

# CHAPTER 2

## BUSINESS CULTURE IN CHINA



As Chinese business culture is rooted in a distinctive, indigenous, philosophical, and cultural heritage dating back thousands of years, many foreign business people may find it challenging to understand Chinese managerial ideology. However, the business culture in China has been constantly evolving due to the social, political, and economic development in recent decades. The following information may assist in coping with cultural differences and guiding your business activities in China.

- The Background of Chinese Business Culture
- Major Elements in Chinese Business Culture
- Advice on Business Practices

## 2.1 The Background of Chinese Business Culture

Understanding of Chinese business culture requires familiarity with the contexts that shapes it. In addition, your knowledge of this background will demonstrate your sincerity of doing business in China to your Chinese counterparts.

### **THE HISTORICAL BACKGROUND**

Three pillars of Chinese culture: Confucianism, Taoism and Buddhism

Chinese culture is unique and consistent, molded by a tradition of four thousand years of history, including more than two thousand years of uninterrupted influence of Confucianism, Taoism and Buddhism. Although differing in many fundamental ways, Confucianism, Taoism and Buddhism share similar elements and together influence today's traditional Chinese cultural values.

### **CONFUCIANISM**

Confucianism is undisputedly the dominating force in influencing Chinese culture. Since the second century BC, students have been taking exams in the Confucian Classics, which served as the national educational philosophy at the time. Confucianism is the behavioral or moral doctrine based on the teaching of Confucius (551–479 BC) with regards to human relationships, social structures, virtuous behavior and work ethics. The main foundations of Confucianism emphasize duty, sincerity, loyalty, honor, filial piety, respect for age and seniority. As individuals maintain harmonious relations among themselves, society itself becomes stable. Among the most prominent legacies of the Confucian doctrine are the high power distance and hierarchical relationships in Chinese society. In China, rank and seniority are extremely important in business relationships, especially when dealing with a state-owned enterprise or government body.

## **TAOISM**

Wu Wei, or 'not act' – letting things take their own course, is an important concept of Taoism, which is represented by the writings of Lao Tzu (604–531 BC): Tao Te Ching. Lao Tzu said, 'Man follows the earth, the earth follows heaven, heaven follows the Tao, and the Tao follows what is natural.' Taoists propose that, just as too much stirring will cause a delicate fish to fall apart, too much action or intervention in the affairs of other humans (or things) may produce opposite or negative outcomes. Wu Wei does not mean that people should be lazy or passive. It requires people to be able to observe fundamental principles while adapting to change only when it is necessary. For example, a business manager should lead by allowing his or her employees to do their work independently, not by micro-managing their tasks. However, in practice, Chinese managers do not delegate responsibility and often make important decisions, such as in purchasing and pricing matters.

## **BUDDHISM**

Buddhism, originating in India, spread widely throughout China in the early centuries AD. It emphasizes that the elimination of suffering can be achieved by the extinction of desires through abstention and wisdom. Two important concepts of Buddhism related to business are 'Wu' and 'Yuan'. 'Wu' can be literally translated into 'comprehend'. It refers to the ability to understand an issue from its core. Chinese use it in a business sense to imply a very deep understanding of people and the situation. It is also related to the implicit way of communication: a person with a high ability of Wu is able to read between the lines. The concept of Yuan originates from Karma (the meta-ethical principle or law of cause-and-effect) in Buddhism. Nowadays, it denotes predetermined relations between individuals that are far beyond one's control. The Chinese consider the chance to associate with another to be a very precious opportunity. They thus attribute close relationships (e.g. marriage) or good business relations to Yuan. Sometimes Chinese even attribute a failure in business cooperation to the lack of Yuan.

## **THE INFLUENCE OF POLITICAL IDEOLOGY AND WESTERN VALUES**

Although traditional cultural characteristics are relatively stable and persistent, they are obviously not static. Instead, they change all the time along with economic and social changes. The contemporary Chinese culture in the People's Republic of China (PRC) consists not only of the elements of traditional culture but also of communist ideology and, more recently, of Western values.

The political regime's influence on business culture is apparent. Many Westerners are already able to tell the difference between business people from mainland China, Taiwan and Hong Kong in terms of their behaviors although they share the same cultural roots. Political ideologies such as Maoism and Deng's theory have shaped the society in mainland China since 1949. During the Maoist era, many traditional Chinese values were suppressed and replaced by communist doctrines. When the 'open-door' policy was implemented, Deng Xiaoping said 'Black or white, a cat is nice as long as it catches mice.' The focus of Deng's theory is pragmatic methods that could help China's economic development. However, when the previous Maoist ideologies are ignored and economic pragmatism becomes the only focus, what emerges is an absence of a national belief system and the exaggeration of materialism. The result is an acceptance of various unethical business activities as a normal business standard.

