which is met with a great internal resistance to change, or lag behind the curve until they are forced to put these changes into practice.

While there are certain advantages and disadvantages to businesses depending on how long they have been operating, one fact remains. Chinese companies are, on average, nearly fifty years younger than American companies. Although their average global ranking is lower than the American’s (252.8 to 12.7), the speed with which they have grown and become internationally recognized is incredible. In order to mutually benefit from these stark differences, the Chinese could learn brand management from the Americans, and the Americans could likewise learn strategies for rapid growth from the Chinese.

**Revenue Analysis**

American companies frequently measure success via net income and employee productivity, which is often determined by a ratio of total revenue over total employees. While net income figures are preferential for analyzing a company’s true profitability, which is a good gauge of a corporation’s success, the author is forced to use revenue figures in order to make cross-cultural comparisons due to the limited available data.
American Company Revenue (2006 Annual, US Million)

The total revenue from the Top 20 American companies is $1,693,738 million U.S., which is an average of $86,282 million U.S. per company. Conversely, the collective revenue of the Top 20 Chinese companies is 46% of America’s figure, or $773,842.7 million U.S. Taking the total revenue from the Top 20 Chinese companies and distributing it over the number of companies makes the average revenue $38,692.14 million U.S. per company. The difference between the collective revenue of America’s Top 20 companies is $919,895.3 million U.S. and this is an average of $47,589.86 million U.S. more than China’s. This shows that even though China’s economy has been growing at a pace of over three times that of America’s in recent years (China’s real GDP grew at an annual rate of 10% between 2000-2006\textsuperscript{loxi}, whereas America’s only grew at 3% during that same period\textsuperscript{loxi}, America’s greatest companies, on average, still earn more than double that of China’s.
To determine if the two countries’ economies are similar in terms of the discrepancy between its greatest earners, I combined the total of revenue for the top three earning companies and determined how many companies it took to resemble that figure. The combined revenue of China’s top three companies is $349,341.7 million U.S., whereas the combined revenue of the next 13 largest companies in terms of revenue is $351,668.3 million U.S. Therefore, 45% of the revenue of China’s Top 20 companies is controlled by 3 companies, and that same figure for America’s top 3 companies is 49%. This shows that the distribution of revenue to the top 3 companies as a percentage of the Top 20 is similar in China’s and America’s economy.
While the distribution of revenue to the top 3 companies as a percentage of the Top 20 is similar in both countries, the U.S. has a much less even distribution of revenue among its individual companies than does China. The top three companies in terms of revenue in America are Exxon Mobil (oil and gas-$365,467 million U.S.), Wal-Mart Stores (discount chain-$308,945 million U.S.), and General Electric (industrial, infrastructure, etc.-$163,391 million U.S.), which combine to earn $837,803 million U.S. The next 15 most earning companies combine for $844,442 million U.S. Therefore, the top 3 U.S. companies earn much more than what the average American company earns. The largest difference between what companies earn, ranking the companies from highest to lowest, is $145,554 million U.S.
The largest difference between what Chinese companies earn, ranking the companies from highest to lowest, is $70,352.6 million U.S. However, America’s discrepancy is nearly twice that figure at $145,554 million U.S. China’s average revenue is $38,692.14 million U.S. per company and America’s is $86,282 million U.S. per company. This reveals yet another similarity between the two countries in that the economies of both have a gap of nearly twice its average revenue per company among its Top 20 companies.

The top industries in China in terms of revenue are Oil (number one and two), and Energy (number three), whereas the top industries in the U.S. are Oil & Gas, Discount Chain, and Industrial/Infrastructure. This illustrates the fact that American companies are more diversified and, on a macroeconomic-level, are therefore better insulated in case of an economic downturn. China’s top three companies are all in the business of providing essentially the same product and service, it is more susceptible to and will be greater affected by political,
economic and environmental risks and changes than America’s top three revenue earners, as they are diversified across three different industries.

