

# The Practical Impacts of Culture on Doing Business in China



Marvin Hough

April 2020

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## Table of Contents

Introduction - China and the Western Executive_____	3
Chapter 1 - Overview of the Chinese Business Environment _____	4
Chapter 2 - What You Need to Know About Business Culture in China_____	7
Chapter 3 - Case Scenarios _____	10
Starbucks_____	11
Algonquin College_____	13
L'Oreal _____	14
Dolce & Gabbana_____	15
Chapter 4 - Tactics & Strategies for Success_____	16
Chapter 5 - Getting Help When & Where You Need It_____	25
Notes_____	26

## Introduction

### China and the Western Executive

The importance of cross-cultural factors in doing business with China is underrecognized and underappreciated by many Western business executives. Cultural factors impact the bottom line and you ignore them at your own cost.

To what degree is Chinese business culture being influenced by Western practices and norms? Conversely, as China increasingly flexes its muscles in the international business arena, to what degree is it driving Westerners to changes their approach?

I have been involved in facilitating Canadian business with China for 25 years and appreciate the huge and potentially overwhelming challenge in comprehending and adapting to Chinese business culture. I have also learned not to doubt the capacity and effectiveness of Chinese counterparts in developing, negotiating and carrying out global business.

Chinese business culture which involves indirect and implicit communications and, above all, a strongly cemented respect for “saving face” is perfectly positioned to confound Westerners. You are always wondering what is really on your Chinese counterpart’s minds and why he or she isn’t saying more. This is why you should always have your own translators and not rely on one that is supplied by your Chinese host. <sup>i</sup>

Of course, the language barriers for Westerners in China present formidable challenges and add complexity to all opportunities and transactions. You should not, however, make assumptions about the degree to which the Chinese comprehend Western approaches, languages and objectives. They likely understand and appreciate much more than you may think.

The variable that really exacerbates the challenges in working in China or with Chinese counterparts is that Chinese business culture is evolving in so many ways. This is reflected in the applications of technology such as artificial intelligence, digital transactions and mobile payments which have revolutionized some business activities in China.

Regardless of the challenges, Western firms clearly need to keep in mind that the Chinese are very pragmatic and have an adept capacity to adopt new approaches as they do business. These new approaches are rolling out in all organizations including in government agencies. For example, I think of my visits to China 15 years ago when seniority in organizations such as Chinese state banks meant that meetings were conducted in a very structured manner led by the senior most official. Today, there are different dynamics at play and those with knowledge and expertise are speaking up and influencing the discussions.

The premise that the Chinese cultural file can be absorbed as the firm moves along or be handled by a “local representative” or any single source, doesn’t cut it. After all, what you put into preparing for your Chinese market visit is often equally reflected in what you come away with.

Like it or not, preparation on the cross-cultural side is not a quick fix and needs to be viewed from a holistic perspective — one that goes beyond geography, and incorporates the culture within the business sector, the organization and the individual counterpart.

It is my hope that this guide will provide some useful insights to help you plan more optimally and avoid some of the potential pitfalls and bottlenecks due to cultural factors. My approach is to introduce the business environment in China, what you need to know about Chinese business culture, provide some real life scenarios highlighting the impact of culture and offer tactics and strategies to navigate in this evolving and complex market.

## **Chapter 1**

### **Overview of the Chinese Business Environment<sup>ii</sup>**

Since initiating market reforms in 1978, China has shifted from a centrally planned to a more market-based economy and has experienced rapid economic and social development. GDP growth until more recently had averaged nearly 10 percent a year—the fastest sustained expansion by a major economy in history. This phenomenal growth and has lifted more than 800 million people out of poverty. China reached all the Millennium Development Goals (MDGs) by 2015 and made a major contribution to the achievement of the MDGs globally. Although China’s GDP growth has gradually slowed since 2012, it is still impressive by current global standards.

With a population of 1.4 billion, China is the second largest economy and is expanding its influence in development and in the global economy. China has been the largest single contributor to world growth since the global financial crisis of 2008.

Yet China remains a developing country (its per capita income is still a fraction of that in advanced countries) and its market reforms are incomplete. According to China’s current poverty standard (per capita rural net income of RMB 2,300 per year in 2010 constant prices), there were 55 million poor in rural areas in 2015.

Rapid economic ascendance has brought on many challenges as well, including high inequality; rapid urbanization; challenges to environmental sustainability; and external imbalances. China also faces demographic pressures related to an aging population and the internal migration of labor.

Significant policy adjustments are required in order for China's growth to be sustainable. Experience shows that transitioning from middle-income to high-income status can be more difficult than moving up from low to middle income.

China's 13<sup>th</sup> Five-Year Plan (2016-2020) forcefully address these issues. It highlights the development of services and measures to address environmental and social imbalances, setting targets to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. The annual growth target in the 13<sup>th</sup> Five-Year Plan is 6.5 percent, reflecting the rebalancing of the economy and the focus on the quality of growth while still maintaining the objective of achieving a "moderately prosperous society" by 2020 (doubling GDP for 2010-2020).

The Chinese e-commerce market will be of particular focus with 300 million middle class consumers, 700 million people online every day and annual sales greater than the next 5 countries combined. International companies will need to devote time to understand the major platforms, decide which is best for them and work with a local partner on local advertising and the appropriate social media strategy.

"The digital civilization is reshaping people's lifestyles, companies' organizational structures, as well as societal values and beliefs. It will impact the entire society, from organizations to individuals, and China may be a best example," SengYee Lau, Tencent's senior executive vice president, said at a forum of marketing executive in the U.S. city of Orlando.

