

Values, Culture and Doing Business in China

China is generally believed to be a hard country to do business with. It's dynamic growth over the past two decades has opened up huge opportunities for both Western and Chinese business people. But, there are cultural differences, which, with the history of China, cause difficulties for the unprepared in doing business in this huge market. There is a rather disparaging view from some unsuccessful Westerners that signing a contract in China is not worth the paper it is written on. This is a harsh judgement portrayed often by frustrated Western executives who, having exhausted themselves in finalising 'the deal', find that the other side continues to change the agreed outcome and, in a few cases, renege on the entire deal. This misjudgement of China is based on a lack of understanding of how China 'works' and, in large part, this is due to its complex and rich cultural heritage as exemplified in its values and beliefs.

Let's be clear. You are as likely to be 'rolled over' in China as you are in the UK, the USA, France or Australia. Rogues are a global phenomenon. There is, however, plenty of evidence that Western executives have often left their brains behind when they enter China and do deals that they would never contemplate back home. Like the Internet frenzy of the late 1990's, it is easy to get wrapped up in the huge potential of China but ignore the tactical commercial reality.

I do not want to discuss the roguish and the stupid, but those differences in style and culture that are often at the root of contractual misunderstandings. Nor is this going to be a legal treatise: it's about people, culture and what underpins behaviour.

People know that Chinese use chop stick and that drinking copious amounts of alcohol is a feature of doing business. The more astute may even have noticed a natural reticence in the Chinese to say an outright ‘no’. But these are still very superficial attributes and a deeper understanding of the values and beliefs, and how they differ from the West, are required before appreciating the nuances and subtleties of doing business in China.

The following table summarises the key cultural differences between Chinese and Western business methods:

Table 1: Summary of Cultural Traits

<i>Cultural Traits</i>	<i>Chinese</i>	<i>Westerner</i>
Religion	Basically atheist	Basically Christian
Business relations	Highly interpersonal	'Business is Business'
Planning	Incremental	Objective driven
Decision making	Collective	Individualistic
Negotiation Style	Friendly	Aggressive
Expression Communication	Contextual Infrequent	Explicit Frequent
Organisation structure	Hierarchical	Horizontal
Logical reasoning	Deductive	Inductive

Source: Liu Baocheng, Professor University of International Business & Economics

China is officially an atheist country. Its beliefs are based on a philosophical, didactic, approach to life rather than the spiritual. Confucianism and Taoism both have strong influences on values and behaviour and the widespread influence of Buddhism also creates an attitude of tolerance and hospitality. Religion is found in all

its forms, with Chinese people being very tolerant of religious difference as evidenced by the absence of religious wars in China. Buddhism, imported from India in the 6th Century BC, has been intertwined with the native Chinese philosophies.

The law of causation contained within Buddhism supports the similar ideas of fatalism contained within Taoist belief. While the Confucian insistence on doing 'good works' is a more proactive interpretation of Buddhism's *Karma*.

This mixing of philosophy and faith and the resulting natural tolerance and benevolence means that there are few taboos in China. Where foreigners deviate in their behaviour this is shrugged off with, 'Ignorance is Excusable'. For Chinese people, however, ignorance of the rules of social behaviour is not, and it is the breaking of these in social and commercial life that imposes significant social penalties on the transgressor, and which underpin the issue of 'face'.

Face-saving is one of the better-known attributes of Chinese society, but often one poorly understood by Westerners. It includes, but goes beyond, what Westerners understand as 'humiliation' or 'embarrassment'. In the West, while being subject to either of these is unpleasant, it rarely seriously undermines the victim's self-belief and Westerners are often, but not always, able to 'bounce back' from such encounters.

For Chinese face can take two forms:

- *Lian*, which is the confidence of 'society' in the integrity of the ego's moral character, the absence of which makes it impossible for the person the

function properly within society. Loss of *Lian* can make it impossible to continue to live in the World.

- *Mian-zi*, the kind of prestige that is emphasised through a person's reputation, represented by personal success and ostentation. This prestige includes the respect for the elderly and can be used to form networks.

The influence that both have on the behaviour of individuals can have a restraining influence on behaviour and the risk of 'losing face' has a tendency to minimise opportunism as the 'transaction cost' of doing so can be quite high. The resulting apparent hesitancy to commit to a deal, together with the other factors discussed in this paper, in particular the need for consensus, can frustrate the Western businessperson who is more used to an adversarial and contractual mode of negotiation.

In Chinese society, the basic social unit is the family, and by extension, clan, friends, work colleagues etc. These close networks of relationship are basic to the view that a Chinese person takes of himself within his or her society. So that losing face through a public and outright rejection is taken very personally and can significantly affect the continuation of a relationship or discussion.

Often, a Chinese person will apparently preface a comment with a self-deprecating comment, such as, 'I am not well prepared...' or 'Due to limited knowledge...' even when the person is a recognised authority. Understanding this is likely to enhance a relationship, whereas an outright 'no', pointing the finger and banging the table will generate hostility and undermine the relationship.

None of this is to mean that Chinese are weak in negotiation, far from it. What it does mean is that if you want the conversation to move forward to any mutually beneficial conclusion, you will have to allow the other party a way out, or room to manoeuvre, in order to proceed. Not necessarily a natural Western approach to negotiation.

To do business you have to become ‘friends’ first. This is a trust building issue as there is little cultural support for the purely contractual basis of relationships. Rather, there is little distinction between personal and business relationships and it is for this reason that, after a day of hard negotiations leading to a possible stalemate, this is then overcome by some often (equally hard) hospitality in the evening. Westerners will tend to differentiate the two environments and, sometimes, avoid social contact with a hard negotiator, which is an opportunity lost in China.

