



KNOW CHINA **BUSINESS**

***The Insider's Guide
To Doing Business
Successfully In China***

Joshua Campbell
Matthew Jones

KNOW CHINA BUSINESS

The Insider's Guide To Doing Business Successfully In China

Joshua Campbell
Matthew Jones

All rights reserved. No part of this book may be used or reproduced in any manner whatsoever without written permission, except in the case of brief quotations embodied in critical articles or reviews.

For information:

Know China Business
6F., No. 378 Chang-Chun Rd.,
Taipei, Taiwan 10487
www.knowchinabusiness.com
jjcampbell41@gmail.com

Text Copyright © 2007 Know China Business

This publication provides the authors' opinions in regards to the subject matter contained within. The authors do not intend in any way to render legal advice. The authors disclaim any and all personal liability incurred as a consequence of the use of this publication.

Royalty-free photography on cover courtesy of istockphoto.com.
Cover and text design by Kristof Creative: www.kristofcreative.com
Display type and page headings set in Helvetica Neue 97 Black
Condensed. Text set in 12 pt. Goudy Old Style BT.

Author: Joshua Campbell

Joshua Campbell focuses in this ebook on Chinese historical and philosophical influences that greatly impact on business dealings, as well as specific cultural traits that one must be aware of in order to operate successfully in the “Middle Kingdom.” Josh also emphasizes the importance of “knowing yourself,” as well as detailing the problems that many expatriates working in China encounter. His perspective comes from working for multinational public relations and advertising agencies in both client service and strategic planning roles. He has dealt extensively with the politics that pervade multinational businesses operating in China. Josh’s day-to-day work has involved meeting with multinational clients from a variety of industries, doing extensive research through media analysis, conducting interviews and focus groups in order to gain Chinese consumer insights, developing marketing strategies, writing new business proposals and pitching them to clients.

Joshua Campbell has been fascinated by China since he was a small child, beginning when his parents took him to China Town in San Francisco and New York. He began studying Mandarin in high school and was an East Asian Languages and Civilizations major at the University of Chicago, with a focus on China. He received a full scholarship and stipend to attend National Taiwan Normal University, where he studied Mandarin for a year. Josh has worked his way up through the ranks of several multinational public relations and advertising agencies, servicing clients from a wide variety of industries.



Author: Matthew “Jon” Jones

Jon has spent more than a decade doing business in Asia completely immersed in interpersonal cultural interactions with Chinese people. In this ebook he focuses on useful practical tips and specific key knowledge required for successful business, particularly in direct day-to-day dealings in China. Jon has primarily worked in sales and marketing, business consulting and relationship management with Chinese people. Therefore, he has a thorough understanding of the “must-know” fundamentals of effective social interactions with Chinese people, ranging from the most basic principles to the critical elements for positive maneuvering in Chinese culture.

Matthew “Jon” Jones is an Asian banking and finance specialist who currently acts as managing director of his own registered financial advisory firm. He works on developing business relationships and international networks throughout Taiwan and China.

Jon was educated at the University of Hawaii and attended law school at Louisiana State University. He also graduated from Nanjing University in China where he was able to master reading, writing and fluent speaking in Mandarin Chinese. Recently, Jon has been engaged in investment banking and finance projects in Asia with a focus on the Chinese and Taiwanese markets.

Jon has completed mergers, financings and public listings with many small and mid-sized Chinese corporations and has successfully negotiated lucrative and long-standing cooperative joint-ventures with large securities and investment consulting companies as well. Jon’s specialty is effective cross culture leadership and precise communication with multinational groups particularly in corporate finance, securities brokerage, marketing and business consulting areas. Jon has also held NASD series 7, 63 securities licenses in the past.



Know China Business

Know Yourself	1
Philosophical Influences on Concept of the Self	4
Philosophical Influences – The Way	7
Agrarian Collectivism versus Individualism	11
Surface Harmony versus Speaking your Mind	14
Wariness of Foreigners	23
The Concept of Face	28
Guanxi	35
Loyalty: Advantages and Dangers of Office Guanxi	40
Socializing	48
Negotiations – The Importance of Intermediaries	56
The Value of Endurance and the Negotiation	59
Haggling	70
The Chinese Way and Other Negotiation Tactics	73
Post-Negotiation Phase	75
Localization and the Expatriate’s Role in an Organization	83
Why so many MNCs in China Fail	87
Conclusions	93
Bibliography	97

“We have shown respect to our Chinese business partners. But it is also important not to change yourself. You cannot be a Chinese. You were not born as a Chinese and you cannot behave as a Chinese.”