"The digital economy has been one of the major drivers of China's economic growth over the past two decades. Now, 32.9 percent of the country's total GDP is derived from its digital economy, which has the fastest growth rate in the world," said Lau, who is also chairman of Tencent Advertising, and Group Marketing and Global Branding.

### **Accelerators and Ongoing Issues**

The Chinese business environment offers exciting opportunities and the following table identifies both accelerators and ongoing issues that you should be mindful of as you develop your approach and consider your strategies.

In terms of Ongoing Issues, previously unanticipated issues such as the US-China trade war, the strained bilateral relations between Canada and China and the Covid-19 crises have clouded the opportunities for Canadians in the market. However, trade continues and Canadians can't afford to look away from the second largest economy in the world.

<b>Accelerators</b>	<b>Ongoing Issues</b>
2nd largest economy in the world	Strained China – Canada bilateral relations
Good match of Canadian capabilities to Chinese demand	Impact of Covid-19
High Economic Growth Rates	Language barriers
Huge Market Size	Relationships and guanxi take time to develop
Growing domestic demand from the rising middle class	Complex array of non-tariff barriers including lack of intellectual property rights
Cost competitiveness	US-China Trade issues
Chinese demand for natural resources	Inconsistent application of laws and policies
Improved Ease of Doing Business Ranking	Corruption
Digital Platforms facilitating access for Western suppliers	Environmental and CSR issues
National Priorities laid out in 5 Year Plans	Chinese tariffs and border barriers
Chinese companies going global	Lack of access to Chinese Government procurement
Belt and Road Initiative	Restrictions on currency conversion
Measures to reduce environmental and social imbalances	Strength of local suppliers
The Hong Kong Advantages	Labor laws and practices
Greater Bay area integration	Human rights - Xinjiang
Infrastructure – high speed trains	Hong Kong democracy issues

## Chapter 2

### What You Need to Know About Business Culture in China

Chinese business culture is in a fascinating evolution as the country moves along in its transition socially and economically. The opening of China in the late 1970s under Deng Xiaoping brought a new and positive perspective on business and businesspeople. This occurred despite the solid grip on political power by the Communist Party and the lack of significant political reform. Deng's maxims of "It doesn't matter whether a cat is black or white so long as it catches mice" and "To get rich is glorious" have been hugely significant in shaping business philosophy within the communist state.

Any Western company thinking of engaging in China should comprehend and fully consider the fundamental elements of Chinese business culture.<sup>iii</sup>

#### Confucian Philosophy and Chinese Management Styles

While there are evolving management styles in Chinese firms and Government agencies a lot of interactions and processes are still hinged to Confucian philosophy. In Confucian thought, the idea of social harmony is paramount with relationships in society deemed to be distinctly unequal. Thus, elder people should be respected by younger and seniors by subordinates etc.

The society reflects every individual knowing his or her place in the social order and each member playing his or her part well. Western executives need to understand where their counterparties fit into the hierarchy in their counterpart's organizations and to appreciate that each of their interlocutors is playing a specific role for the organization.

Many western executives face significant challenges in ascertaining the hierarchical structure in Chinese organizations in advance of meetings and during discussions or negotiations. This is in many ways an advantage for the Chinese. Western firms may also find that attempts to circumvent hierarchy may backfire. Virtuous behavior towards others is expected and maintaining "face" is also a crucial aspect of Confucian philosophy.

In traditional Chinese organizations, the management style tends towards the directive, with the senior manager giving instructions to direct reports who in turn pass on the instructions down the line. It is not expected that subordinates will question the decisions of superiors - that would be to show disrespect and be the direct cause of loss of face for all concerned.

The manager should be seen as a type of father figure who expects and receives loyalty and obedience from colleagues. In return, the manager is expected to take a holistic

interest in the well-being of those colleagues. It is a mutually beneficial two-way relationship.

Senior managers will often have close relations to the Communist Party and many business decisions are likely to be scrutinized by the Party which is often the unseen force behind many situations.

It is often said that China has a lack of good-quality, experienced managers — this is typical of a rapidly growing and modernizing economy — and that the good managers who are available are very expensive (even by Western standards.) This places enormous emphasis on any company's recruitment and retention policies.

## **Guanxi**

The concept of guanxi or personal connections is a crucial element in Chinese society and business. Guanxi can be viewed as a web of individual relationships in which “friends” do favors for one another. As has often been said, “in China if you don't have Guanxi, you don't have anything”.<sup>iv</sup> These relationships are pivotal and need to be continuously refreshed and developed.

Foreigners can develop these relationships but need to be particularly diligent about keeping them in good standing and current. The departure of a key contact within a supplier or customer may mean that your relationship with the firm is back to square one.

In maintaining and developing these relationships, western firms often need to walk a tight rope. On the one hand, they should focus on providing benefits that the Chinese cannot easily obtain from other “friends”. On the other side, western executives must adhere to their firm's ethical standards. Accepting a generous benefit from a Chinese counterparty may breach ethical standards and create a situation where the Chinese counterparty is expecting a benefit back of comparable value.

With the importance of guanxi, a western firm's selection of an appropriate agent, distributor, licensing partner or joint venture partner becomes crucial. This process needs to be addressed in a systematic way and not rushed. Ultimately in China, the relationships may be more important than any other factor in the transaction.

