



RESEARCH & IDEAS

# The Great Wall of Trust

Published: December 19, 2011

Author: Michael Blanding

New research from Assistant Professor **Roy Y.J. Chua** investigates the difficulties for foreigners doing business in China, and what they can do to overcome the challenge. Key concepts include:

- Foreign businesspeople must learn their way around Chinese cultural customs and the importance of personal relationships and trust in order to be successful in that country.
- For companies doing business in China, one solution might be to consciously hire executives of Chinese ancestry in key roles or placing more emphasis and attention on cultural sensitivity.
- The researchers believe that similar dynamics are likely to rule in any business situation that mixes partners from different cultures or countries.

In recent conversations with US executives doing business in China, Harvard Business School Assistant Professor Roy Y.J. Chua heard about a new trend. In an East Asian version of cutting deals on the golf course, Chinese executives often take partners to teahouses to discuss business and negotiate deals. The problem, according to these executives, is that foreigners are rarely invited.

"It's really a perception that foreigners can't appreciate the culture," says Chua. In practice, it means that foreign businesspeople are at a disadvantage compared with peers of Chinese ethnicity. "It's a gap that might make you less competitive compared with someone who is of the same ethnic culture."

*"To the extent that you could speak the language or demonstrate a certain level of understanding of culture, that might help."*

As China becomes increasingly important to the world economy, it's getting more essential that global executives learn their way around Chinese cultural customs in order to be successful in that country. While every country has its version of the "old boys network" that defines in- and out-groups in business, Chinese

culture puts particular emphasis on personal relationships.

"It's taken to a different level in China," says Chua. "Because of the lack of a strong legal infrastructure, people have to rely on those they know very well to get things done." There's even a name for the phenomenon, *guanxi*: a folk concept that means loyalty to people from the same village, but extends outward in principle to emphasize trusted personal relationships in every aspect of society.

In a paper published in the December 2011 *Journal of International Business Studies*, Chua looks at just how important this concept is to the Chinese—and how foreign businesspeople might overcome the challenge. The paper, "Effects of Cultural Ethnicity, Firm Size, and Firm Age on Senior Executives' Trust in Their Overseas Business Partners: Evidence from China," written with Crystal Jiang of Bryant University, Masaaki Kotabe of the Fox School of Business, and Janet Murray of the University of Missouri—St. Louis, explores the role that trust plays in forming bonds across cultures and national borders—an area that has received surprisingly scant attention in our globalized economy.

## Types of trust

Building on past research, Chua and his colleagues investigate two types of trust: cognitive trust, which is based on confidence in a partner's technical competency, and affective trust, which is based on a shared concern for a partner's welfare and personal interests. "Cognitive trust is trust from the head; it's a very rational way of assessing ability and reliability," says Chua. "Affective trust is trust that comes from the 'heart.' This type of trust involves considerable emotional investments."

To test the relationship between those two types of trust, the researchers conducted extensive interviews with 108 Chinese senior executives from a random sample of firms in mainland China. In each interview, the researchers asked the executives to think of two overseas partners—one of Chinese ethnicity and the other of a different (non-Chinese) ethnicity. Participants were then asked a series of questions on a five-point scale about how much they could rely on those partners to complete tasks effectively (in order to measure cognitive

trust), and how much the partners shared the same goals and feelings (in order to measure affective trust). These questions were asked among many other questions involving the firms' innovative capabilities and client relationships so that it was not obvious to the interviewees that the researchers were focusing on trust.

The results were striking. Affective trust, that from the heart, in overseas partners of Chinese ancestry was 33 percent higher than it was in the partners from other cultures. Even more important, however, was the influence of cognitive from-the-head trust. Far from being a cool, rational appraisal of a partner's ability, it was highly influenced by "trust from the heart" when dealing with someone from the same culture. In statistical terms, there was a 64 percent correlation between affective and cognitive trust for same-culture partners, but only an 8 percent correlation for those of a different culture.

Moreover, when that trust has been established, the research showed that it was much more fragile for those of a different ethnicity and more easily disrupted by external factors such as the size of a firm. For instance, in general, the larger the Chinese firm, the less its executives developed cognitive trust (but not affective trust) in their overseas partners, because they had more resources and thus less need to rely on those partners. However, when the overseas partners were of non-Chinese ethnicity, executives of large Chinese firms trusted them even less.

## Building trust

While such findings makes sense intuitively—we are all more partial to trusting those with whom we share values and background—the size of the correlation shows the height of the Great Wall that foreign executives must scale in proving themselves to their Chinese partners.

"That affective-trust deficit means when you try to build relationships across cultural lines, you have to deal with the fact that executives from other cultures are not going to engage with you on a social-emotional level as well," says Chua. "You have to start thinking about how you can build that level of trust."

For companies doing business in China, one solution might be to consciously hire executives

of Chinese ancestry in key roles in which trust is important to establishing effective business relationships. But it might also mean placing more emphasis and attention on cultural sensitivity to bridge that affective-trust gap.

"To the extent that you could speak the language or demonstrate a certain level of understanding of culture, that might help," says Chua.

While those tactics might be especially vital in doing business in China, Chua continues, they are important to keep in mind in any business situation that mixes partners from different cultures or countries.

"Our data is only from China, so there is no concrete evidence yet for other cultures, but the

theory is not culture specific," he says. "We can't be definitive that this exact pattern of findings would play out in India, for instance, but the hypothesis was developed without any specific culture in mind. China was our first test bed."

After all, every culture has its exclusive cultural rituals. Those who strive to succeed our globalized economy may just be those who can swing a golf club and appreciate a cup of tea with equal ability. [WK](#)

## About the author

**Michael Blanding** is a writer based in Brookline, Massachusetts.

Post a New Comment:

**Name:** \_\_\_\_\_ **Position:** \_\_\_\_\_  
**Organization:** \_\_\_\_\_ **Email:** \_\_\_\_\_

I would prefer to remain anonymous

**Comment:** By hitting "Submit" you agree that your comment, in whole or in edited form, may be posted online. Comments are selected on the basis of relevancy and variety; not all will be posted.