

Doing Business Successfully in China

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Centre for Research on Asian Management, Cass Business School,
City University, UK; HEAD Foundation, Singapore
(email: c.rowley@city.ac.uk)

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Chandos Publishing
Email: gjones@chandospublishing.com
www.chandospublishing.com

Professor Chris Rowley
Cass Business School, City University
Email: c.rowley@city.ac.uk
www.cass.city.ac.uk/faculty/c.rowley

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Professor Chris Rowley: Dr Rowley, BA, MA (Warwick), DPhil (Nuffield College, Oxford) is Subject Group leader and the inaugural Professor of Human Resource Management at Cass Business School, City University, London, UK, and Director of Research and Publications for the HEAD Foundation, Singapore. He is the founding Director of the multi-disciplinary and internationally networked Centre for Research on Asian Management (<http://www.cass.city.ac.uk/cram/index.html>) and Editor of the leading journal *Asia Pacific Business Review* (www.tandf.co.uk/journals/titles/13602381.asp). He is well known and highly regarded in the area, with visiting appointments at leading Asian universities and top journal Editorial Boards in the UK, Asia and the US. He has given a range of talks and lectures to universities, companies and organisations internationally with research and consultancy experience with unions, business and government, and his previous employment includes varied work in both the public and private sectors. Professor Rowley researches in a range of areas, including international and comparative human resource management and Asia Pacific management and business. He has been awarded grants from the British Academy, an ESRC AIM International Study Fellowship and gained a 5-year RCUK Fellowship in Asian Business and Management. He acts as a reviewer for many funding bodies, as well as for numerous journals and publishers. Professor Rowley publishes extensively, including in leading US and UK journals, with over 370 articles, books, chapters and other contributions.

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MONA CHUNG



Oxford Cambridge Philadelphia New Delhi

Chandos Publishing
Hexagon House
Avenue 4
Station Lane
Witney
Oxford OX28 4BN
UK
Tel: +44 (0) 1993 848726
Email: info@chandospublishing.com
www.chandospublishing.com

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Woodhead Publishing Limited
80 High Street
Sawston
Cambridge CB22 3HJ
UK
Tel: +44 (0) 1223 499140
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About the author

Dr Mona Chung is a bicultural expert in cross-cultural negotiations whose work addresses the cultural gaps between Westerners and Chinese in the fields of commerce and education. Not understanding or ignoring the vast cultural differences between Australia and China has contributed to many companies suffering heavy financial losses over many years.

Dr Chung has extensive experience in Western–Chinese business relationships. She specialises in strategic planning, management and marketing practices on behalf of international organisations (commercial and educational). As a bicultural person, she short-circuits processes and produces results that increase efficiency by between 70 per cent and 50 per cent with significant cost savings.

Dr Chung is on the executive board of the Victoria branch of the Australia China Business Council. Being highly experienced in a large number of industries and a frequent visitor to China, Dr Chung is a guest speaker at many public forums and author of an extensive list of publications in cross-cultural business studies. This is her second book on how to do business in China. Her first, in 2008, was *Shanghaied: Why Foster's Could Not Survive China*.

Dr Chung lectures at Deakin University, Australia and can be contacted on +61 414271678 or info@ccinternational.net.au.

Introduction

Abstract: Chapter one gives an overview of the book and emphasis on the importance of bicultural negotiators. It starts with high lighting the importance of doing business with China today especially in the relationship with US. It states that doing business with China today is a ‘must’ for all organisations. Therefore organisations must pay attention to the fundamental determining factor-cultural differences. This book focuses on this point and draws full attention to the key issue in doing business with China – to understand its culture and do business the Chinese way in China to ensure success – hence doing business successfully in China.

Key words: China, doing business in China, doing business with Chinese, Chinese economy, Chinese market, cultural differences, The Glass Wall Effect, bicultural negotiators.

The importance of doing business with China

In 2010, as people in the world’s long-established and emerging economics pondered whether they had finally survived the global financial crisis, or were heading towards another, even deeper recession, the position of China continued to change rapidly on the international stage in many ways. Foremost in this regard is economic development, closely followed by political positioning. The world’s number

one economy, the United States, is now being seriously challenged by China.

Attached to this challenge is an increasing tension between the US and China on a number of issues: trade, currency valuation and debt level. On the surface they are economically related matters, but history tells us that economics is closely linked to political influence. The US–China political relationship has not been so tense since the visit by US President Richard Nixon to Beijing in 1972. It is clearly an arm wrestle between the US and China for the title of number one economic power and this means future political dominance. For Western nations, at least, political clout coupled with economic strength has always meant trade dominance.