## **Saving Face**

The concept of “saving face” is a fundamental element of Chinese culture and westerners need to keep this front and center in all of their interactions. In Chinese culture, face is the core of a person's being.

Westerners need to ask themselves how to extend face in all situations. When challenges arise, the focus should be on resolving issues and processes not on addressing the views

or actions of individuals. Authentic positive feedback is very helpful but Westerners should also be mindful of overdone compliments.

A loss of face can result from sarcasm, blame and negative emotional outbursts and at times westerners may have to “bite their tongues”. The bottom line is to respect others and position yourself to be respected.

### **Hierarchy and Decision Making**

China is high on the hierarchy index which means that Canadian companies in China are taken more seriously when their top leadership is involved directly. There is one decision maker in an organization. You need to find out who that is. Western collaborative business practices such as conference calls and brainstorming sessions usually fall flat.

### **Collective Thinking versus Individualism**

Chinese people generally are very low on the individualism scale and people don't feel comfortable making decisions on their own or exposing themselves to ridicule. The simplest actions often require finding group consensus (ie employee survey). The more important an event is, the more people will be there. And vice versa. Western firms need to recalibrate their thinking particularly about the value of independence motivating people.

### **Long Term Orientation versus Short Term**

Time orientation creates some of the greatest friction between Westerners and Mainland Chinese working together. China has a long-term orientation and most westerners have a short-term orientation. The divergence in perspectives is reflected in these two adages: “In time, even a mulberry bush becomes silk.” “Time is money.” A westerner's sense of time urgency can be used against you in negotiations. It often gets in the way of doing things right in China.

### **Women in Business <sup>iv</sup>**

Officially, women have the same rights as men in the workplace and the Party has promoted this sense of equality over the past thirty years or so. However, traditional Confucian thinking does not sit easily with this notion of gender equality.

Foreign businesswomen will be treated with great respect and courtesy. They may find that, within a delegation, the Chinese defer to male colleagues regardless of the actual seniority of the western party - the Chinese assumption being that the male will naturally be the decision-maker.

Having said that, it is now more and more common to encounter women in reasonably senior roles in large Chinese organizations - especially in the larger, more modern cities.

Chinese women are highly successful within the education city and are actively managing their careers.

### **Regional Cultural Differences**

Writing in the Journal Science, a team led by University of Virginia psychologist Thomas Talhelm provides evidence that China can be divided into two regions with distinct mindsets: the area south of the Yangtze River, (stereotype Chinese holistic view of life, emphasizing interdependence and context) and the area north of the river, where residents' attitudes are closer to those of Westerners (more independent).

Talhelm and colleagues believe that these distinctions are to a degree driven by the history of Southern China's dependence on rice farming (interdependent undertaking) versus the wheat growing (more independent) North.

China is very diverse. There are 56 ethnicities officially recognized by Chinese government, and many of those ethnicities have their own languages. The physical geography of China ranges from deserts to rain forests and from plateaus to low plains, so that people living in those different physical sections of China have various cultures. China does not have an official or dominant religion.

While many Chinese citizens do not have any religious practice, others are in religions such as Christianity, Buddhism, Taoism, Islam and Judaism.

- In a general picture, China has a core area (China Proper) where the population is mainly comprised of Han ethnicity, and several frontier zones which are traditionally resided by minority groups.
- East part of China and coastal cities – written contract, more internationalized.
- North East of China – focused more on oral contract.
- West China – commercial practises are underdeveloped.

## **Chapter 3**

### **Case Scenarios**

Real life scenarios can go a long way in providing a deeper understanding of Chinese business culture and help to demonstrate some of the local nuances. The following case scenarios serve to illustrate factors which can arise for international firms as they conduct business and partner with local Chinese firms as well as some of the adaptations that may be needed.

## **a) Starbucks**

Starbucks has successfully opened more than 570 stores in 48 cities since it first entered China in 1999. What did the Seattle-based coffee company do right in China from the perspective of understanding and adapting to the business culture?

### **The Opportunity**

When Starbucks entered China in 1999, many were skeptical that it had a chance. Given the fact that Chinese people have traditionally favored tea, it seemed impossible that Starbucks would be able to break into this market. However, Starbucks did not let this skepticism stop it. A careful market study revealed that as the Chinese middle class emerged, there existed an opportunity for Starbucks to introduce a Western coffee experience, where people could meet with their friends while drinking their favorite beverages.

Starbucks literally created that demand. Now you can find a Starbucks almost on every major street of the coastal cities in China. Starbucks has revolutionized how Chinese view and drink coffee.

### **Strategies**

#### **Position Smart**

Once Starbucks decided to enter China, it implemented a smart market entry strategy. It did not use any advertising and promotions that could be perceived by the Chinese as a threat to their tea-drinking culture.

Instead, it focused on selecting high-visibility and high-traffic locations to project its brand image. The next thing Starbucks did was to capitalize on the tea-drinking culture of Chinese consumers by introducing beverages using popular local ingredients such as green tea. This strategy has effectively turned potential obstacles into Starbucks' favor.

Chinese consumers quickly developed a taste for Starbucks' coffee, which was essential to Starbucks' success in China. One of Starbucks' key marketing strategies was to provide customers with an exceptional experience. The chic interior, comfortable lounge chairs, and upbeat music are not only differentiators that set Starbucks apart from the competition, but also have strong appeal to younger generations who fantasize about Western coffee culture as a symbol of modern lifestyle. Many go to Starbucks not just for a cup of Frappuccino, but also for the "Starbucks Experience" that makes them feel cool and trendy. Thus, Starbucks has established itself as an aspiration brand and is able to charge premium prices.<sup>v</sup>

## **Brand Global**

Starbucks understands the value of its global brand and has taken steps to maintain brand integrity. One of Starbucks' best practices is to send their best baristas from established markets to new markets and train new employees. These baristas act as brand ambassadors to help establish the Starbucks culture in new locations and ensure that service at each local store meets their global standards.