— Dr. Michael Portoff, Chairman, Bayer (China) Limited
(The New Silk Road, p.49)

INTRODUCTION

Many books written for Westerners on doing business in China balance precariously between advising a total indoctrination in Chinese culture, to the point of changing one's own personality, or assuring us that just simply maintaining good business sense learned in the West will be enough for success. Examination of the implications of these two divergent modes of thinking is needed. Recent studies suggest that there is a high burnout rate among foreigners working in China. In fact, in China, the failure rate of senior expatriates with twenty years of experience in their home countries is twice the global average. (*The New Silk Road*, p.17) Some reevaluation of what it takes to be successful in the "Middle Kingdom" is therefore necessary.

China is a very ethnocentric society. This is due in part to its 5,000 year history, where it was often at the forefront of global civilization. Foreigners are expected to do everything in the "Chinese way." This expectation extends to everything from simple social exchanges to the justification by Chinese managers, even of multinational companies (MNCs), for why best global business practices are inapplicable in the Middle Kingdom. Many Chinese, even those educated in the West or working for global companies, honestly believe that China is a completely unique market where all the learning and business experience an expatriate brings to the table are useless. China in many respects is unlike any other place in the world; however, mindless adherence to doing things in the Chinese way is often not the best advice.

It is absolutely true that the expatriate must maintain good business sense at all times and utilize best global practices. However, the desire to abide by China's cultural norms is understandable for many reasons. At the end of the day, the expatriate is doing business in China. It is the Chinese people's home country, so of course one must conform to "house rules." Thus, at the bare minimum an extremely strong understanding of the culture is necessary. But that is not to say that global business practices or one's professional learning cannot be effectively utilized when playing by the "house rules." In Taoism, a belief system that is still very prevalent in Chinese society, opposite modes of thinking are believed to be simultaneously true and one must

find the correct balance or compromise; translated from the Tao as “the way.” Learning to balance a strong understanding of Chinese culture with Western business practices is of utmost importance to being successful in China.

Speaking fluent Chinese is truly a key skill for the successful expatriate. Westerners working in China acknowledge that knowing the language is important and realize that it would improve their business operations; however, many still do not bother to learn. According to a recent survey, 77 percent of Australian executives operating in China responded that knowing Chinese was of medium to great importance, although only 3 percent could speak the language (*Negotiating China*, p. 63). Given that Australians are among the most numerous Westerners working in China, this truly is a startling statistic and unfortunately it cannot be said that expatriates from other countries are any more fluent in Chinese. Kent Watson, chairman and country senior partner for PricewaterhouseCoopers China Limited, who previously had experience as a Mormon missionary in Taiwan, was quoted as saying that “...the ability to speak Mandarin is a key success factor. He does not believe that expatriates can be effective in developing the right relationships unless they can relate to Chinese staff in their own language.” (*The New Silk Road*, p.89)

Without speaking fluent Chinese one may be missing more than half of what is going on within one’s own business or in a negotiation. Watson went on to say: “I recall a debate years ago at college between two professors, one of whom understood the Chinese language very well, while the other had no foreign language skills. They were walking through a bookstore when one commented to the other, ‘Look, to prove my point, there’s *The Dream of the Red Chamber* in English. So why do I have to get a Ph.D. in the Chinese language just to read it? It’s there.’ His Chinese-speaking colleague replied, ‘That’s true, but the English version of *The Dream of the Red Chamber* includes only about 40 percent of the novel.’ It’s the same with language in a factory. You can get by using English, but you may be missing 60 percent of what is going on. And that can’t help but have an impact on productivity and the bottom line.” (*The New Silk Road*, p.122)

Westerners with fluent Chinese gain instant credibility with Chinese colleagues above and beyond having successfully operated for years in a Western country, or having an MBA from an Ivy League school. The Chinese recognize their own language as being extremely difficult to learn; thus the Westerner who has mastered their language must be intelligent in their view. Additionally, Chinese people respect the Westerner who has actually gone to the extreme trouble of learning their difficult language, and they view it as a show of esteem for their culture. If Chinese feel that it is vital for expatriates to speak fluent Chinese in order to be successful in their country, what other criteria are necessary?

Admittedly, for the foreign executive who is going to China to negotiate a business deal the personal need for fluent Chinese is greatly diminished and impractical. This is particularly true for busy CEOs. However, the need for having a trusted, high ranking team member who is fluent in Chinese is essential, and personal possession of a high degree of understanding of the Chinese culture remains just as vital. It can mean the difference between success and failure. Maintaining your good business sense, however, is just as key to the success of any business deal. While you are operating by the “house rules” and respect the need to demonstrate understanding for Chinese culture, the belief that all things must be done in a Chinese way is a fallacy.