Against this background, it is essential to understand the importance of China internationally. To all Western organisations and businesses, China is no longer a choice but a necessity for their future. Doing business with China is now a ‘must’, and they must get it right.

This introduces the question of how to do business successfully in China. Businesses large and small began testing the waters with business activities in China as soon as its open-door policy was tentatively implemented in 1979. Since then, for more than 30 years, and specifically in the first 20, a large number of companies have lost thousands of billions of dollars between them in this most attractive market.

China’s economic importance as a market and the dominating position of its manufacturing capacity has made it a very attractive destination for international businesses. China’s current position as the manufacturing base of the world means that organisations find it difficult to avoid direct or indirect involvement. Yet after all this time, and the now obvious urgent need to understand how the Chinese do business and how ‘outsiders’ must conduct business with

them, there is no commonly available publication on ‘doing business with China’ that combines a theoretical framework with knowledge gained from practical experience.

The core emphasis of this book is on how cultural differences affect companies’ return on investment. The book aims to provide executives and entrepreneurs with a golden opportunity to succeed in the Chinese market, instead of suffering the fate of many others in the past. As one business executive has said: ‘the path to the Chinese market is littered with corpses’.

The lure of 1.3 billion consumers

Multinational companies around the world entered the Chinese market for a simple reason: its 1.3 billion consumers. From a purely strategic viewpoint this has proven to be unsuccessful, simply because of the cultural complexity of China’s vast mass of potential customers. Without culturally suited marketing strategies, billions of dollars were poured into China and it became a giant black hole for many marketers. This book looks at why it is essential when marketing products to the Chinese to take cultural differences into consideration. It draws on research by the author into the Foster’s Group experience of three joint ventures with Chinese breweries from 1993 to 2006. (This research, for a PhD project, led to her first book: *Shanghaied: Why Foster’s Could Not Survive China.*)

All marketing activities, anywhere, begin with an analysis of the market and a process of formulating strategies and plans, according to all trained marketers and their text books. Some argue that setting up the right strategies is crucial to success in international business; others believe the implementation of strategy is more important. It is argued

here that establishing correct strategies is a prerequisite for adequate implementation.

Being a huge market of rapidly growing prosperity and social change, China is attractive to multinational corporations around the world. In 2006 it was the second-largest recipient of foreign direct investment in the world, according to US statistics. Companies from around the world have been pursuing the Chinese market in a more focused manner since China's economic reforms in the late 1970s. Inward investment in China in 2005 and 2006 was approximately \$70 billion a year. However, only a very small number of firms are meeting profitability projections and many others have made large capital writedowns. Most US and European multinational corporations have never made a profit in China.

Communication is fundamental to all business activities, and cross-cultural communication is far more complex than mono-cultural communication. The problems of communicating with multiple stakeholders embedded in diverse cultures are complex. These are exacerbated by the linking of macro-cultural issues, such as globalisation, with micro-cultural and community identity issues. In relation to doing business in China, communication has been the most important issue that has caused tremendous difficulties. For this reason, communication with Chinese is best conducted by those with a depth of knowledge and skills.

Different behavioural patterns may cause inefficiency in a cross-cultural communication process. Misunderstanding across different cultures is harder to recognise than in mono-cultural communication and is more difficult to deal with. Cultural capability is caused by an inability, or varying degrees of ability, to interpret cross-cultural behaviour. Not understanding culturally related behaviour often results in a complete misunderstanding when encoding and decoding

messages. Communication is, in effect, blocked not by one barrier but by too many barriers.

A little knowledge can be dangerous

With increasing business activities in China, more and more people are benefiting from the experience of visiting, working or studying in China. But many of them are in danger of suffering from the Glass Wall Effect (discussed further in chapter 2).

In some cases prior knowledge or experience of a culture is misleading and unhelpful in dealing with cross-cultural situations. People may be caught in a situation where they cannot explain differences in behaviour. For example, knowledge in dealing with Japanese may give false confidence in dealing with Chinese, by thinking that ‘Asian’ cultures are all the same, or similar. This is especially confusing when Asians of Chinese background present themselves as Chinese – an ethnic group, rather than a nationality group.

The importance of competent and trained interpreters cannot be emphasised enough, because half-baked cultural knowledge, and incompetent language skills in both English and Chinese, are likely to confuse matters rather than clarify them.

Differences in the expertise of individual interpreters engaged by Westerners and Chinese are unavoidable and therefore an imbalance in the spoken communication processes is likely to occur and miscommunication is equally inevitable.

By understanding this, Western companies will also understand the importance of engaging good interpreters who have competent cultural knowledge of Australia and China, as well as competent English and Chinese language skills.

