



Doing Business in China: Cultural Factors, Start-up Concerns, and Professional Development

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Abstract

China is undergoing rapid economic expansion as it finds its place in the global marketplace. However, as China has become more open to Western ideas, it still remains tricky territory to navigate. Having better relationships with the Chinese has caused multinational firms to experience better success in China. In order to successfully start a business venture in China, there are many obstacles and barriers one must overcome. This article seeks to lay out the cultural differences, key start-up concerns and professional development. By identifying these areas, multinational managers will have a better understanding and be better prepared when doing business in China.

บทคัดย่อ

ประเทศจีนเป็นประเทศที่กำลังเติบโตทางเศรษฐกิจอย่างรวดเร็วในตลาดโลก อย่างไรก็ตาม ถึงแม้ว่าประเทศจีนจะเปิดรับความคิดจากทางประเทศตะวันตกมากขึ้น ก็ยังถือเป็นประเทศที่ซับซ้อนสำหรับประเทศอื่นในการทำความเข้าใจ การสร้างความสัมพันธ์ที่ดีกับชาวจีนช่วยให้บริษัทนานาชาติประสบความสำเร็จในการทำธุรกิจในประเทศจีน ในช่วงเริ่มต้นของการทำธุรกิจในประเทศจีน นักธุรกิจส่วนใหญ่จะต้องประสบกับปัญหาและอุปสรรคต่างๆ มากมาย บทความนี้ได้แสดงถึงความแตกต่างทางด้านวัฒนธรรมของชาวจีน ปัจจัยสำคัญในการเตรียมพร้อมก่อนเข้าไปทำธุรกิจในประเทศจีน และทักษะในการเข้าไปลงทุนทำธุรกิจในประเทศจีนโดยรวมถึงการบริหารทรัพยากรมนุษย์ เทคนิคการสร้างสัมพันธภาพอันดีระหว่างทั้งสองฝ่าย และข้อเสนอแนะในการเจรจาต่อรองทางธุรกิจ การที่บริษัทนานาชาติสามารถเข้าใจเกี่ยวกับปัจจัยเหล่านี้ก่อนเข้าไปลงทุนจะช่วยให้สามารถวางแผนและเตรียมการรับมือได้อย่างเหมาะสม

Primary Cultural Differences

With the globalization of word business, China has become an appealing market for foreign investors. The problem of cross-cultural management arises as the cooperation between China and its culturally different Western partners continues to increase at an unprecedented rate. The following discussion will talk about the general cultural differences between America and China by applying the cultural dimensions of Hofstede and Bond. It will continue with the impact of these cultural differences on their management practice from five aspects: cooperative strategies, conflict management, decision-making, work-group characteristics, and motivation systems.

In one survey, cultural difference was the biggest barrier to doing business in the world market, as it ranked first in all eight items including law, price competition, information, language, and delivery. According to Hofstede (1993), management differs to a larger or smaller extent from one country to other. The successful management requires that cross-national companies take into account the importance of cultural difference.

To clarify the difference between China and America, Hofstede's four cultural dimensions and Bond's fifth dimension are applied. Hofstede is one of the first authors to adopt a pragmatic problem-solving approach in the field. He also relates culture to management by defining culture as a kind of collective programming of the mind, which distinguishes people from each other. He explained that culturally-based values systems comprised of four dimensions: power distance,



individualism/collectivism, masculinity/femininity, and uncertainty avoidance. Further research by Michael Bond (1989) identified a fifth “Eastern” dimension called long-term/short-term orientation.

China and the US differ greatly with regard to their economic systems, political systems, social values, and laws, despite the substantial changes that have occurred in China during recent years. Table 1 shows the cultural dimension scores of the US and China (Data source: Hofstede, 1993). Several differences can be found. First, in terms of power distance, the scores of China are twice as those of the US, which indicated that China is centralized (though it has shown some tendency toward decentralization of power), while the US is relatively decentralized. Second, the US ranks first in individualism (strong individualism) while China is low in individualism (strong collectivism). Third, the US has a higher value than China in masculinity, which indicates that the US is more masculine while China is more feminine. Fourth, China has higher values for uncertainty avoidance than the US, which shows that Chinese are relatively more risk-averse than Americans. Lastly, the US has a short-term orientation while China has long-term orientation. These five dimensions of cultural differences between the US and China, as discussed earlier, have been summarized in Table 2 below.