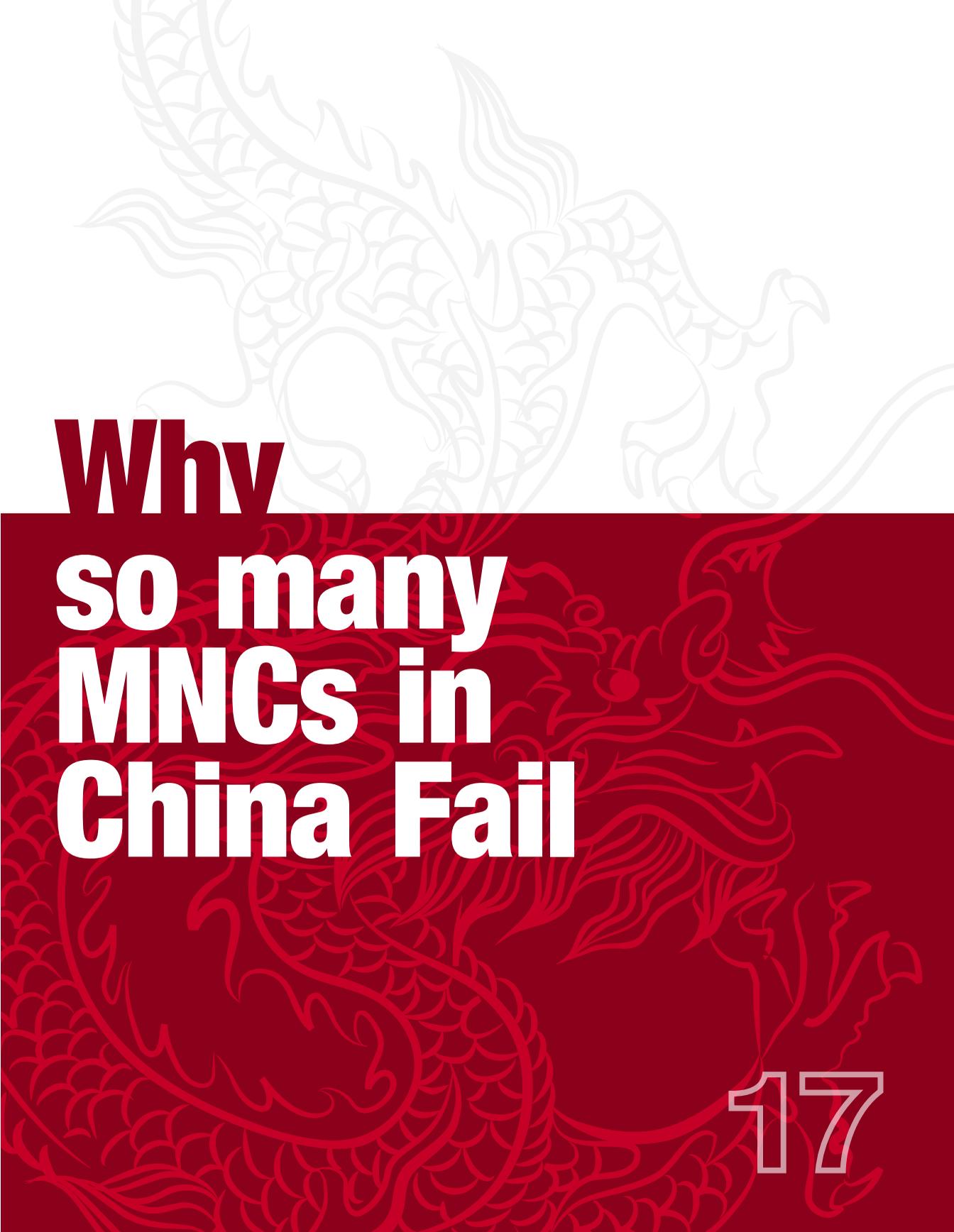
I am not arguing that an expatriate cannot be successful in China without Chinese language skills. However, given the previously cited extremely high failure rate of expatriates operating in China, some reevaluation of the root causes is necessary. I believe that a primary reason is a lack of language skills and/or cultural understanding. Other books for Westerners on how to successfully conduct business in China emphasize the importance of having a trusted translator, utilizing an overseas Chinese as a bridge, or having a “trusted lieutenant,” who is a native Chinese. While these might be good temporary solutions, they are not viable over the long-term. This ebook will not endeavor to teach the reader how to speak fluent Mandarin, but it will focus on the other key for success among expatriates in China: Chinese cultural understanding.