From 2007, Chinese government started to re-emphasize the values of traditional culture. For example, former president Hu Jintao emphasized the concept of a harmonious society, which is a typical concept in Confucian social thoughts. Another direct consequence of China's 'open-door' policy since 1978 is a Chinese society that is now in direct contact with foreign concepts, cultures and lifestyles. Although the Chinese culture is vastly different from the West, many factors such as China's opening-up policy, joining of WTO and the Olympics in 2008 are motivating Chinese business practices to align with international standards. For instance, companies that intend to expand in China can no longer solely rely on the power of Guanxi (networking, see next paragraph for explanation about Guanxi). Professional competence becomes increasingly important in Chinese business life, especially in the more developed regions.

## 2.2 Major Elements in Chinese Business Culture

### FACE

One of the central concepts in Chinese social life is 'face' (mianzi) because China is a collectivist society in which social harmony is of utmost importance. Face reflects one's social self-esteem and the way one is regarded in society and interpersonal interactions. People can 'have face' as long as they are respected by others, but they can 'lose face' when they experience a public embarrassment. Therefore, public disagreement is a face-losing act for the Chinese: they prefer articulating the intentions in an indirect manner and leaving room for negotiations in private. Enhancing or saving others' faces helps tremendously in building friendships and creating interpersonal goodwill.

Face is not only a behavioral trait. Losing face can have an intensely physical withdrawal effect, with the color of the face changing. Face-saving actions sometimes are at the cost of precision, accuracy, and clarity and may become compatible with honest or truthful communication practices. For instance, Chinese rarely give definitively negative answers equivalent to 'no'. Instead of saying 'no' blatantly to a request, Chinese often use such expressions as 'bu fang bian' (inconvenient) or 'you xie kun nan' (there are some difficulties). If you ask 'why is it inconvenient?' or 'what difficulty do you have?' you could be driving the conversation into an awkward situation.

### GUANXI

Guanxi literally means 'interpersonal connections' and refers to 'an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract'. Guanxi is pervasive in Chinese society. Nowadays, although it is common to use cold calls or direct contacts, Chinese still tend to look for Guanxi-connected relationships as it may save a lot of time in securing business opportunities. Such contacts may include family, friends, and people who are interpersonally connected to family and friends, as well as individuals linked by other connections (such as colleagues, business counterparts, classmates, teachers, students, etc.). If you have Guanxi with someone, you will be treated

as an insider instead of an outsider, which brings benefits and convenience in many aspects such as saving time and costs, obtaining extra information, building up trust sooner, etc.

However, it should be noted that there are two types of Guanxi. The first type is between people who are especially close, i.e. immediate family members and extremely close, long-time friends. The favors from this type of Guanxi are unsolicited and there is no need for immediate payback. The second type of Guanxi, commonly seen in business settings, is the instrumental ties, which are established by individuals with other people outside their immediate circles in order to attain some specific goal or desired outcome. The second type of Guanxi needs to be maintained by means of reciprocal exchange of favors or offering return for favors. If you fail to do so, the Guanxi is gone. Be prepared to put considerable time and effort into establishing, nourishing and expanding your network of contacts in both areas of government and business.

### Communication is an 'Yishu'

This story is regarding my experience as an interpreter. A horticulturist welcomed a Chinese delegation to his nursery in the Netherlands and I was the interpreter. When they arrived the horticulturist took me aside and asked me the translation in Chinese for 'art', which is 'yishu'. According to his company's philosophy cultivating trees is an art. It is obvious that he wants to get this idea across to his Chinese audience as he mentions one after the other 'yishu' in his presentation. The Chinese seem to appreciate it. This white fellow knew a Chinese word.

That is the way to communicate! A little while later I hear the horticulturist travelled to China to meet with many business people and lucrative contracts seemed within reach. He arrived at the right time: the advancing desert in the north has explosively increased the demand for reforestation. More and more city parks appear that all need landscaping. Homeowners are an expanding group in China and demand a green environment. There is clearly a demand for trees and the Netherlands is an expert in this field. So plenty of opportunities for a horticulturist you would say.

A few months later as I travelled with a delegation to China, I also visited the area where our horticulturist has his business contacts. He asks us to inquire why he has not heard anything from his Chinese friends. He had already been there once and the contact was good but his subsequent faxes were never answered.