Table 1: Cultural Dimension Scores of the United States and China

Cultural Dimension Scores					
Country	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long-term Orientation
US	40	91	62	46	29
China	80	20	50	60	118

Table 2: Cultural Differences between the United States and China

Cultural Dimensions	US	China
Individualism/ Collectivism	Strong Individualism	Strong Collectivism
Power Distance	Medium	Centralized, tendency toward democracy
Uncertainty Avoidance	Risk-taking	Risk-avoiding
Masculinity/Femininity	More Masculine	More Feminine
Long-short-term Orientation	Short-term Orientation	Long-term Orientation

It has been widely accepted that cultural differences greatly affect human thinking and behavior, and that business organizations present a place where people may interact on the basis of shared values. Management is embedded in a wider societal setting, and is heavily influenced by local historical and cultural norms. The significant differences between the US and China seem to affect some aspects of their management practice.

The above cultural differences impacted on some aspects of management in terms of cooperative strategies, conflict management, decision-making, work group characteristics, and motivation systems. First, Chinese managers are



more likely to favor cooperative strategies than American managers and American managers place greater importance on contractual safeguards than Chinese managers. Second, when faced with conflicts, Chinese managers tend to use indirect forms of influence that involve the assistance of a third party, while Americans prefer to use direct and open forms. Third, Chinese managers tend to make less risky decisions than American managers. Fourth, the Chinese pay more attention to build social and interpersonal relations than Americans. Finally, for the motivation systems, the equity principle is generally ignored in American companies while it is widely used in Chinese companies, as evidenced by American preference in pay for performance versus Chinese preference in pay equity among employees.

Social Structure

Collectivism

In contrast to the predominantly urban U.S. population, two-thirds of the Chinese populations live in rural areas, laboring primarily in rice or wheat cultivation. Traditional Chinese agriculture is communal, not individualistic; survival depends on group cooperation and harmony. Many of China's city dwellers were born and raised in the country and have retained their agrarian values. Great emphasis is placed on reaching a consensus within the work group, while preventing anyone from "losing face." Hence, Chinese people are strong in collectivism and depend more on groups and institutions to determine what they should do. Also the Chinese tend to identify themselves as part of a specific group, team or unit, so an important distinction is made between "insiders" and "outsiders." Therefore it is easier to develop business in China when you have a good network relationship (Guanxi).

Class System

For the past 2000 years, the teachings of Confucius have substantially influenced social values and morality. Confucius defined five cardinal relationships: ruler and ruled, husband and wife, parent and child, older and younger

brother, and friend and friend. The ruled - wives, children, and younger brothers - were counseled to trade obedience and loyalty for the benevolence of their rulers - husbands, parents, and older brothers. Rigorous adherence to these hierarchical relationships yielded social harmony.

In ancient China, the merchant class was considered one of the lowest. The historical slighting of the merchant class notwithstanding, business schools are sprouting up all over the mainland, where Chinese students are learning about concepts of business. In fact, many of the schools are oriented toward Western perspectives about business. Although most ex-patriots have not observed the Chinese education toward Western perspectives, the trend is worth noting.

Religion

For more than 2000 years, Confucianism was the official ethical system of China. Confucianism teaches the importance of attaining personal salvation through right action. Confucianism is built around a comprehensive ethical code that sets down guidelines for relationships with others. The need for high moral and ethical conduct, as well as loyalty to others, creates the central ideas to Confucianism. Unlike religions, Confucianism is not concerned with the supernatural and has little to say about the concept of a supreme being or an afterlife.

In Confucian thought, loyalty to one's superiors is regarded as a sacred duty. Therefore, cooperation between management and labor can be achieved with less resistance within this culture. However, the Confucian loyalty is not blind loyalty as the concept of reciprocal obligations also plays a part. Employees tend to remain loyal to management only when they feel that their welfare is regarded fairly. Honesty is also an important concept in Confucian ethics. This often results in lower cautionary costs as companies can trust each other to honor contractual obligations.



Chinese Economic Philosophy

China is one of the fastest growing economies in the world and the new center of the global automotive community. The expansion of the Chinese economy has been so rapid that it has even begun to affect material prices in North America. The Chinese market will soon represent one of the largest economies in the world.

Historically Protectionist

Although the professional community in the Peoples Republic of China's (PRC) is becoming more progressive, they are still criticized for their overcautious stance on entering the free market arena. China has a high degree of reluctance toward foreign trade as indicated by their past and present trade partners along with their future trade goals. This cultural aspect is the reason why foreign trade and capitalism cannot reproduce immediate results in China to mirror Western standards. China's isolation and a sense of ethnic pride left the country unaware of the outside world.