Sun-Tzu, the preeminent military commander from Chinese history said:

*“He who knows the enemy and himself
Will never in a hundred battles be at risk;
He who does not know the enemy but knows himself
Will sometimes win and sometimes lose;
He who knows neither the enemy nor himself
Will be at risk in every battle.”*

— Sun-Tzu, *The Art of Warfare*, p.113

This is not to say that I advise an adversarial, war-like relationship to develop with Chinese business partners. Quite the contrary. However, since Sun-Tzu’s book on warfare continues to be widely read by businesspeople in China, its central maxims remain essential for the Westerner conducting business there to understand. The keys to success in China are to know yourself, know the language and know the culture.



Why so many MNCs in China Fail

Why So Many MNCs in China Fail



China is considered by many to be the most competitive market in the world. All of the largest MNCs from every country are in China competing hard for a share of the vast potential market. As Bruno Lemagne, President, Unilever China Group stated, “Today in Europe, you have European, some American, and a few Japanese competitors. In Japan, you have Japanese, some American, and a few European competitors. In the United States, you have American, some European, and a few Japanese competitors. But in China everyone is here. The competitive pressure will not go away. Competition will stay. It does not frighten us. However, it doesn’t make life easy.” (*The New Silk Road*, p.7). This field of international competitors also includes many strong local Chinese brands that have become stronger and stronger in recent years. Many experts believe that these companies are in a better position to serve the needs of local Chinese consumers than their international competitors.

Foreign companies are drawn to China due to the vast size of the market, potential for outsourcing production and the prospect of selling products to 1.3 billion consumers. But one of the most common mistakes made by multinational companies is that the Middle Kingdom is viewed as being a single market when, in fact, in terms of language, culture, geography and economy, it is as diverse as Europe. Each province is extremely different from the next, even those separated by just a few hours drive, including each speaking a different Chinese “dialect.” The term dialect is used in China, but as a Mandarin speaker, I can attest to the fact that dialects are actually entirely different languages, where having knowledge of one will be almost useless in deciphering another. People in all provinces will by-in-large still be able to speak Mandarin, but the language they will be most comfortable communicating in, on the street or in business situations, will be the local dialect. For the foreigner, however, speaking Mandarin will be entirely sufficient.

Given the widely varying purchasing power of people in different provinces throughout China, the idea of it being possible to sell products to 1.3 billion consumers is also a myth that has caused a great deal of confusion for many companies. The standard of living and purchasing power of people living along the eastern coast of China (Fujian province, Guangdong province, Zhejiang province, Jiangsu province and areas around Shanghai) is significantly greater than in other areas, particularly since these areas were made the priority of former leader Deng Xiao-ping when he opened them up to trade with the outside world for the first time in 1979. These vast disparities still exist and rectifying this situation is one of the primary objectives of the current President of China, Hu Jin-tao.

In addition to poor understanding of the economic topography of China, many foreign companies' troubles begin from the very outset due to poor on-the-ground research into the state of their targeted industry. The Middle Kingdom is notoriously opaque with regards to accurate, up to date industry information, so many companies enter the market blind. Accurate information on China can best be gleaned from first hand experience, including personally making multiple trips to the targeted province or provinces. Many MNCs have been rightly criticized for relying exclusively on field reports written by others rather than having their top executives go out to see the market firsthand. A large number of managing directors or general managers claim that they don't have the time to see the market personally and see themselves as being above such grunt work, which is not only arrogant, but a huge mistake. There is no better way to gain a proper grasp of the areas of the China market in which they are active than to evaluate them firsthand.

There are a variety of international market research firms that have been established in China, but results have been mixed. Identifying an experienced research firm with high level researchers that clearly understand local consumers is a great challenge. It is particularly difficult to ensure that these high quality researchers will be the ones directly involved in the research you are paying for. Just because they are the people that you meet with initially does not mean that they will roll up their sleeves and get involved, so ask plenty of questions to

ensure the direct participation of their senior level analysts. Likewise, if you decide to employ a market research firm, you should also get directly involved with the field work, focus group interviews, etc. even if you need a translator. You know your own business better than any market researcher ever could. So, with the help of a translator, something that you hear a local consumer say might prove to be absolutely essential to understanding the market. Yet it may have been considered unimportant by the market researcher.

