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Business in China

As the China Country Desk Officer, USC professor Thomas Lin arranges for Marshall MBA PRIME students to interact with businesses in Beijing and Shanghai. Dr. Lin prepares students for successful interactions in China by teaching those basics in culture, relationships and business strategies.

Business Strategy and Guanxi

Business Strategies

By Thomas W. Lin, PhD

It is important to devise a clear strategy prior to entering China and to develop personal, professional and governmental contacts there. China welcomes foreign investment (unlike nations such as Russia and India). In fact, in the first three months of 2001, China generated about \$16 billion in contracts from direct foreign investors ("Contracted Foreign Investment up 44% in 1Q," ChinaOnline.com, April 17, 2001). And in 2002, China attracted more foreign direct investment in a year than the United States. Foreign investors benefit China in that they produce jobs, produce material benefits that lead to higher living standards, and in some cases, companies put idle assets to good use (e.g., materials or equipment not otherwise being used).

Companies doing business in China can, by and large, be categorized as:

1. Companies using China as a base for low-cost manufacturing;
2. Companies selling goods in China that are not made locally (e.g., Proctor & Gamble, Coca-Cola);
3. Companies that have changed their operations from a local joint venture to a wholly owned subsidiary (e.g., Motorola).

Contracts

- Prepare contracts in both Chinese and English to ensure accurate translation and interpretation.
- Contracts do not have as much significance in China as they do in the United States; principles are more important in China, whether written or discussed. Billion dollar deals are still sealed all over Asia on a handshake.

At an April 26, 2001 executive luncheon entitled "American Investment in China: Risks and Rewards," David Gries, executive and president of Asian Strategies Group, noted over the last 20 years half of the American companies in China are doing well, 20-30% expect to do well, and 25-30% are not doing well and will eventually pull out. Those not performing well tend to 1) try to sell low-technology, unbranded goods that do not sell well in China, 2) fail to devise a clear strategy or 3) enter the market as a minority partner in a sector where Chinese firms are strong competitors.

Contrasting Management Styles

Successful companies doing well in China establish close relations with both consumers and government, not just business partners ("Into the Pool: International Brands Dive into Beijing's Olympic-bid Battle," ChinaOnline.com, April 27, 2001). Understanding management styles is critical to establishing those relationships.

Power Distance

Power distance refers to the way in which societies deal with the problem of human inequality. Hofstede (1980, *Culture's Consequences: International Differences in Work-Related Values*) showed that Chinese people have a relatively high power distance, while American people have a relatively lower power distance index value.

The implications for management practice means that in **China** superiors are expected to lead, to make decisions autocratically and paternalistically, while subordinates are generally afraid and unwilling to disagree with their superiors. In the **U.S.A.** subordinates and superiors regard each other as inherently like people who have equal rights and representation.

Individualism

Individualism describes the degree to which individuals are integrated into groups. Hofstede also showed that Chinese people have a relatively low individualism, while American people have a relatively high individualism index value.

The implications for management practice means that in **China** managers live more for others, have group loyalty and there is more group decision-making. In the **U.S.A.** managers live more for themselves and there is more individual decision-making.

Confucian Dynamism

Confucian dynamism deals with the time perspective in a society for the gratification of people's needs. Hofstede and Bond (1988, "The Confucius Connection: From Cultural Roots to Economic Growth," *Organizational Dynamics*) showed that Chinese people have a relatively high Confucian dynamism, while American people have a relatively low Confucian dynamism index value.

The implications for management practice means that in **China** top management emphasizes thrift and perseverance (persistence), respect for tradition, and maintains a long-term orientation (i.e., company as a family). In the **U.S.A.** top management focuses on current needs, creativity and adopts a short-term orientation.

Leadership Style

In **China** the leadership style is paternalistic and authoritarian, while in the **U.S.A.** it is democratic.

Decision-Making Approach

The approach to making decisions in **China** is through synthesis, while in the **U.S.A.** it is analytical.

Incentive Systems

The incentive systems in **China** are long-term employment, individual and group bonuses with a

minimum bonus for every employee. The **U.S.A.** has a high turnover rate, more individual bonuses and long-term incentives such as stock options.

Major Characteristics of Managers

In **China** there are state-owned enterprises, private enterprises, owner-managers or relatives, with few professional managers. Most state-owned enterprise managers have good relations with government officials; they have low managerial skills and have not much incentive to maximize shareholder value. The private enterprises and owner-managers' major characteristics: accept challenge, quick adaptation, self-motivation, good work ethics, dedication/commitment, and face saving (not willing to admit error). In the **U.S.A.** there is expertise in one functional area. The major characteristics of managers: expected to take initiative (aggregative), be good communicators, a "can do" attitude, and less long-term commitment.

Chinese Culture

Confucianism

The most important Chinese cultural values are associated with Confucianism and understanding these values leads to better business relationships. The general thrust of Confucianism is the importance of proper human relations.