Early on, China adopted capitalism in the most limited forms which resulted in empowering a distinct division of small businesses that operated on the premise of autonomy and self-reliance. The practice of trade in China was disadvantaged throughout its early history because the merchant class was the lowest rank of society. The society emphasized intellect over wealth or physical strength and was ranked as follows: scholars, farmers, artisans, merchants, and lastly soldiers, thieves, and brigands. (Ralph, Lerner, Meacham, & Burns 1990) Their social hierarchy still remains a cultural legacy deeply imbedded in modern China.

China's bureaucratic system hinders its move to an open market system. Individuals in central government will continue to exert a significant influence over foreign investment by attempting to preserve its respective sphere of influence. China espoused a self-contained culture rich in intellectual treasures, history, and pride as a peaceful ratio. China with all its ethnocentric virtues never wished to push its ideology beyond its borders.

Government Control

The Chinese government gives new definition to the concept of protectionism, as it seems to add a paternalistic dimension to the practice. In addition to protecting its industries in the form of heavy regulation, it also attempts to protect its culture from outside influence. Rupert Murdoch, the owner of Star TV, discovered the hard way. Murdoch underestimated the power of the Chinese government when he made the statement that "satellite television was 'an unambiguous threat to totalitarian regimes everywhere' because it permitted people to bypass government-controlled news sources. Not surprisingly, the Chinese government enacted a ban on the reception of foreign satellite TV services soon thereafter" (Ghemawat 2001). The Chinese government flexed its political muscle in a way that Murdoch did not anticipate. He approached the government as if it were run democratically and tolerant of direct criticism. Of course, he was wrong and the government reaction caused a severe setback for his company.

This case is a grim reminder for many companies that the Chinese government is still very involved with business, be it directly through state-owned enterprises or indirectly through legislation. Perhaps Starz Encore learned from Star TV's blunder. The vice president of business affairs and affiliated relations, Richard Waysdorf believes that his company has been successful partly because he has built trust with the Chinese government. "You have to prove yourself over the years as someone the government can rely on to do what they want you to do . . . They know we aren't trying to implant evil thoughts into the populace. Our goal is never to run along the edge of what they would like to keep out" (Tang 2004). Waysdorf realizes the reach of the Chinese government and therefore treads carefully so not to distribute potentially threatening ideas to its customers. Whereas Murdoch essentially dared the government to shut him down, Waysdorf works within the limits of communist control and delivers entertainment that is viewed as politically harmless or even supportive of the government's values.



Some markets are more regulated than others. Jim Wu, the vice president and associate general counsel of international M&A at Yahoo! Inc, notes that there are still many restricted areas in China. "Internet media is highly regulated and extremely restricted . . . China is opening up quickly in some industries and slowly in others. The one thing you have to be aware of is that as you enter these restricted areas, they aren't as restricted for local competitors" (Tang 2004). There is still a great deal of censorship in China and an ISP must navigate its way very carefully to avoid negative ramifications from the government. In this case the Chinese government is censoring the content of messages transmitted by Chinese citizens, as well as foreigners, by regulating the medium of the internet.

Many companies are surprised at the amount of control that the Chinese government still has over commerce. The government often demonstrates this control in the form of barriers aimed at reducing outside influence on Chinese culture. Murdoch was right that his satellite network posed a threat to communist control, but he misjudged the lengths that it would go to eliminate the threat. Investors may overlook the role of the government in favor of the substantial Chinese market and potential returns. In fact, many people think that communist ideals went the way of the iron curtain, but these principles are still alive and well in Chinese political culture. Even casual visitors must obtain a visa, only after an inquisition about his or her affairs in China. The political community is still suspicious of outsiders and closely guards communication mediums such as television, telecommunications, and the internet.

Legal System

The Chinese legal system echoes the political system in that it is still suspicious of outsiders, and therefore supports its domestic businesses wherever it can, many times at the expense of foreign investors. One example of this is a troubled joint-venture between BorgWarner and Shiyuan Automotive Transmission Factory (SATF) (Bransfield 2004). In this case, the Chinese firm SATF failed to uphold its end of the joint venture requirements from the very beginning of

the partnership. BorgWarner fronted a great deal of cash, as well as substantial transfer of technology, on good faith and received nothing in return. The case would seem open and shut in an American court as there seemed to be no attempt on the part of SATF to honor the contract. BorgWarner saw that SATF was not a good partner, so they tried to terminate the joint-venture, but ran into a series of legal problems. BorgWarner filed several suits against SATF, but was unsuccessful largely due to SATF's countersuits, coupled with its superior negotiating position within the Chinese courts. Eventually the US Commercial Service in Beijing got involved with this case to aid its conclusion. After 8 long years of thorny litigation and ambiguous rulings, the joint venture was finally terminated in a Chinese court. In the end it was clear that BorgWarner was severely wronged by SATF, but it required the involvement of local government groups to come to that conclusion.