Comparatively, the U.S. has the largest company in terms of revenue (Exxon Mobil, Oil & Gas-$365,467 million U.S.), except that on the books, China’s PetroChina (ranked 24th overall and 2nd in China) has “huge amounts of untradeable government shares. But on paper, it has dethroned Exxon Mobil as the most valuable company in the world.”\textsuperscript{lxiv} Despite the fact that Exxon Mobil earned revenues more than three times that of China’s PetroChina ($110,520.2 million U.S.), PetroChina is now more valuable despite its annual earnings. As PetroChina was founded 116 years after Exxon Mobil, it is still comparatively young and still has significant growth potential.

The U.S. and China are similar in that the top 3 companies in both economies control roughly the same amount of the Top 20 companies’ revenue, and both economies have nearly twice its average revenue per company among its Top 20 companies. However, these two country’s are different because America has nearly twice as large a gap between its greatest earning companies than does China, has more diversification among its top revenue earners, and it has a much greater combined and average revenue than does China.

**Conclusion and Future Implications**

The most important advice someone will receive before conducting business with the Chinese is to learn their customs, especially if he or she hopes to earn respect and business from people within this society. China has one of the world’s fastest growing economies, and
while America has one of the world’s largest economies, all aspects of business reflect how the United States’ culture is drastically different than China’s.

As nineteen out of the Top 20 Chinese Companies are State-Owned Enterprises, or SOEs, they are most concerned about their social responsibility and their stakeholders. In contrast, all of America’s Top 20 Companies are privately owned and hence focus on their shareholders.

Due to the fact that the Top Chinese Companies are SOEs, they employ, on average, 76,024 more workers than American companies (that figure increases to 146,107 if Wal-Mart is not included in the Top 20 American Companies as an outlier), which leads to over employment and diluted efficiency metrics that are nearly one-third that of American companies.

America has successful companies in the Top 20 from 50% more industries than does China, which suggests that America’s economy is more diversified and developed. In order to maintain its rapid economic growth, (China’s real GDP grew at an annual rate of 10% between 2000-2006\textsuperscript{lxv}) adhere to the international standards to which it is now beholden by the WTO, and increase its product quality, China must focus on the development, modernization, and maintenance of its infrastructure and would benefit from America’s knowledge of how to achieve these objectives.

Chinese companies are, on average, nearly fifty years younger than American companies. For example, the State Grid, which is an energy company that was founded in 2002, services 88% of China’s national territory, is the country’s largest employer (1,504,000 employees), and is the third largest revenue earner (107,185.5 million U.S. dollars).
America’s greatest companies, on average, still earn more than double that of China’s ($86,282 million U.S. per American company as compared to $38,692.14 million U.S. per Chinese company). This is partly due to the fact that “SOEs typically have severe losses, inefficient allocation of resources and poor management; however, there are plenty of SOEs striving to transcend this legacy.”

The history and legacy of SOEs still greatly impacts China’s Top 20 Companies in terms of their business purpose, employment structure, industry focus, company age and maturity, and revenue figures. During negotiations, American companies must be cognizant of the reasons behind over employment, which dilutes the universal efficiency metric of revenue per employee and makes layoffs nearly impossible. Additionally, Chinese companies are more concerned about how a contract will enhance its social responsibility rather than how it will increase its revenue.

Limitations

As with all research, there are limitations and assumptions involved in this cross-cultural study. These include the fact that some companies do not have a clearly defined mission statement. In these situations, I inferred a mission statement based on the language in its corporate overview or investor relations section. Furthermore, with certain international companies, such as Coca-Cola, tailor their website to provide a different message for each user’s country. In these situations, I proceeded based on the assumption of a uniform corporate message.
Further limitations include language and translation errors, the regulation of information displayed over the internet by the Chinese Government, innate cultural biases, and the assumptions and limitations associated with the research used to create Fortune Magazine’s rankings.
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