It turns out that his Chinese contacts were serious. They even hired an English interpreter when he visited, because no one in their organization spoke English. But they were very cautious about trading with foreigners, for landscaping in China is a state matter and a very politically sensitive topic. The government first wanted to get to know this white man better and a single one-man show would not do. Building 'guanxi' requires more time. Our horticulturist had not anticipated this situation. A long breath, good preparation and guidance are essential. And of course, good communication, because communication with the Chinese is quite a 'Yishu'.

Sinologist and business advisor

## COMMUNICATION

To Westerners, the word 'yes' suggests agreement and affirmation, but to Chinese a 'yes' may only convey the meaning of 'I am listening' with the purpose of showing attention and politeness. Therefore, to communicate effectively with the Chinese, Westerners have to learn that the Chinese way of communication focuses on different elements, including implicit, context-based, listening-centered, and face-oriented methods. Unlike the Western communication pattern, Chinese prefer to use an implicit language pattern - meaning is often implied or must be inferred. Also, they tend to take context and the specific situation into account when interpreting a word. So the ability to surmise and decipher hidden meanings is highly desirable in Chinese culture.

For example, 'Huo Cong Kou Chu', means that misfortune comes out of the mouth. The Chinese are taught that if they are not careful about what they say, they may have to deal with various negative relational and social consequences. It is therefore not surprising for the Chinese to use restraint and control in speaking. In addition, they tend to engage in honest and truthful conversations with insiders while being reluctant to disclose information to outsiders. Face is also a major reason behind misunderstandings in cross-cultural business communication in China. To protect face, when turning down an offer or invitation, 'I will think about it' said by a Chinese usually means 'No, thank you!'. In general, although the increasing market orientation and job mobility have contributed to more open and direct communication in the Chinese workplace, detecting nonverbal cues and second guessing are usually useful for Western businesspeople and Chinese experienced staff may be necessary.

## MODESTY

Chinese people value modesty and humbleness. To grow up as a Chinese, one learns not to take credit for one's behavior or be boastful in any situation. 'It is the bird ahead of the flight that gets shot first' says the Chinese proverb. Self-effacing/other-enhancing is common rule in Chinese socialization process. When receiving a compliment such as 'your son is an excellent boy', a Chinese would automatically say the phrase 'Na Li, Na Li', which literally means 'where, where' but its true meaning is 'not really'. In Chinese culture, blatantly accepting a compliment is considered impolite. However, in the workplace, the understatement of one's ability, expertise, strength, or competence driven by modesty may lead to misunderstandings and misconceptions. Westerners may believe that the employee is incapable of doing something or the business counterpart is 'weak'. Therefore, you should make an effort to find out the difference between modesty and honesty. However, young Chinese professionals do not tend to keep a low profile. They tend to be more confident, self-expressive and direct.

### **COLLECTIVISM**

China is a traditionally collectivistic country. You can see the collectivism when looking at the Chinese way of dining. For example, while Westerners prefer to receive their own dish, most dishes in a Chinese meal are shared at the center of the table. To some extent, the collectivism in China is decided by the Confucian values and the influence of socialism. Confucianism encourages a person to conform to society, to do what is best for the group and to not openly express opinions or beliefs that go against it. Also, socialism rests on the principle that the individual can derive more from the collective than he or she can by working alone. When Mao Zedong came to power, he reinforced the collectivist view by eradicating landownership and individualism and sending nearly everyone to work in collectivist communes. Collectivism is a shared trait in most socialist countries and is not isolated to China.

The collectivism in Chinese society manifests itself mainly in the in-group and out-group effects. There are many signs that one would not see in the West. For instance, in-group members are getting significantly preferential treatment considerations in workplace, including hiring and promotions. While relationships with in-groups' colleagues are cooperative, they are cold or even hostile to out-groups. The group protects and helps organize a person's life where possible. In return, the individual has duties towards the group and is expected to follow its rules. In general, in-group personal relationships prevail over task and company. It is common for a senior manager to take the complete team with him to the new employer.

Although China is still on the collectivistic side in the global arena, there are signs that China may be shifting gradually toward individualism. Young Chinese born after 1980, in particular, are much more individualistic than their parents. In addition to the changing family dynamics due to the "one-child" policy, the radical economic development, and the exposure to Western cultures, younger generations in China have much more freedom than their parents had.