Doing Business in China

A background of the roots of cultural differences and how they manifest themselves in business settings has been provided here. As has been discussed, the Chinese style of doing business involves a great deal of relationship-building. The understanding of this information is essential to establishing a solid relationship with future business partners and customers. The first section will be about some of the basics that are important when communicating with the Chinese in business. The second section will continue with the key start-up concerns, including modes of entry, the Chinese consumer market, and distribution challenges. The last section will mention professional development skills including human resource management, rapport building, and negotiation advice.

1. General Communication Tips Prior to Conducting Business in China

Face

Understanding the concept of "face" is critical to successful Chinese communication. In English, saving and





losing face refer to individuals' public images (Ho 2001). In Chinese, "face" refers to the interaction between people. All participants in a conversation seek to respect the stature of each participant and avoid embarrassment to anyone involved. In Chinese business settings, the concept of "face" means being particularly careful to avoid saying or doing anything that could undermine another's status. The kind of constructive criticism and creative input that would be lauded in the US could be inappropriate and insulting in China.

Non-Verbal

Nonverbal communication includes facial expression, tones of voice, gestures, and eye contact. It plays an important role in our daily life; sometimes it is even more powerful than the verbal interaction. Different gestures have different meanings. Different nationalities have specific gestures and emotions. However, due to the different background and culture, even the same gesture and emotion has different meaning for different people in certain contexts. Thus, it is very useful for us to understand people by understanding their basic nonverbal communicative skills. Many Chinese will not recognize the "O.K." sign; instead, the thumbs-up signal is known and means "Everything is O.K." When beckoning, the curling inward of the index finger is not used in China. Seating arrangements are important, whether at business meetings or while dining. Posture is important, so do not slouch or put your feet on desks or chairs. Also, avoid using your feet to gesture or move articles around.

When "No" Doesn't Mean "No"

In Chinese, concise speech is highly regarded, but indirect communication accompanies succinct statements. Learning to interpret indirect speech may take time. Chinese are unlikely to say, "no" directly. Be sensitive to the "maybe" or "yes," which could be a decorated "no" (Ho 2001). China is one of the largest countries in the world, the birthplace of ancient culture and civilization. In general, the influence of Confucius' philosophical thinking has resulted

in the Chinese becoming more reserved and comparatively less expressive with their gestures.

Personal Space

Generally speaking, the Chinese are not a touch-oriented society. This is especially true for visitors. So it is advised to avoid touching or any prolonged form of body contact. Personal space is rather limited in China, which means when conversing the Chinese will stand much closer than Westerners. This often results in Westerners moving backward, with the Chinese following along in something of an unintended pas de deux. Likewise, do not worry about a bit of pushing and shoving in stores or when groups board public buses or trains. Apologies are neither offered nor expected.

Eating

With wooden chopsticks, you may see the Chinese first rub them together before eating. This is merely a way of removing any possible splinters. But, if you are a guest, it is impolite to do this because it suggests you have been given cheap, rough chopsticks. Also, do not stick your chopsticks upright in your rice. Among some superstitious Chinese, this could bring bad luck; in some areas placing chopsticks in rice in this fashion is done as an offering to the dead.

Gift-giving

Lavish gift giving was an important part of Chinese culture in the past. Today, official policy in Chinese business culture forbids giving gifts; this gesture is considered bribery, an illegal act in China. In many organizations, however, attitudes surrounding gifts are beginning to relax. If you wish to give a gift to an individual, you must do it privately, in the context of friendship, not business. Also, it is the Chinese way to decline gifts or other offerings two or even three times, even when they want to accept, as a matter of etiquette. When a gift is given, it should be offered with two hands, and any gift offered should always be received with both hands.