Current and constant change

This book is timely as while it is in production China's position is changing on a daily basis.

The increasingly important and controversial position of China in world trade raises the topic of negotiating with the Chinese on a new level of importance. In more recent years, this topic has become increasingly interesting from both sides of the negotiations. Although Chinese universities and publications pay much more attention to the topic than do Western universities and literature, the actual business activities suggest that both Chinese and Westerners have equally poor negotiation results.

Bicultural negotiators are the most effective. They are familiar with both cultures, are capable of effective communication beyond language skills in both cultures, and can switch between each at ease. This is the key to successful negotiation with the Chinese.

Negotiations with Chinese are never concluded. When a contract is signed and an agreement is reached, it is not the end of the negotiation. It is really just the start of an understanding. Issues that have been negotiated or not negotiated may surface at any time before or after signing. Anything is subject to negotiation and renegotiation. Contracts symbolise the beginning of a long-term cooperative relationship rather than steps and details to be followed. When contracts are signed, few details are usually included. This is not a matter of respecting or not respecting a piece of paper; rather, it is recognised that circumstances change constantly and flexibility is essential.

The Chinese culture is a collective one. They do everything in plurals, including one job being performed by more than one person. In the Chinese language, there is no plural form of nouns; numbers are added to particular nouns. At times,

deliberate vagueness can be tolerated. Chinese teams do not make major decisions on the spot or allow decisions to be made by individuals. This is most obvious when a negotiation team is small, regardless of its members' rank and power.

As well as the fundamentals of doing business in China, the following chapters pay specific attention to negotiations with the Chinese. More importantly, this book gives theoretical and practical advice on doing business with China and doing it successfully.

Communicating with Chinese by understanding them better

Abstract: This chapter starts with basics in communication then moves on to the cross-cultural communication, in specific communication with China. It introduces the concept of high-low context culture and language and communication styles. With real case examples it demonstrates how relationships are built in doing business with Chinese.

A main point of this chapter is on the Glass Wall Effect, explains what it is and why it is more dangerous than no knowledge at all. It goes on to explain the pros and cons of using an interpreter and how miscommunication may occur. Suggestions are given to Western companies to ensure that they have their own interpreters when negotiating with Chinese.

Key words: communication with Chinese, communication model, high and low context culture and language, relationship building with Chinese, communication styles, miscommunication across cultures, the Glass Wall Effect, and explains the role of interpreters in cross-cultural communication.

The increasing use of globalisation as a strategy for growth leaves organisations no choice but to ensure they have effective cross-cultural communication skills and processes in place. Communication is fundamental to all business activities, and cross-cultural communication is far more

complex than mono-cultural communication. The problems of communicating with multiple stakeholders embedded in diverse cultures are complex. This is exacerbated by the linking of macro-cultural issues, such as globalisation, with micro-cultural and community identity issues.

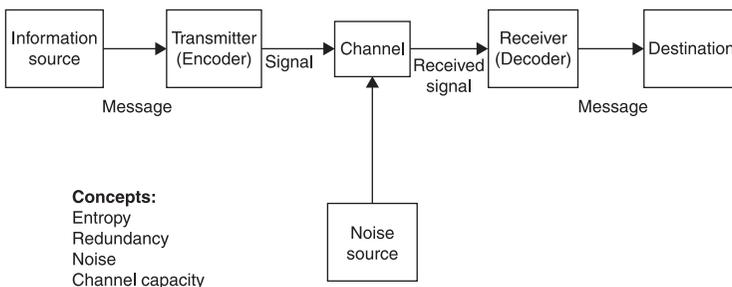
Communication models

To help understand communication, let us look at some basic communication models. The model used by Shannon and Weaver (Dwyer 2002, p. 53) has been the most popular so far in improving communication in organisations (see Fig. 2.1).

Its main elements (sender, receiver, encoding, decoding, channel, message and context) explain factors behind ineffective communication. Factors such as culture, technology, environment, individual differences and others may affect these basic elements, which indicate the complexity of any effective communication process.

Within one culture, barriers to communication occur at any point. For instance, individuality determines how a sender may encode a message. Within one cultural community, Foster's Group head office in Melbourne for example, certain protocols exist for how a message should be sent. When a

Figure 2.1 The Shannon–Weaver Mathematical Model, 1949



sender behaves abnormally (as perceived by others and they are usually from the same cultural group), the receiver will have difficulty in decoding the message. This may cause suspicion or distrust, or possibly even a conspiracy theory, in processes of communication. Further misunderstanding may occur through the feedback loop, which in most cases is how a misunderstanding is discovered. When a misunderstanding is not recognised by either the sender or receiver, behaviour framed by the misunderstanding will influence the new pattern of communication. This will cause further misunderstandings and, in turn, damage relationships.