Western brands in general have a reputation for quality products and services. They have a competitive advantage over Chinese companies in establishing themselves as premium brands. However, as Shaun Rein, founder and managing director of China Market Research Group, pointed out, too many Western brands push for market share by cutting prices, which is a losing strategy because they can never "out-cut" local Chinese competitors.

Global brand does not mean "global products," or "global platform" as eBay mistakenly tried. Starbucks has a highly localized menu of beverages that is particularly tailored to Chinese consumers. It has done an extensive consumer taste profile analysis to create a unique "East meets West" blend. It even gives each store the flexibility to choose from a wide variety of its beverage portfolio that fits the customers at its particular location.

## **Partner local**

China is not one homogeneous market. There are many Chinas. The culture from northern China is very different from that of the east. Consumer spending power inland is not on par with that in coastal cities. To address this complexity of the Chinese market, Starbucks partnered with three regional partners as part of its expansion plans.

In the north, Starbucks entered a joint venture with Beijing Mei Da coffee company. In the east, Starbucks partnered with the Taiwan-based Uni-President. In the south, Starbucks worked with Hong Kong-based Maxim's Caterers. Each partner brings different strengths and local expertise that helped Starbucks gain insights into the tastes and preferences of local Chinese consumers.

It is interesting to note that Starbucks Corp. has recently announced that it is partnering with Alibaba Group Holding Limited to deliver its coffee in Chinese cities starting this fall, betting the move will revive sales growth in its second-largest market that is witnessing aggressive local competition.

## **Commit Long Term**

China is not an easy market to crack. It requires a long-term commitment. An important strategy is to invest in employees. When I visited a Starbucks store in Shanghai back in 2007, I was impressed by the cheerful greetings of Chinese baristas, which set Starbucks

apart from copycats. Starbucks has done an excellent job in recruiting and training its employees. This is a win-win strategy because employees are at the heart of delivering the “Starbucks Experience” to customers. They are the best marketing ambassadors for the company. Long term commitment also means patience. It takes time to educate the market and gain customer loyalty.

## **b) Algonquin College<sup>vi</sup>**

### **The Opportunity**

China is a priority market for Algonquin College both for on shore recruitment and for partnership and project development. Algonquin’s operations in China are coordinated through a services agreement with a local educational consulting firm.

James Wang, Manager of International Partnerships for Algonquin has extensive experience in China and considers business culture to have a huge impact on Algonquin’s business in China.

### **Strategies**

The strategies employed by Algonquin in China are particularly tuned to Chinese culture and are reflected in their approach to recruitment, partnership and marketing.

### **Recruitment**

Because the selection of an overseas educational institution is an individual and parent decision one needs to have in depth knowledge of the culture, according to Wang. “There is a need to build relationships and trust, the family is looking for someone they can trust not just the credentials of the College” he added.

Algonquin reps take the time to develop relationships with students and parents and build trust. Wang mentioned that his tone in China is more like an uncle or advisor to families who want to send kids to college where they have established trust. Chinese high school grads are not generally as independent as Western high school grads and they and their families often have many practical questions that they want addressed.

### **Partnership**

As this is a B to B relationship one needs to identify how your partner functions, who are the decision makers (hierarchy), how agreements are structured, and how one can build trust. Culture is heavily involved in this process.

Algonquin generally spends more time in developing partnerships in China than in other markets and they also need to have senior people play a role in the partnership development. As James Wang was a senior Chinese Government official, his status and reputation is of considerable benefit to Algonquin. All of his meetings in China are in

Mandarin which is well appreciated by Chinese counterparts. It is indeed important to have a Marketing representative who understands both the western and Chinese culture

and business environments. Wang mentioned that he spends a lot of time helping Chinese officials understand the Canadian educational system and Canadian culture.

## **Marketing**

Culture impacts the marketing in a big way with both the social media presence (including WeChat) and the personal touch being important. It is very important for an institution such as Algonquin to understand the popular culture and have an excellent web presence which address the key questions on the minds of parents and students.

Algonquin has adapted to Chinese culture by spending a lot of time addressing parents and students' questions both on their website and in public information sessions. WeChat is used a lot to create the community feel which helps to improve the conversion rate. Algonquin also takes special steps to connect students with housing reps, arranging airport pickup and other incoming student services which helps to build trust and facilitate smooth experiences once the students have arrived. The marketing program is built on a mix of a constantly evolving digital presence and a building of trust that leads to a solid reputation.

### **c) L'Oreal<sup>vii</sup>**

#### **Background and Opportunity**

Fully embracing the increasingly digitalized Chinese consumer market will be the focus for the world's largest cosmetics group L'Oreal in China in 2020.

#### **Strategies**

With an extensive portfolio of brands, L'Oreal China will reach into more e-commerce platforms in China this year. Its luxury beauty brand Helena Rubinstein and skincare brand Biotherm will also launch their official stores on JD.

According to Stephane Rinderknech, CEO of L'Oreal China, the company has already taken the lion's share of China's online cosmetics sales. They have already spent more on online channels for distribution and marketing over the past few years. The target is to make all its digital campaigns more precise in the future.