2. Getting Started in China: Key Start-up Concerns

Due Diligence

Due diligence is the process taken to investigate your prospective business partners. Many companies already practice due diligence on firms within their home countries, however extensive due diligence is recommended when doing business in China. In fact, it is also important to research companies that your prospective partners work with, so that one is aware of the reputation and credit-worthiness of their suppliers and customers. Jim Wu adds that "the court system is unpredictable and contracts don't mean as much as they do in the U.S. So you need to know whom you are dealing with, and that needs to start early on" (Tang 2004). Due diligence is an essential step for any firm entering into a partnership with a Chinese firm. Accounting standards are much different in China, which means that investigating firms takes time and persistence (DatelineBeijing.com 2004). For example, some companies pay bills using "triangular debt" which means that Company A pays Company B with owed income from Company C. Sometimes, figuring overhead expenses is difficult because sometimes Chinese firms will have "retired" individuals remaining on the payroll. Another issue to examine is land ownership. This is difficult to determine because technically the government owns everything. Navigating the foreign accounting system of China is especially difficult for outsiders. There are many great companies in China that provide this service, however it should be noted that they charge a premium for a thorough analysis. Even so, it is an expense that will pay for itself as it helps international companies protect their investments.

Modes of Entry

R. Mark Mechem (2004), the Director of Business and Advisory Services for the US-China Business Council writes about different modes of entry for an international firm to consider.

Representative Office

The purpose of the representative office is mostly for information gathering. Many firms enter the market this way, as some advantages of this method are:

- Quick
- Least Expensive
- Establishes a presence in the market
- Builds reputation
- Increases brand awareness
- Initiates relationships with potential customers, possible partners, and regulators
- Affords company opportunity to gauge readiness, yet be prepared when opportunities arise

However, firms considering this option should be cautioned that they:

- Cannot engage in "direct profit-making"
- Must be sponsored by a Chinese company that is recognized by the Ministry of Commerce
- The Chinese citizens in the office are not actually employees of the firm, rather they are technically employed by labor organizations such as the Foreign Enterprise Service Corp.
- Are taxed on "deemed profits" so the tax burden may be higher than the firm anticipates

Joint Venture

Of course, a representative office may evolve into another popular mode of entry: the joint venture. Although the government has loosened restrictions on wholly foreign-owned enterprises (WFOE), many companies participate in a JV out of choice rather than necessity (as was the case before China's entry into the WTO in 1991). Some advantages of a JV are that it:

- Decreases investment risk
 - Results in lower start-up costs
 - Allows access to domestic partner's resources
- such as:
- Favorable site locations
 - Accessible infrastructure
 - Distribution Channels



- Market exposure
- After-sales networks
- Access to Cash

Although, the JV mode of entry was employed by many companies, there were some notable concerns, such as:

- Terms of technology transfers
- Allocating human resources
- Intellectual property rights
- Negotiating expansion plans
- Trends in Chinese government that favor legal power to minority partners
- Requirement of unanimous board approval of significant decisions

Wholly Foreign-Owned Enterprise

Many international firms avoid the pitfalls of JV's by pursuing the WFOE. In fact this mode of entry constitutes "nearly 70 percent of new projects approved in the first half of 2004, and 75 percent of investment dollars" (Mechem 2004). Some notable advantages of the WFOE are that they:

- Enable a firm to begin operations quicker
- Require no technology to be transferred
- Protect propriety industrial processes
- Allow for autonomous decision-making

Of course, the WFOE does not capture most of the benefits of the JV partnership. In fact, a WFOE may face difficulty when competing against strong and influential domestic firms or areas where government regulation remains tight.

Marketing and Modernization in China

Understanding the Chinese Consumer

To successfully market a product in China, it is essential to first understand Chinese consumer behavior with the influence of Chinese culture. The consumer market in China is continuing to evolve at a rapid pace in the twenty-first century and has become increasingly diversified. As a result of more product availability to average consumers,

their choice behaviors are more complicated and new consumer segments have emerged in the market.

Profiling Chinese consumers by combining their decision-making styles and demographic variables provide more meaningful ways to identify and understand various consumer segments and to target each segment with more focused marketing strategies. Trendy and perfectionist consumers in China have been quick to absorb new products and enjoy shopping and spending more on fashionable products. Given that these consumers have already been well aware of the most modern items in the world market, global marketers can position their brands as trendy, reputable, and high quality through the use of fashion magazines and advertisements. On the other hand, there are also other segments of the Chinese population that represent traditional, pragmatic consumers who are confused by over-choice consumers. These Chinese consumers tend to be more conservative and traditional. Consequently, quality and price are the major concern in their product choice and they tend to stick with the familiar local brands. To reach this kind of consumer, global marketers could develop joint ventures with reputable local companies. Both quality and cost leadership could be emphasized in promotion programs.