Four key principles of Confucian teaching are:

1. **Stability of society based on unequal relationships between people:** "Wulun" (five basic relationships): **Ruler to People:** As Confucius teaching, the ruler receives absolute loyalty from his people; they never question his motives or directives. In return, the ruler is wise and works only to better his/her people's lives. **Husband to Wife:** The traditional Confucian husband rules over his wife as a lord rules his people. She is obedient and faithful and provides her husband with sons. The husband is responsible to provide for all his wife's physical needs. **Parent to Child:** Obedience to and respect for parents; i.e., children must be loyal to their parents' wishes, giving priority to the father's, without question. The parents are obligated to raise and educate their children; children must in turn care for their parents in old age, and always show them love and respect. **Older to Younger:** The Chinese have great respect for age, tending to link it with wisdom. Grandparents often rule a family; at the very least, they receive deferential treatment from children as well as grandchildren. **Friend-to-Friend:** loyalty to friends. This is the only relationship between equals in Confucianism. Friends must be loyal and willing to help each other at every opportunity. Dishonesty between friends is a crime and demands punishment. Note that the above five relationships are weakening under the communism and one child policy.
2. **Family:** the prototype of all social organizations. Harmony is found in maintenance of individual face. Social relations should be conducted so that everybody's face is maintained.
3. **Virtuous behavior:** treating others as one would like to be treated. This does not extend to enemies or outsiders.
4. **Virtue with regard to tasks in life:** work to acquire skills and education, work hard, and be patient and thrifty.

Guanxi

In the Chinese culture "guanxi" is an important aspect of conducting business. Guanxi (literally, "relationships") is best translated into English as "connections." In China, guanxi is relationships which can be leveraged to make life easier or to gain advantage. Guanxi exists at many levels. For example:

- Ongoing friendly interaction lets you skip the line in the bank
- Taking the bank people to lunch gets work processed faster
- A classmate relationship with the bank manager allows access to financing

- A classmate relationship with the Vice Premier allows preferential access to buying the bank

Guanxi: Networking

In today's business environment, because China is a relational culture focused on relationships, executives and entrepreneurs work constantly to maintain and expand their network of connections. The business structure in China consists of invisible social networks and particular ties between people from the same schools (former classmates, teacher-student), former colleagues, family members, relatives, villages and towns. Many relatives of high-ranking Communist Party officials also hold senior management positions in many state-own enterprises.

Guanxi: Relationships

"Relational Cultures" focus on relationship. There is a big overlap between task-focused relationships (work, business partners, merchants, etc.) and social-emotional relations (family, friends, significant-others, etc.). People in these cultures cannot or have difficulty separating business issues from personal issues. The quality of an interpersonal relationship (e.g., intimacy, closeness) is also important. On the other hand, "Task Cultures" focus on task. There is no or very little overlap between task-focused relationships and social-emotional relations. People in these cultures can easily separate business issues from personal issues.

Face

Face is giving people the minimum required respect and trying to avoid embarrassment. The basic understanding of face is as easy as avoiding situations where you hear:

- "I told you."
- "You are wrong."
- "I know better."

Developing strong guanxi takes time, patience and persistence. The Chinese identify three phrases in the process of getting to know somebody: (1) know his/her name, (2) know his/her face or appearance, and (3) know his/her heart or true self. Don't expect a Chinese to trust you simply because you have made an effort to come to China to meet him or her.

Ten Strategies for Successfully Conducting Business in China.

1. Devise a clear strategy, understand the business-development process, and build your network around it.
2. Find the right partner. For example, find a good retired governmental official (good JV partner).
3. Listen more with an open mind; show your respect.
4. Take your time. Be patient. It takes a long time to build up "guanxi" relationships and negotiate a contract. Get to know each other. Learn/know/show something about China, e.g., history, culture, language, legal systems, etc.
5. Read business contracts carefully. Get a second opinion. Many taxes can be avoided. There is no short cut for due diligence.
6. Be flexible and modest; show your consideration and long-term commitment.
7. Use a good intermediary and a good interpreter/translator.
8. The product must meet local requirements.
9. Follow your host and play by Chinese legal and culture rules. ("When in Rome, do as the Romans do.")
10. Do not take anything at face value. There is almost always a hidden agenda.

Don'ts for Conducting Business in China

1. No kissing and hugging--handshakes are appropriate.
2. Do not overlook Chinese cultural values by assuming that American values can automatically be applied in China.
3. Do not treat China as a single market.
4. Do not lose your patience.
5. Do not take anything at face value. There is almost always a hidden agenda.
6. Do not give as gifts a clock (means "attend a funeral") or a green hat (means that man's wife is having an affair with another man).
7. Don't call the senior official by their first name. Chinese respect their ancestors by using the family name first.
8. Do not openly object to cigarette smoking--many Chinese people smoke.
9. Do not point with chopsticks or stand them upright in your rice bowl (means to worship dead people, e.g. ancestors).
10. Do not leave operations entirely in the hands of locals or ex-patriots.

Dr. Thomas W. Lin holds the Accounting Circle Professorship in Accounting at the Leventhal School of Accounting in the Marshall School of Business at USC. As the China Country Desk Officer, Dr. Lin arranges for Marshall MBA PRIME students to interact with businesses in Beijing and Shanghai. Dr. Lin prepares students for successful interactions in China by teaching basics in culture, relationships and business strategies. His areas of research include performance evaluation and management compensation, accounting in Greater China and strategic cost management.