"We do not do digital for the sake of digital, but rather to stay in line with consumers' demand," he said.

While the exact turnover number for China has not been disclosed, Rinderknech said that they managed to attain double-digit growth in the country last year. Meanwhile, China remained the second largest market for L'Oreal group, just below the United States.

With a research and development center established in Shanghai 13 years ago, the largest of its kind in Asia-Pacific, L'Oreal China has sped up to meet the demands of local consumers, introducing at least one new product to the domestic market per day last year.

According to Rinderknech, it is the "new golden era" for the beauty industry in China given the consumption upgrade, ongoing urbanization and the rise of the middle class.

While cosmetics brands from Japan and South Korea are booming in China, Rinderknech said that L'Oreal is not intimidated by the possible competition. On the contrary, he showed a welcoming attitude by saying that it will give more choices to consumers. The plethora of choices in the market is also in line with the improvements in consumption.

"I am excited about China's growth potential. The market here is not saturated but rather at its very beginning days," he said.

#### **d) Dolce & Gabbana**

Founded in 1985 and based in Milan, Italy, Dolce & Gabbana sells apparel, shoes, watches and other products.

The founders of Dolce & Gabbana have apologized in a video on Chinese social media after promotional videos seen as racist and subsequent Instagram messages stoked a furor in one of the world's largest markets for luxury goods.

The Italian fashion house has been in hot water for the videos and also insulting remarks made by the Instagram accounts of both the company and co-founder Stefano Gabbana. It blamed hackers.

The three promotional videos, which have been deleted from the company's Weibo account, feature a Chinese woman using chopsticks to eat pizza, spaghetti and meatballs, and other Italian food. Many Chinese social media users called the videos racist and full of outdated stereotypes.

Gabbana and Domenico Dolce appeared in a video posted on Chinese social media saying they hope to be forgiven and will do their best to better understand and respect Chinese culture.

"Our families have always taught us to respect the various cultures in all the world, and this is why we want to ask for your forgiveness if we have made mistakes in interpreting yours," the fashion designers said, speaking in Italian. "We also want to apologize to all

of the many Chinese people throughout the world.... We have always been in love with China." They finish by saying "sorry" in Chinese.<sup>viii</sup>

## Chapter 4

### Tactics & Strategies for Success

The following tactics and strategies are presented as general guideposts for Western executives who are entering or expanding their business in China. They should be considered as they move along the track to develop their long term and comprehensive strategies throughout the country. I am presenting these in alphabetical order for ease of reference.

#### **Aesthetics – Do Your Homework**

Aesthetics in international markets present a spectrum of challenges if you don't do your homework and the case of China is no different. Color in itself could be important – for example, the recent experience of a Canadian firm in Calgary offering a Chinese visitor a Green Stetson hat is a case in point. Wearing a green hat in China signifies that the individual's partner has been unfaithful! Another example is white, which signifies death, not unlike how in Canada we think of black for mourning and funerals<sup>ix</sup>

#### **Business 24/7**

In the Western world, we value our own personal time. However, this is quite different in China where the adage that life is business is very true. People talk about business 24 hours a day. A person's social life revolves around business continuously whether as an employee or business owner. The Chinese enjoy business banquets and personal dinners and lunches. Even karaoke, a favorite pursuit, is usually related to business. In fact, many of these activities are done outside of normal business hours, occupying a person's evenings and weekends.

Sometimes it looks like they enjoy hanging out with the boss and colleagues after "work hours". However, there is an unspoken obligation and it is part and parcel of the job, regardless of what kind of work.

#### **Communications<sup>iv</sup>**

In China, western executives can earn respect and attract attention by showing that they are making an effort to learn Mandarin. It creates a bond that is definitely helpful to the relationship and will be referred to again and again by your Chinese counterparts.

On the other hand, failing to do one's homework on the language file can result in big mistakes which can be costly, time consuming and embarrassing as even multinationals have experienced. Kentucky Fried Chicken's first attempt at the "Finger licking good" slogan came out as "Eat your fingers off "in China.

Many western firms now understand the need to do "back to back" translations in Mandarin to get it right. Language can be hugely important on packaging, in promotional campaigns, on product assembly instructions and in presentations and requires a careful approach drawing on a variety of sources.

Unless you speak Chinese, (Mandarin being the most common as well as the official dialect), it can be difficult to do business in many parts of China without the aid of a translator/interpreter (simultaneous interpretation is required which necessitates a high skill level, higher cost but best money spent)

English language levels are very patchy and although a layer of fluent English speakers exists, the layer is quite thin and levels fall away very quickly. Communicating in China can, therefore, be a slow, laborious activity and fraught with constant dangers in terms of misunderstanding and mistranslation. Don't assume comprehension. Cover the same ground several times and constantly check for understanding.

One of the reasons that communication can be such a problem in China is that along with many other Asians, the Chinese find it extremely difficult to say 'no'. Saying 'no' causes both embarrassment and loss of face and it is therefore better to agree with things in a less than direct manner. Thus, anything other than an unequivocal yes probably means no. Be very wary of phrases such as 'Yes but it might be difficult' and 'Yes, probably'.

(also, pay attention to the use of silence – it doesn't necessarily mean agreement. It often signifies something else, or no, as it is hard to say no. Another communication sound to pay attention to is "sucking of teeth", this is indicating not sure or hesitation, or disagreement)<sup>x</sup>

It is also difficult to deliver bad news and this is often done through the use of an intermediary who can soften the blow and try to preserve as much good-will within the relationship as possible.