Just like in any other market, one must also be careful that data is not misinterpreted by the research firm, resulting in a good idea getting killed. When I worked in advertising, my client, an international beverage company, hired a market research firm to test a slogan that we had devised. The wording in Mandarin was somewhat controversial because it had a slight sexual connotation that the market research firm determined was offensive. We had to press the market research firm a great deal in order to determine exactly what demographic, and in what numbers, was actually offended by the wording. The most senior member of the market research firm had to become directly involved; he finally backtracked on the findings of his more junior associates and determined that the numbers were very small and that the offended people were all over 50 years old, when our client was targeting teens and young adults. In the end, the client determined that statistically the number of offended people was insignificant, they were not the target consumers, and that it was their worldwide practice to utilize edgy language, so the campaign went forward, with no local consumer complaints, to my knowledge.

Given that misunderstanding the market due to information scarcity is one of the most common reasons for MNC failures in China, unconventional information gathering methods can be used to good effect. This includes relying on your guanxi network to determine who the key executives working for competitors are and treating them to a drink or dinner. The results of such fact finding missions can be quite rewarding and give you a much better idea of what the true market situation is. You will at least get the benefit of another expert perspective. This may sound unethical to some, but in China it is simply the way things work. Another method would be to find out

who the senior reporters are covering the industry you are involved in and utilize the same method of treating them to dinner and / or drinks, for the purpose of extracting as much information as possible. Many reporters or competing executives would actually be flattered that you are coming to them, showing them respect and treating them like experts.

Aside from excessive competition, misjudging the market initially, and not doing enough research before entering China, another frequently cited reason for MNCs failing in the Middle Kingdom is poor communications between foreign managers and local staff. Non-Chinese speaking foreign executives often don't learn even the basic skills necessary to effectively communicate with their staff, including understanding the culture, speaking slowly when necessary to staff with limited English skills, or avoiding slang and colloquialisms. Others who do speak slowly for their staff do so in an overly patronizing way.

On the other hand, communication problems are a two way street. They are also caused by local staff who, due to face issues, often won't admit to not understanding instructions in English, or don't own up to having made a mistake. As has previously been mentioned, Chinese people verbally communicate things in the affirmative, meaning that they have heard, but this doesn't always mean that they agree or will perform the task, which is also a frequently cited frustration for foreign managers. Local staff, on the other hand, often complain that their foreign bosses don't have a clear understanding of them, don't know what issues they have and don't provide an adequate career path for them. A common issue is that Western bosses only give orders and are not available for communication of problems and questions from the local staff.

Arrogance on the part of Westerners is another factor in the failure of MNCs operating in China. The foreign bosses come to China with an egotistical attitude, that they have come to a developing country and are there to save the day by teaching their backward staff how to be professional, without considering that they themselves have a lot to learn from their local staff. Many foreign managers just don't give their local staff enough respect and, as per the previously cited Intel

manager's quote, assume that Chinese are not strategic thinkers. They commonly repeat phrases like "the way we get things done in the U.S. or Europe is like this." This quote and others of a similar nature are loathed by local Chinese workers. There are numerous better ways to express the same idea without beating staff over the head with phrases that are patronizing. The disrespect is also not just limited to the staff themselves, but also shows itself in the disregard many have for China's 5,000 year history and the incredible amount of progress that the Middle Kingdom has made in its modern history.

One of the final reasons why MNCs fail in China is due to constant changes in foreign management. Management consistency is truly key. However, MNCs are often revolving doors for foreign managers, particularly when financial losses happen and the head office decides to cut-back on all expatriates suddenly. This lack of consistency in management causes local staff a lot of undue stress since they have to retrain their new foreign manager, when ostensibly, it is supposed to be the foreign boss who is training local staff.

Pressure from the head office on China management can be enormous. Very often it is the case that one group from HQ initially comes to China and writes a business plan, which is then expected to be implemented by another chief executive for China, who is to be hired later. This can often be an unworkable situation for many Western managers and contributes to the very high failure rate in China. Additionally, there are other pressures that confront the Western business person, not the least of which is office politics that are exacerbated by not having an extensive understanding of the language and culture. "The pressure executives face in China is enormous. While the executives complain about the external pressures such as hypercompetitive markets and confusing government legislation, when they really open up to you they will most often say their primary source of stress comes from internal pressures. Office politics is evident in any organization, but the worse the business performs, the more often people run for cover and begin finger-pointing. Strong leadership is really needed in this case..." (*China Street Smart*, p.178)