Additionally, there is still a significant amount of cultural diversity among each specific region of China. For example, consumers in the North may possess different decision-making styles compared with those in the South. Therefore, before coming up with a specific marketing strategy to reach Chinese consumers in each specific target market, the company should study each specific political, cultural, and economic condition in that specific region of the country.

Recent Relaxation of Chinese Regulations

Economic adjustments also provide some meanings to marketing in China. The move toward freer marketing in China has been of great significance to foreign firms. Although many foreign firms were initially much too optimistic about how rapidly the Chinese market might develop, their





activity in China had increased significantly. Relaxation of central planning, and consequently more decentralized decision making, has meant more direct access by foreign firms to Chinese units. For firms buying from China, decentralized decision-making appears to have resulted in simplified sourcing and negotiation of supplies. However, quality and reliability of supplies still present problems, and the Chinese reputation for being tough bargainers is frequently found to be well deserved. The decentralizing of decision-making has apparently been greater in some industries and provinces than in others. Although a local unit might have the full authority to make a purchase decision, negotiations are often long and difficult.

The foreign firm is likely to be especially welcome as a buyer if some importation of new technology can be arranged as part of the package in what amounts to a form of counter-trade. Foreign firms selling consumer goods to China can now deal directly with department stores or their counterparts at the wholesale level, whereas before they were forced to deal only with the relevant FTC. However, there is still the problem of limited supply of foreign exchange. Although the Chinese foreign exchange reserves are substantial, the authorities are very conservative in their use. Local governments have been allocated foreign exchange quotas which they can use as they see fit, but they are used largely to buy capital equipment or related goods and services associated with technical modernization. Foreign exchange used for the importation of consumer goods appears to be limited largely to consumer electronics.

Logistical Challenges

Distributing product in China has posed an interesting challenge for many multinational firms. "Combine an immature IT infrastructure with costly inland transportation and the high price of land to build logistics hubs, and the savings companies expect may fall short. 'When you get into the logistics cost per gross domestic product in China versus Europe, Japan, or the United States, it's much higher,'" says Bill Gordon, director of supply chain in Asia-Pacific at Caterpillar Logistics Services, Inc. 'Well over 50% higher in

China.' (Sullivan 2004). As many operational managers know, freight and transport costs make up a substantial portion of the final cost of a product, regardless of where one does business. However adding the logistical challenges unique to China significantly increases the freight impact on the bottom line. Some foreign firms have attempted to push tracking technologies on China's domestic logistics companies, but have experienced limited success. First, the labor in many of these companies is low-cost, which has often translated into low-skilled workers who have difficulty adapting to a high-tech system. Second, the market is very price sensitive, which means that the companies are extremely competitive and must run their operations very trim. Investing in a high-tech system is simply out of the question for many logistics companies. And third, "Multinational companies can't change Chinese government mandates that dictate everything from where they can open factories to the use of local trucking and freight-forwarding companies . . ." (Sullivan 2004).

Strategies for Successful Distribution

One strategy for dealing with this issue is for the international company to invest in its own infrastructure system. GM has done this by investing \$1.6 billion since 1997 in order "to build its own technology and physical infrastructure" (Sullivan 2004). Clearly, this is a work in progress, but this approach has helped GM distribute parts better throughout China and improve its just-in-time processes.

Although this may pay off for GM, many companies are not willing or able to commit that much money to an endeavor of that caliber. Most firms chose to partner up with existing logistics companies in China. Celestica Inc., a manufacturer of electronics equipment for several well-known brands, has pieced together a complex web of logistical support. It has partnered with several logistics companies to move its products all over China. In fact, it has even acquired local talent to run its own facilities and inventory hubs (Sullivan 2004).





Other companies are incorporating both approaches as they are integrating logistics models from their home countries within the operations of their partners. Delphi, an auto-parts supplier has been distributing products in China for over 10 years. They have successfully been able to operate plants in several cities throughout China. They have customized their own shipping technology and persuaded their overseas suppliers to adopt it. They have also been able to compel many of their Chinese logistics partners to use it. It has improved their supply-chain and decreased truck-route times, by offering standard, proven approaches, instead of relying on individual companies' disjointed systems (Sullivan 2004).

A firm entering the Chinese market should be careful to account for the increased costs and not assume that they will be compatible with costs they are accustomed to paying in other areas of the world. It's also important to assess the situation and select an appropriate distribution plan. The good news is that many are anticipating massive deregulation on behalf of the government. This coupled with the slow but steady integration of technology into the logistics industry will improve the situation for many international firms.