The Chinese have a reputation for being impassive and this is largely based on Western misinterpretation of Chinese body language. As with the Japanese, the Chinese use a very limited amount of visual body language and Westerners interpret this rigidity as a lack of responsiveness and emotion. Lack of overt body language does not mean that the Chinese do not show their reactions - more that westerners are not skilled at reading it across the cultural divide. Chinese culture frowns on overt displays of positive or negative emotion and especially losing one's cool in front of a crowd.

The communications challenge extends beyond the language issue. English is low context and direct featuring the preciseness of individual words. English speakers value directness and transparency and prioritize speaking rather than listening.

Chinese, on the other hand is high context and indirect. For the Chinese, meanings are based on social context, and are not explicit.

Westerners should also understand that it is exceedingly challenging to translate contracts. Your counterparts are not necessarily being vague, they assume that you know what they are trying to tell you between the lines. Westerners are advised to ask lots of questions - in person over dinner or in a casual scenario. Do not assume comprehension. It is often useful to go over the same point several times from different angles in order to aid comprehension.

Westerners should draw on employees with China market background and expertise. They should also be very careful regarding the selection of a Chinese translator and draw on more than one translator to do reverse translations.

## **Contracts**

Do not assume that your Chinese business partner will adhere to the signed contract. In fact, they consider the contract to be a stage in the negotiations and will continue to renegotiate a signed contract or disregard it all together. They do not have the same legal interpretation of contracts that we do. Basically, the rule of law is on paper in the Chinese society but not necessarily applied in practice. There is a huge difference between the concept of rule of law in Hong Kong versus in mainland China.

## **Decisions**

It is common to be involved in a series of meetings rather than one big meeting at which all major issues are disclosed and assessed. Meetings are about building relationships and exchanging information - it is rare for a decision to be made within the meeting. Decisions will be made elsewhere in consensus-style discussions, which involve all the relevant people (including possibly the Party.)

As a result of this approach to meetings and their serial nature, patience is very definitely a virtue. Impatience will achieve nothing other than delaying things even more. Notice as well that most in the meeting will not ask questions or otherwise challenge the status quo. There is a pecking order that trumps personal expression.

## **Dress**

One of the most visible changes to the human landscape of China over the past few decades has been the change in dress code.

Gone is the standard unisex Mao jacket and trousers in blue or green and these have been replaced by a much more western style of dress - especially in the commercial and urban areas. Many men now wear suits and ties and women tend to wear skirts and blouses of a modest cut. It is advisable to have smart business attire with you when visiting.

Appearance is important within Chinese business circles. Successful people are expected to look successful. Wealth is admired, so wear good quality clothes, watches etc. if you want to impress - but don't be overly ostentatious. Don't be surprised if a Chinese counterpart asks you how much something that you are wearing or carrying costs. It is quite common to ask about costs and brands and where you may have bought something<sup>xi</sup>.

### **Entertaining/ “Qingke”**

Entertaining is very important in the relationship building process. If entertaining, do it well. If being entertained at a banquet, take your lead from your hosts – they will enjoy talking you through the process. Pay attention to who invites, as they are expected to pay for the dinner, Karaoke, or whatever. Similarly, if you invite, you are expected to pay the whole bill. Also, you will be expected to return the favor of ‘treating’ if you accept their invitation. If you want to give a message about business, saying no to an invite is better than accepting the so called ‘free’ dinner...nothing in China is ever free...there are strings attached and social/unspoken obligations.

### **Gift Giving**

Gift giving is an everyday part of Chinese business culture. Giving and receiving gifts helps to cement relationships. Take gifts with you when visiting and put some thought and effort into the gift selection process. The advice of a Chinese friend or colleague is invaluable in doing this properly. (don't feel you have to spend large amount of money on your guests or hosts or whoever, as the gift giving is more about the act than the actual gift.) They have a term for this, “yisi yisi”, which means it is more about the meaning of the action than the gift itself.

Always wrap gifts before presenting them. Gifts are rarely opened in front of the giver. The Chinese are fond of dark red, gold or blue, which are all appropriate colors for gift wrapping. Avoid clocks and scissors or other sharp items such as knives or letter openers, all of which have negative associations in China. Avoid wrapping gifts in white or black, which are colors associated with funerals

Although there is a large amount of well-documented corruption which takes place within the Chinese business environment, the giving of gifts is endemic to Chinese culture and has been for thousands of years. The giving and receiving of gifts is part of the ritual of business relationship development - and in a country where relations are placed firmly before business, gifts are therefore an important business tool.

If you are receiving something that looks too good to be true and is considered a huge gift, then know that it might have major strings attached and could be venturing into bribery. By the way, bribery, is not as frowned upon in China as it is here ... back to the rule of law ... the polite way to deal with it is to decline. If you meet folks who work at the Canadian Embassy in Beijing or any of the consulates, you will learn that they have a

VERY strict policy of gifts. Basically, nothing is received. They MUST as matter of policy say no to any and all gifts, etc. This is because the meaning of accepting has a stronger consequence in Chinese culture than in ours, it isn't just a luncheon or a scarf, it means a lot more ... if in doubt, politely decline or ask your experienced colleague who is Chinese or has lived in China for a long time<sup>xii</sup>

### **Greetings and Business Cards**

Westerners should address their counterparts by their titles and in order of seniority. Say your name clearly. State both your company and your position. Know that Chinese will refer to their company first, then their title, and then their name.

