
Early version, also known as pre-print

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We all know that emerging markets are playing an increasingly important role in today’s economic environment. Evidence of this is their growing share in the flows of trade and investment in the world economy (Fornes & Butt Philip, 2012). We also know that China is leading the way. The country is not only the world’s second largest economy, it is also the largest emerging country with a GDP (2011) of $7,318 billion and a growth rate (also in 2011) of 9.3% (compared to 1.8% in the US and -0.7% in Japan) (World Bank, 2013). Also, the share of inward foreign investment to China grew from 8% in 2003 to 14% in 2011 (UNCTAD, 2013).

But what is not that widely known is that in recent years emerging markets have become exporters of investment. This can be seen in companies expanding overseas from countries that traditionally have been recipients of foreign investment. For example, in 2011 firms from Mexico invested $9 billion abroad, Chilean firms $12 billion, and Chinese enterprises $65 billion. In fact, China became the 9th largest foreign investor in 2011 (2nd with $147 billion if China and Hong Kong are considered together) with a positive trend to be in the top position in the next five to ten years (UNCTAD, 2011).

Chinese MNCs, mainly state-owned, started their international expansion some years ago seeking investment in natural resources. Now we are also seeing private and public firms crossing the border with a clear objective of conquering Western markets. An example of this is the acquisition of Germany’s Putzmeister by China’s Sany (the country’s largest construction equipment group) for €500 million in cash in January 2012 (which leaves Sany with another €300 million equivalent cash to continue its international expansion). These investments by private companies like Sany are those growing fastest, with a positive trend likely to continue for many years. In this context and to understand the coming competition from China, the key questions we need to answer are: how will these companies conquer the international consumer? And especially what is the role of their domestic business environment in this process?

THE BUSINESS ENVIRONMENT IN CHINA: GUANXI AND THE LITTLE EMPERORS

To answer these questions it is essential to understand the particular domestic institutional context in which Chinese companies operate and especially its impact on the social and cultural environment (“institutional context” defined as “the rules of the game in a society or, more formally, the humanly devised constraints that shape
human interaction...[and] define and limit the choices of individuals” (North, 1990; 3-4)). This is important as the institutional context has an impact on the social and cultural environment in which firms operate (Hoskisson et al., 2000) and therefore on the behaviour of firms and consumers.

In addition to formal institutions like those present in most Western/Anglo-Saxon business environments, a key characteristic of the business environment in China is the increasing presence and importance of informal institutions; i.e.; institutions that are not officially established but whose practices are commonly accepted in society (for example, family networks as a source of finance). This is common in most emerging markets where informal institutions compensate for the voids and weakness of under-developed formal institutions (Khanna & Palepu, 2010). The thing is that both formal and informal institutions impact businesses’ strategic options, at home and also overseas. In China, two examples where this impact on the cultural and social environment, and therefore on the firm and consumer behaviours, becomes tangible are Guanxi (informal) and the population planning policy established by the Chinese government (formal).

Guanxi is one of the most relevant informal institutions in China (Estrin & Prevezer, 2012) and one of the three most important Chinese cultural values and characteristics (together with Face – mianzi – and Reciprocity – renqing). It refers to the set of connections or ties to secure favours in personal and organisational relations that has “significant effects on business operations, survival, and growth” (Park & Luo, 2001; p. 473). Guanxi has a crucial role in establishing external relations and positioning in the market. As such, Guanxi has an impact on the consumption patterns of the Chinese and on both firms’ and consumers’ behaviour. For example, the importance given by managers to Guanxi can be seen in the high expenditure on gifts and banquets; the Chinese feel that giving luxury accessories as business gifts shows social status and makes recipients feel important. As a result, luxury brands are taking this into consideration when defining their product portfolio (i.e. they are giving more weight to accessories than in Western markets).

On the other hand, the population planning policy adopted in 1978 by China’s central government has resulted in what is known today as the One-child generation. This government-led institutional change has had a direct impact on China’s social environment and as a consequence on the consumer behaviour of modern households (McNeal & Yeh, 2003). This generation then became a consumer segment called “Little emperors”, children who grew up in an environment in which they were cared for by both parents and grandparents who indulged them. This family behaviour, along with the changes going on in China since the open-door policy began in 1978, has resulted in higher levels of novelty-seeking, materialistic values, and increased exposure to mass media and the Internet in comparison to previous generations. To deal with this institutional change, firms had to adapt their marketing strategies to satisfy the demands of this group which has emerged as the most powerful consumer segment in China (Hung, Gu, & Yim, 2007).

The institutional context in which emerging markets companies operate has an important impact

CONCLUDING REMARKS

These two areas are good examples of the unique characteristics of the Chinese cultural and social environment. They also illustrate the singular institutional context in which Chinese firms design, distribute, and sell their products and/or services. In this sense, it becomes clear that Chinese MNCs are facing an important challenge when developing their value proposal models in international markets. These firms need to make big efforts to adapt their marketing strategies when operating in a different institutional environment.

What do they need to do? First, Chinese MNCs need to analyse where their domestic institutional framework is a barrier or a facilitator for their international development (i.e. the distance between the home and host environments). Second, and based on the former, they need to define the most suitable marketing strategies considering the relationship between institutions and consumer behaviour. Finally, they need to consider the social and cultural differences as well as the underlying assumptions and prejudices towards Chinese products and/or services (for example, the negative image of the “Made in China” label).

All in all, the institutional context in which emerging markets companies operate has an important impact on the social and cultural environment and therefore affects firms and consumer behaviour. This becomes more relevant in the particular case of China, a country with a singular institutional context where unique informal and formal institutions, such as Guanxi and the One-child generation, shape the social and cultural environment. This environment, as a consequence, influences how companies design, distribute and sell their products. In other words, how well Chinese companies manage to adapt their marketing strategies to different institutional contexts will determine their success or failure in the process of conquering international consumers.

References