3. Professional Development: Human Resource Management, Rapport Building, and Negotiation Advice

Human Resource Management

Selection

In China, there is more focus on administration of benefits and maintenance of relationships with government bureaus, which results in relatively little concern for the recruitment and selection process. Furthermore, Chinese human resource staffs have been trained to select a candidate based more on the prestige of the university attended than on the actual skills one possesses. The more relational elements of Chinese culture, such as the level of "guanxi" associated with a particular institution, can be an important influence on recruitment and selection.

Many Westerners tend to simply assume the recruitment and hiring processes are the same in China. A western manager should be aware of the screening process that a typical HR department uses. If it is not consistent with what he or she determines to be an effective hiring process, then action should be taken. The manager may wish to get involved in the hiring process in order to educate the HR staff of how he or she perceives a suitable candidate to appear. It is also important for the manager to attempt to integrate some of the relational aspects of the traditional Chinese hiring process.

In terms of selection, the majority of Chinese companies use selection interviews. Standardized tests used in other parts of the world are generally not recommended due to cultural bias. For example, psychological tests used to predict favorable personality traits have questionable validity if designed outside of China since there are great differences in social norms and values.

Training

Confucianism still impacts the major ethics and philosophies of the prevailing culture, as managers are encouraged to offer employees clear goals and rewards in order to strengthen organizational loyalty. In fact, it is recommended that international managers in China participate in leadership training that integrates aspects of the traditional philosophies of Chinese culture, such as Confucianism. Confucianism is a practical philosophy of human relationships and conduct that offers present-day managerial insights. At its core are self-cultivation and harmonious human relations for the common good, which is a value that Western cultures tend to emphasize less than Asian cultures.

Retention

In China today, many employers experience the "job hopping" syndrome, where employees will frequently change jobs. There are two reasons for this development. One is that many employees feel that problems and dissent are best solved by leaving rather than confrontation. In



fact, the relationship between disputes and unplanned labor turnover is inversely correlated. A second reason is that Chinese employees tend to place more personal emphasis on commitments to family and friends than impersonal employers.

Therefore, it is recommended that Chinese employers foster open communication and co-operation. Their mission should include establishing and reinforcing channels of communication by encouraging participation in the communication process. If employees can voice their feedback and feel that their contributions and recommendations are valued, the high turnover rate can be decreased. Moreover, firms should incorporate a family concept into their cultures in order to increase employee loyalty.

Western managers need to recognize that, in China, the relationship comes before the tasks. Also, fulfilling social responsibilities, such as acting as a role model and taking action that benefits both the unit and the larger organization, is a cultural expectation in China.

Compensation

In China, the compensation structure is quite complex. The basic salary provided is normally low. However, firms traditionally also provide other benefits to staff, such as housing, pension, health, children's schooling, and transportation to and from work. According to a survey conducted in China, a very high percentage of new graduates expected to earn RMB 5,000 to RMB 6,000 monthly, but the actual average was around RMB 2,000. Companies need to deal with this problem of expectations by adjusting the salary with the actual skills and qualifications of the candidate, and to provide an effective compensation package that offers a diverse reward system.

The Chinese are accustomed to the notion that "official news" is not always the "last word", people have developed a bamboo network within the organization. Rumor, gossip, speculation, and conjecture are all part of the equation. For human resource managers, correcting misleading pay practices is a daily ritual. In most

organizations, pay levels are an open secret, with employees comparing their own pay levels to the pay levels of others in the company, and reading into those comparisons all kinds of intentions on the part of management. Chinese workers are said to be very sensitive and possess a low tolerance toward income gaps between individuals or between different groups in the same company, which is consistent with Hofstede's observation regarding pay equity. They regard this as potentially disruptive in collective social systems that put group harmony and social adhesion as the top priority.

Chinese managers are always looking for tools, methodologies, and information that ensure objectivity in performance-related decision-making. Many companies in China simply stick to traditional narrow grading systems that define pay levels according to job content, and reward performance through periodic performance bonuses based on verifiable data, such as revenues earned and profits made.

This compensation system fails to address an adherence to ethical standards that many Chinese feel is important. Chinese consumers may perceive the firm to be upholding profit goals over the personal welfare of its employees. This would be violating certain ethical principles resulting in a downgrade of the firm's reputation.

Therefore, managers in a Chinese company must:

- Effectively handle perceptions formed out of the bamboo network
- Manage complexities arising from a heterogeneous labor market
- Confront challenges associated with outmoded beliefs about the nature of performance

Managers are encouraged to have employee input in establishing the formal wages and try to maintain a low earning-differentials among employees.