## 2.3 Advice on Business Practices

### **NEGOTIATION**

Negotiating in China will remain a difficult task for foreigners, as cultural differences continue to complicate all aspects of the process. Here we summarize some characteristics of negotiation with Chinese. First, while the Chinese tend to use strong negotiation tactics (delay, reiterate, and bargain), at the negotiation table, Chinese seldom criticize directly. Chinese negotiators will often feign disinterest in foreign enterprises' offers, which can be disconcerting to firms that assumed they were arriving in China to negotiate an imminent deal. The Chinese will often use silence as a negotiating tactic, which their Western counterparts may misinterpret this as a breakdown in the negotiating process, thus causing the latter to make hasty concessions. Chinese enterprises will also often claim they are in negotiations with competing interested parties, further enforcing the idea that your business is not as important to them as theirs is to someone else. All of this is enough to make foreign businesspeople either throw their hands up in frustration and walk away from the deal or reveal their bottom line too soon, in the hope of pushing the deal through in a more timely fashion.

Second, due to the holistic way of thinking, the Chinese tend to consider all the terms simultaneously in the bargaining process. The agenda of negotiation usually becomes a jumping off point for discussions. This is quite frustrating for Westerners, who are used to the linear way of thinking and sequential bargaining. Therefore, patience is an indispensable quality for foreign negotiators hoping to be successful in China.

Third, the Chinese emphasize group duty. Sometimes a large Chinese negotiating team, especially when they are from state-owned enterprise or government, will be present in the meeting room. However, only the senior members will speak. The rest of the team is only present to collect information. The real decision is not made immediately. Instead, it is made in their internal meetings between the negotiations. There is also a great deal of difference between negotiating with any level of the government and a commercial party.

The government is more traditional and, generally speaking, negotiations will be a slower process. There are more parties to consider in the decision making process and there will also be more parties playing a role in the background. An overall consensus needs to be made within a governmental department and this also takes time. A commercial party will have a shorter decision making line and can therefore work more effectively. The negotiations are often done by the general manager.

The 'getting to know each other' stage is used by the Chinese side to establish the background of the company and the background of the representative of the foreign company. This stage of the negotiations is aimed to answer questions related to the size of the company, the experience in China and the amount of decision making power of the Western negotiator. Overall, Western negotiators to China should be prepared for this lengthy process. It is standard practice to take a bit longer to get to know one's counterpart on a personal level and this also serves as an important tool to create the trust and interpersonal harmony, which is necessary in achieving a mutually beneficial deal.

Fourth, Chinese normally don't bring a lawyer in the early stages of negotiation. If a lawyer is present in the meeting, it can be a sign that you are close to the deal! Once negotiations are concluded, Western negotiators may mistakenly believe that the deal is closed. They are then frustrated and confused by a sudden and unexpected request by the Chinese side to make a change in the contract regarding an issue that had already been discussed in depth and agreed upon. It is also possible that the Chinese will not communicate that they want to make a change and will present a contract that contains terms changed from what had been agreed to in negotiations. Though at times infuriating, the foreign negotiator must expect such requests and be prepared. Keep in mind that the party making the contracts has a better control over such tactics.

It is advised to use a local foreigner with negotiating experience. This person has the experience of working in China, knows the culture and has the mind set to negotiate effectively. Having the support of someone living in China has two more advantages. The first is you will get more respect from the Chinese side. The Chinese appreciate it enormously when they learn the negotiator lives in China. It shows a commitment to China. The second reason is that time is on your side. There is no reason to feel the pressure of getting an immediate result as the representative can do the follow up, continue the negotiations without the presence of a delegation and maintain the relationship with the Chinese party.

Although honesty is traditionally a highly esteemed virtue, Westerners are often surprised at how easily (in their eyes) Chinese negotiation counterparts will bend the truth, even when it is so obvious that a limited research would uncover the actual situation.

More often than one may think, such truth bending is the consequence of internal discussions or real uncertainties at the Chinese side, and not the result of real ill intentions. For instance, the Chinese party often faces the situation that the company keeps several sets of books: e.g. one for tax and shareholders, one for management and a third with actual liabilities, hence uncertainties about what to refer to in a due diligence (the last two sets are not legal).

It is actually important to note that when faced with this specific situation, the Chinese negotiator is somehow vulnerable to the Western party and would "loose face" if the Westerner gets really angry or insistently points out the inconsistency. The Western party will be well advised to be patient, possibly to wait till the late stage of the negotiations to address the issue if it is still relevant. This obviously does not prevent from thoroughly investigating the real background.

Beside this specific case, it is also important to understand that in business negotiations, a lie is not considered a real lie, but a negotiation technique.