Without ‘friendship’ there is no trust and without trust there can be no face to lose. Without face the ‘transaction cost’ of breaking an agreement, or of not performing is low. By building trust through friendship the transaction cost of breaking your word rises. This is part of the reason why doing a deal can take so long. People need to see you more than once; they need to see that you are prepared to make a long-term commitment, that you will be ‘around for a while’, before entering into commitments.

As part of the Chinese tradition of hospitality, the giving and receiving of gifts is an important element in the relationship. For the Chinese, the concept of gift exchange is believed to generate an expansion of human sympathy. For this reason, it is unwise to

admire something in a host's home, as he or she may feel obliged to give it to you. It is also impolite to unwrap a gift.

The issue for some Western companies is one of corruption. In China there is a fine line to be drawn between gifts and corruption, and the only real advice is to make the gift appropriate to the occasion itself and not to an expected outcome. The process of hospitality, giving gifts and trust are interlinked, so that it is sometime hard to discern whether the process is truly corrupting or not. The only truth is that as a relationships form, mutual benefits should arise.

Contemporary corruption and abuse of power has links to the virtues advocated by Confucius. This may seem strange but his partial responsibility can be linked to:

- His condemnation of legislation
- Has class distinction between the gentry and the 'petty', and
- His proposition that it is righteous for the son to help conceal the wrongdoings of the father.

The belief in 'virtue' meant that virtuous leaders create a virtuous society negating the need for laws that check authority. He also took a partisan view of the virtue of the gentry, whose lapses could be excused from the more general belief in their virtue. But economic pressures makes these beliefs poor candidates for avoidance of corruption and with the active concealment of family wrongdoing and other barriers put up by corrupt officials, make legal enforcement difficult. These attitudes evolved in the essentially clan based society of the time: broadly, looking after the clan meant

it was acceptable to cheat ‘outsiders’. These complex historical, moral and societal factors all underpin what to Westerners appears to be some degree of ambivalence to the issues of probity of contract.

Also, in China, the fact that people expect relationships to continue and that reciprocity will arise, there is no need to create a ‘profit and loss’ at each point of contact in the relationship. These long term relationships see Chinese business people helping each other out, by sometimes charging lower than market costs for a friend in trouble, in the full understanding that one day reciprocity will arise. This long-term perspective may well be the hardest aspect for Westerners to understand, and even if they do, the question of whether their pockets are deep enough to finance the required building of a relationship becomes a significant factor. It is for this reason that you will hear that if you are in China it is for the long term. Patience is a virtue when doing business in China, and prior to World Trade Organisation accession, many years could elapse before being granted permission to enter the market. For sensitive sectors, such as telecommunications, this is still true.

This whole web of hospitality, face, trust and commitment are key elements to what the world now knows as *Guanxi* (connection). It is fundamental to Chinese life and in the absence of the market economy was principally how things got done before the 1980’s. It is based on the family and extended friendships, on dialect, birthplace and work, and enables even the most seemingly junior of people to have influential access. Once a member of this network, or *guanxiwang*, it is very difficult to be excluded, although if you are it is very difficult to get back in. This again underpins

the long term relationships that build trust and friendship and which is built on a rock of tolerance.

The role of hierarchy also needs to be understood. Frequently, those with whom negotiations are conducted do not have all the power required to make the final decision. This should be recognised and some confirmation of the ranking of the person involved needs to be established. In modern China, each enterprise has one 'legal representative' and it is this person who usually has the final say. This person is the Chairman, or President, but can have any title and so caution needs to be exercised when 'finalising' a deal.

Another factor in the negotiation process is the Chinese preference for consensus, so that there is often discomfort with outright acceptance or rejection of a position. Often a proposition will be 'studied' and after a period of silence when you may feel that all is lost, a reaction is achieved. In the West silence is usually a sign of rejection, in China this is not necessarily the case and the Chinese side may be seeking a way to address issues with which they are concerned. It is, therefore, quite acceptable after a period of silence to re-engage discussion by enquiring whether further information or meetings are required to discuss the Chinese sides' ideas on the matter.

Many deals seem to be settled during some level of hospitality at the end of protracted negotiations. At other times, when the 'boss' from each side formally get together, again, possibly over dinner. Chinese negotiators always expect that there is more 'fat' to be carved out of a negotiation and it is wise to have some of this available.



Tactically, the Chinese side will squeeze as far as possible so it is important to be clear what the final price or deal is that is acceptable to you. That is the point where you travel to the airport and may be the time that your ‘final price’ is taken seriously. Alternatively, it is sometimes best to keep the Managing Director or CEO of your company out of the detailed negotiations – the Chinese certainly will – and with the last slice of ‘fat’ retained for him to use. This allows him or her to attend a final meeting the Chinese counterpart, make a ‘final’ offer directly to the Chinese CEO (often over drinks) with appropriate face given to all: The Chinese negotiators will have done their best and the bosses made the final deal with all the assurance implied by their status and mutual respect.

The Chinese will always want to do a good deal for themselves, as you should, but also believe in mutual benefit. Through understanding the cultural and value drivers of your Chinese partner, you will be in a better position to get the deal you want. Whilst understanding the sensitivities of Chinese culture, Chinese businesses also have a better understanding of Western methods, and so it is important that mutual respect is established. Understanding these cultural attributes and differences does not mean you need to prejudice your position; it does mean that you should be able to navigate to the deal that builds a long term profitable relationship. And, if you’re lucky, you’ll make some good friends on the way.

Finally, Chinese society is vast and complex, therefore, any generalisation about China need to be treated cautiously. You will need to recognise that China has a history of tectonic upheavals and is a society still in transition, but with the three P’s



of patience, persistence and product there is no reason why successful business cannot be done in China.

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