Performance Evaluation

Wages and salaries are usually reviewed annually in China. However, given the high turnover in staff, it is recommended that companies carry out a pay review every





six months especially for the technical and supervisory levels, since salary may be a primary factor for staff retention.

While Americans are more responsive to surveys that aim to improve the quality of management and operations, Chinese employees are not used to filling out these types of questionnaires. Statistically, Chinese respondents choose central categories on rating scales in order not to take up extreme positions (Li and Richter 2001). Therefore, Chinese firms designing these surveys must express the importance and values of employees' feedback and stress complete anonymity.

Tips for Developing Guanxi

The Chinese have traditionally emphasized group harmony, guanxi-cultivation, and relationship-building. International managers must be aware of these orientations. The following rules should be observed when developing guanxi in China.

1. Patience

Investing in these intangibles may take a long time. Chinese structure is more hierarchical, so one must be in a position that is observable by the right people so that the opportunity can arise. The impact of relationship-building may not be immediately apparent, but when done effectively one may notice its benefits as people help when problems arise.

2. Building Trust

Guanxi is also built with tangibles such as proving one has the best value-added services. However, humility is always important. Companies may be too quick to assume that they have the best product at the best price, causing them to project a take-it-or-leave-it attitude toward customers. Guanxi is based on mutual respect and providing value-added services or value added friendship.

3. Reciprocity

Good guanxi also depends on a strict system of reciprocity. Although reciprocity is expected, it may not be immediate. Long-term reciprocity is a cornerstone of enduring personal relationships. In fact, ignoring reciprocity in China is considered immoral.

Tips for Negotiation

All too often, Americans see Chinese negotiators as inefficient, indirect, and even dishonest while the Chinese may view American negotiators as aggressive, impersonal, and excitable. Before going to the negotiation table, it is important to understand the way the Chinese think about this issue.

1. Process-oriented

Chinese negotiators are more concerned with the means than the end. The best compromises are derived only through the ritual of back-and-forth of discussion. While Americans tend to believe that the truth, as they see it, is worth arguing over, the Chinese believe that the right way is hard to find, so they rely on discussion to settle differences.

2. The Intermediary (Zhongjian Ren)

Business deals for Americans in China have little chance without zhongjian ren, the intermediary. In China, suspicion and distrust characterize all meetings with strangers. Instead, trust must be transmitted via guanxi. The first step is to find the personal links to your target organization or executive. Chinese businesspeople tend to express disagreement by changing the subject, becoming silent, or responding with ambiguous expressions that contain subtle negative implications. This is where the zhongjian ren can assist, because he or she is an interpreter; not only of words, but of cultures. Additionally, often the two parties can say frankly to the intermediary what they cannot say to each other.

3. Holistic Thinking

Chinese think in terms of the whole, while Americans tend to think sequentially and individualistically. This often results in Americans breaking up complex negotiation tasks into a series of smaller issues: price, quantity, warranty, delivery, and so forth. Chinese negotiators tend to think about those issues all at once. Chinese negotiators desire long descriptions of background and context and will ask numerous questions. Americans consider the negotiations finished when they have come to the end of the list, while Chinese view that point as more of a beginning as they consider the whole package. Be prepared to discuss all



of the issues simultaneously and in an apparently haphazard order. It is a good sign if higher-level Chinese executives add specific comments or ask detailed questions. Do not be concerned if the Chinese are talking amongst themselves in their own language, as it could mean that they are trying to decide an issue. Additional signs of progress include Chinese calls for more meetings, requests to bring in the intermediary, or questions about "extras" such as overseas training.

Conclusion

Multinational firms have had better success in China as they have made strides to build solid relationships with their Chinese counterparts. According to Stall, for a business partnership to be considered successful "both partners must make money. It is also important that both are satisfied with the business relationships" (Truesdell 2004). Many firms have had to be patient while waiting for their ventures to be profitable, as most do not earn profits until at least 3 years. In order for the relationship to endure even that long, each side must earn the trust and respect of the other. Several cultural differences embedded in both the government and people's individual lifestyles have been laid out. It is hoped that in identifying these issues and their underlying sources, multinational managers will be able to anticipate them and prepare a strategy. Of course, one must always be flexible when doing business abroad, so strict adherence to any of these strategies is not recommended; rather they are for consideration and advice. Additionally, it is expected that these recommendations regarding start-up and relationship building be adapted to the approach of the multinational company and its managers. ♥

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