Hand out business cards to the most senior official first. Use both hands to give and to receive. Take a moment to look at and acknowledge the individual's card. Don't just stuff it in your wallet or pocket, actively read it and respond to it. Have your own cards translated into Chinese on one side. Your title is important, as it determines meeting invitations, authority and seating arrangements.

Have a Chinese name, ideally one with meaning rather than a transliteration to show respect. The best approach is to have a local contact or native speaker help create one for you.

### **Human Resources**

Don't depend unduly on a few HQ employees to solve all your China problems. Work on developing successors for each leadership position; spend some money to foster employee links with HQ.

Develop strong corporate culture in China operations that reflects parent culture but modified as necessary to China. Keeping staff is tough – local management needs to focus on this.

### **Meetings<sup>iii</sup>**

In general, meetings in China follow the same format as those in the West although with a bit more ritual. The Chinese value punctuality so arrive on time or even slightly early for meetings or other occasions. Check the Chinese calendar and avoid all national holidays,

especially Chinese New Year. The October 1 National Day and other smaller holidays also affect businesses.

Communicate to your hosts in advance of specific requirements such as projector and screen. They often do not have the in-house capacity to set up the technology on the spot.

Know the language capabilities of your hosts beforehand. Have your own interpretation if your hosts have little English/French capability. I can't stress this enough. And when you do hire a professional translator/interpreter, spend time with him/her prior to the meeting so that they can be properly briefed on your side and what you are doing and what you require of them. They might have words to look up before the meeting, etc.

Have a detailed proposition of the value of your company and product. Have Chinese-language materials to share with your hosts.

Chinese businesses often meet with numerous foreign businesses seeking to establish relationships. You need to capture their attention at the first meeting to secure follow-up

The host will take the lead, and you will likely have a name card or designated seat based on your role in your company.

A formal meeting will start with the senior member of the hosting party introducing himself/herself and colleagues, then stating his/her position on the matter in question. The leading member of your party should then do the same.

Subordinate members of the Chinese party will not usually speak unless asked to do so by the most senior person; your observance of the same protocol will have the advantage of conveying who is in authority and who may have special expertise.

It can take several, very long meetings before any tangible progress is made. Patience is essential if you wish to capitalize on the situation.

It is common to be involved in a series of meetings rather than one big meeting at which all major issues are disclosed and assessed. Meetings are about building relationships and exchanging information - it is rare for a decision to be made within the meeting. Decisions will be made elsewhere in consensus-style discussions, which involve all the relevant people (including possibly the Party.)

## **Negotiating**

Negotiating in China is an art and skill that needs to be developed as you move along. Having a trusted and experienced interpreter at your side is of course very important but westerners need to respect certain customs and rituals while at the same time not losing sight of how much they are adapting and conceding.

It may be difficult to determine who the decision makers are and the Western team will also generally be substantially outnumbered. The head of the Western team should have considerable authority to make decisions without (openly) reverting to headquarters. The approach should be to match the Chinese seniority in terms of lead negotiator but do not exceed it.

In many instances, final decisions may be made by people absent from the negotiations. Accordingly, it is wise to always hold back some concession for that “final” squeeze. As a general rule, Westerners should not negotiate alone if you can avoid it. It is important to have someone who can take over when the lead negotiator needs a break and someone who can observe the reactions of the Chinese side.

A Westerner’s approach should be to never assume and to verify everything. For every concession, even a minor one, he or she should extract a counter concession. Further, there should not be a rush to resolve specific issues problems as they are raised by the Chinese side as it merely increases the pressure for more concessions.

One of the challenges for Westerners in negotiations is to get comfortable with waiting and silence. Research shows that after 13 seconds of silence, Westerners will have a tendency to break the silence and they often do this with a concession.

The Chinese are very interested in long-term commitment. Build long-term goals and objectives into your proposals. China is a long-term projection focused culture, they do care and work towards the long run.

Westerners are best to remain courteous and patient as delays may be intended simply to wear them down. Above all, the Westerner should always be able to “walk away” from the deal. Try and be poker faced as much as possible, they will be and so try and match them.

### **Partner or Agent Selection**

Western firms have many options in terms of a collaborator to help navigate the cultural issues in the China market. Of course, a lot will depend on the company’s size, stage of market development and how much is at stake. Hong Kong is also a great place to find one, especially if you need to visit factories and check on quality etc. There are individuals and companies available at trade fairs in Hong Kong.

Larger companies with a strategic plan to China, may be in a position to hire professional consulting firms (Western or Chinese) to assist in all aspects of the business culture preparation and ongoing interaction. Smaller firms with little experience often hire individuals with both western and Chinese experience as a key step.

The importance of having an effective on the ground support player in China is aptly reflected in the experience of TTPCom, a Cambridgeshire, UK based supplier of wireless intellectual property (IP) to semiconductor and handset manufacturers. The company had a presence in China for a number of years, but when they wanted to set up their own operation, some specialist advice was needed.

The company drew on the services of China Business Solutions, headed up by Ting Zang, who had been educated and brought up in both China and the UK and, as well as being extremely well connected. According to Sales and Marketing Director Richard Fry, “Shortly after we opened the offices, we decided it would be a good idea to run training courses on how to relate to the Chinese, both as staff and customers.

It was always our intention that most of the employees in China should be local, but a whole range of UK based staff, including support engineers, members of the sales team, HR and accounts would all need to understand and interact with the Chinese way of doing things.” “In the end, over fifty of our UK employees went on culture and business practice workshops run by Ting Zhang and they proved valuable. Subtle things, such as knowing that the Chinese will never disagree to your face so as to save you embarrassment, proved of huge benefit when it came to understanding the negotiating process.”