## **NETWORKING**

To develop a cooperative relationship with a Chinese partner or customer a consistent approach is necessary. It takes time to develop an open relationship based on clarity and honesty and such relationships are normally personal and less BtoB. Unlike in the West, dinners in China are used to get to know each other and for networking purposes - to build up Guanxi. Seat placements at the dining table are set according to rank, importance and seniority. There are fixed seating placements for the host and the guest and then they are seated again according to seniority. Drinking is a common way to build up personal relationships. It is often seen as rude not to drink with the Chinese in a formal dinner. However, either claiming to be a non-alcoholic or pleading medical grounds is regarded as acceptable excuse. This will let you off the hook with little or minimal drinks. Better yet, bring a partner who can drink on your behalf!

Table manners might be different from what you are used to. Do not worry too much about this. Remember that the toughest business people you encounter in China will often also prove to be genuinely warm and accommodating hosts. They will overlook simple errors of table manners or business etiquette if your purposes are serious and your conduct respectful.

### **EXCHANGING GIFTS**

Giving or exchanging gifts is also a common way to show your goodwill. Make sure the senior people get a better gift or at least gifts perceived to have a higher value than their junior staff. Similarly, expect to receive gifts from the Chinese, especially Chinese art products. It is impolite to refuse, especially if it is not of too high a monetary value.

When Xi Jinping came to power as the new president of China, he made anti-corruption his central theme of government. The effects of these policies can be seen at all levels of society and must not be underestimated. There is real fear of being prosecuted at every level in society, both in commercial enterprises and in governmental organizations at all levels. It is no longer acceptable to give exclusive dinners to appease an official or smooth a deal with the government. Also giving expensive gifts is no longer accepted. It is strongly advised to just give low monetary value and symbolic gifts.

### **LEADERSHIP**

There are cultural differences between China and the West in the way followers view their leaders, what they expect from their leaders, and what leaders can in turn expect from their team members. The leadership must have a “cultural fit” between leaders and subordinates from diverse backgrounds. Chinese leadership style is heavily influenced by Confucian values. The paternalistic leadership in China consists of three key elements: authoritarianism, benevolence and morality. It is a father-like leadership style in which clear and strong authority is combined with concern and consideration and elements of moral leadership. By contrast, some Western leaders’ valuable attributes, such as non-autocratic, are not well accepted by Chinese subordinates. The same applies to some leadership practices. For instances, while employee empowerment is taken for granted in the West, it is not so easily accomplished in a hierarchical culture like China, where people prefer directive leaders. Empowerment is sometimes interpreted by Chinese employees as to show that the leader is either incapable of doing the job by himself or he is just lazy. Also, frequently asking for opinions from subordinates in a decision-making process would be deemed as a sign of a leader’s incompetence. Therefore, empowering and management control are two complementary aspects of leadership practice in organizations, both of which are necessary for employees’ performance and should be balanced in leading employees in China.

**TALENT MANAGEMENT**

Retaining talent is one of the biggest challenges for international companies in China. In Chinese culture, long-term relationship and loyalty are highly valued. However, the high employee turnover rate in China is contradictory to these traditional values. In Chapter 8: Human Resources, we will discuss in depth the reasons for this phenomenon and what to do to retain staff.

**DEALING WITH CONFLICTS**

Chinese conflict management styles are linked closely to the concern for face. Most Chinese endorse avoidance and other indirect approaches to conflict situations. Chinese tend to regard direct confrontation as unpleasant and undesirable, which often cause face damage and disruption of interpersonal harmony to the conflicting parties. Therefore, the use of an intermediary in conflict situations is common in China. Close friends of both parties and senior persons respected by both can be a suitable intermediary to ensure fairness and neutrality. This strategy of using intermediary in conflict management not only enables both parties to preserve harmony and save them from losing face, but also helps create an amicable climate for future cooperation and negotiation.

## 2.4 Conclusion

In this chapter, we provided broad generalizations on Chinese business culture, which are useful as a starting point for Western people working in China. China is so vast and complicated that no single version of a cultural description can grasp its complexity. Chinese people are also very diverse. Knowing about “face” and “Guanxi” is certainly useful, but one cannot assume that this knowledge is applicable to all the Chinese people that you will encounter. While some Chinese are traditional, others may be ultracompetitive and direct. In addition, people have to take a dynamic perspective in viewing Chinese business culture since the country is in the middle of a great economic and social transformation. Always keep an open mind and remember that you cannot have one aspect of a culture that you like without having other aspects that you may not like so much.



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