### **Relationships/Guanxi**

China is a relationship market and Western firms need to work hard at developing effective relationships and Guanxi (web of individual relationships in which friends do favors for one another.)

These relationships need to be continuously refreshed and developed, maintained and fed ... For example, when a contact leaves a supplier/customer, your relationship with the firm evaporates until you develop from scratch a relationship with the successor. There is a saying that Chinese only do business with friends; business occupies a great deal of time and hence one only has time to be friends with business associates.

Foreigners can develop these relationships but need to be particularly diligent about keeping them current. Focus on providing friends with some benefit (source of info, perspective on an industry, entertaining venue) the Chinese cannot obtain from other friends. Of course, a westerner needs to be mindful of how far to go with offering benefits and the guidelines of his firm’s ethical policies.

### **Research the Cultural Factors**

According to James Wang of Algonquin College, one can take things into his or her own hands and research available cultural info on the web as a first step. There is a plethora of info on guides on etiquette which can sensitize Westerners to the scenarios that they are likely to face. With more and more info readily available, Westerners can also avail

themselves of a starter base of key phrases in Mandarin or Cantonese which can be well worth the investment. In addition to web-based info, westerners should draw on government and private sector trade facilitation groups to obtain references to China business culture experts.

Westerners should keep in mind that there is a considerable degree of cultural diversity within China and that a lot will depend on the exposure and experiences of your counterpart.

## **Saving Face**

If you master the Art of Face, and pay attention to the behavior of your Chinese counterparts, you are enhancing your chances of smooth progress in communications and transactions. Here are his tips for Westerners related to face that should be of focus:

- Seek out and acknowledge opportunities to give Face to your Chinese colleagues and partners. Do this by ensuring that they feel respected and appreciated, particularly in public.
- Always be polite and courteous regardless of the situation.
- Speak softly, avoid raising your voice or being loud. Being loud is a sign of disrespect in China. (but many are loud, and it is a way of showing off ... especially in a public space such as an elevator, etc. Also, a sign of more less educated or a less refined up bringing)<sup>xiii</sup>
- Downplay any superiority or status you may have and allow your Chinese counterparts to feel important. (accept a compliment by downplaying it or lightly disagreeing ... it is fake, but that is how it works.) For example, someone compliments you on your (horrible) Chinese, saying, "Oh, your Chinese is so good!". You say, "oh, not really, not as good as your English". As you get more comfortable, you can say in Chinese, "Nali, Nali", which means, 'where, not here, not me'. It is a polite way of diverting the compliment away from yourself. Another one is if someone compliments your coat or purse or such, you can say, "Oh, not very nice, it's ok".
- Be as thoughtful, respectful and considerate as possible, as this brings them Face in the eyes of others.
- Never decline an offer from a Chinese person in front of others. Always manage the offer in a way that enables you to discuss the offer in a more private setting.

## **Strategies**

International companies fail when they assume their strategies, processes and tactics can be imposed in China. They eventually realize that their business operating procedures cannot instantly overwrite 4000 years of history. They do not drop their standards and policies, but learn how they need to be modified.

## Chapter 5

### Getting Help When & Where You Need It

Navigating Chinese business culture is a constant learning process and one where surprises and faux pas occur, regardless of how well versed and prepared you may be on the cultural file.

MIRA services ([www.miraservices.ca](http://www.miraservices.ca)) can help provide important guidance to the learning curve and the support you need when issues arise through the provision of the following services:

- Research and analysis of your business opportunity in China with strategic recommendations on how to best proceed
- A critique of your business plan including from the business culture point of view
- Recommended cultural tactics and strategies tailored to your current situation
- References to a network of experts who can address specific issues related to culture, including marketing, negotiations, human resource management and much more

## Notes

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- <sup>i</sup> Karen Patterson, X Cultural Consulting Inc.
  - <sup>ii</sup> <https://www.worldbank.org/en/country/china/overview>
  - <sup>iii</sup> Business Etiquette in China, [www.tradecommissioner.ca.gc](http://www.tradecommissioner.ca.gc)
  - <sup>iv</sup> Warburton Keith, Doing Business with China, [globalbusinessculture.com](http://globalbusinessculture.com), 2017
  - <sup>v</sup> Wang, Helen H, Five Things Starbucks Did to Get China Right, Forbes, Aug 10, 2012
  - <sup>vi</sup> James Wang, Manager International Partnerships Algonquin College, interviewed by Marvin Hough Sept 13, 2018
  - <sup>vii</sup> Jing Shi, L'Oreal China to focus more on e-business, [Chinadaily.com.cn](http://Chinadaily.com.cn) Feb 28, 2018
  - <sup>viii</sup> Why Dolce & Gabbana's China blunder could be a disaster, CNN Nov 24, 2018
  - <sup>ix</sup> Karen Patterson, X Cultural Consulting Inc.
  - <sup>x</sup> Karen Patterson, X Cultural Consulting Inc.
  - <sup>xi</sup> Karen Patterson, X Cultural Consulting Inc
  - <sup>xii</sup> Karen Patterson, X Cultural Consulting Inc.
  - <sup>xiii</sup> Karen Patterson, X Cultural Consulting Inc

MIRA would like to acknowledge the significant contribution of Karen Patterson of X Cultural Consulting Inc to the development of this guide.

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