In communication with Chinese, this process is often the main cause of misunderstanding, because culturally Chinese are less likely to clarify issues for two reasons:

1. Their communication style – high context compared with low context.
2. The culture of being vague as well as polite, ‘hanxu (含蓄)’ is considered a good quality in a person.

Different behavioural patterns may cause inefficiency in a cross-cultural communication process. Misunderstanding across different cultures is harder to recognise than in mono-cultural communication and is more difficult to deal with. Cultural capability is caused by an inability, or varying degrees of ability, to interpret cross-cultural behaviour. Not understanding culturally related behaviour often results in a complete misunderstanding when encoding and decoding messages. Communication is, in effect, blocked not by one barrier but by too many barriers.

Increasing diversity worldwide has drawn much attention to cultural issues in communication. Previous literature suggests that in communication across cultures, context is the component that causes most difficulties. Cultural differences substantially affect the process of message transmission.

Context of culture and cross-cultural communication

Edward Hall's theory of high context and low context culture is fundamental to the understanding of cross-cultural communication and styles. Hall (1976) suggested that on a continuum of a scale, people of different cultures can be divided into high and low context.

Context is the information that surrounds an event; it is inextricably bound up with the meaning of that event. The elements that combine to produce a given meaning – events and context – are in different proportions depending on the culture. The cultures of the world can be compared on a scale from high to low context (Hall and Hall 1990).

High and low context is a continuum scale that indicates the degree to which someone is aware of the selective screen that they place between themselves and the outside world. I find this concept is one of the most useful in explaining the differences between individuals, and at the same time, the concept is broad and covers such large groups and numbers of people.

On a macro level, the concept is brilliant and even on a micro level I have used it to explain many situations, and people are generally enlightened by it. However, for every example one can possibly find an exception.

People of high context culture communicate with high context messages in a high context manner, and vice versa in low context culture. In high context, the unspoken meaning is at least as important as what is actually said, while in low context culture most of the information is expressed explicitly. In high context culture, people express themselves with many and a large variety of words. They go around the issues and expect the listener to understand the hidden agenda. The speaker expects the listener to follow their train

of thought and to pick up the meaning between the words. Surrounding context and background information are part of what is expected to be familiar to all. Among people of the same culture, this is achieved without the need for clarification.

For instance, in negotiations, Chinese often use the expression, 'the price is too high' as a smokescreen. This can have several meanings, such as: the price is genuinely too high and the other party needs to bring it down; or there is a hidden agenda because the real issue is not price, but they cannot express the real issue concisely.

It is expected that the other party, if also from a high context culture, will pick this up and quickly work out exactly what the real issue is. However, not understanding the cultural background makes it difficult, if not impossible, to decode the real meaning. The importance of this concept of high and low context is clearly seen in miscommunication between cultures or alternatively the ease with which people of the same cultural group communicate.

Communication in a high context culture takes much longer to reach the point of exchange (Korac-Kakabadse et al. 2001) and it contains attempts to smooth over any unpleasant information that has to be conveyed (Hall and Hall 1990). It has been said that the difference between Americans (low context) and Japanese (high context) is: 'When we say one word, we understand 10, but here (in Japan) you say 10 to understand one' (Kennedy and Everest 1996). People of low context culture are so economical in using words. They put meaning to each word and only express the exact meaning of the words they use. For people of high context culture, meanings cannot be expressed directly; to do so is simply rude.

This difference between the two cultures has a big effect on the effectiveness of their communication. Culture is the primary force of human behaviour and hence communication

style. The differences, or the inability to interpret correct meanings from people of one culture to another, are the main barrier to effective cross-cultural communication. Using language as the only excuse is shallow. Language difficulties are merely symptoms rather than the cause.

Building relationships at all levels

Culture as a whole can be likened to an onion. There are many layers to the concept of culture, hence the cause of difficulty may appear at many different levels, which often causes confusion in a cross-cultural context.

Communication in a high context culture usually involves multiple levels of relationships in different situations. For instance, when Chinese receive Western visitors in China, the visitors will be looked after for the duration of their stay. From morning to night, programs and activities are organised from the minute they arrive to when they board the plane to depart. The hosts will extend hospitality to accompanying family and friends or at least say, 'Next time, bring your family.'

Chinese ensure that all visitors are well looked after and entertained as a part of relationship building and it is considered good manners and appropriate hospitality. To keep visitors accompanied 'peizhe (陪着)' is basic manners for hosts and hostesses. Often when facilities permit, visitors' accommodation costs are usually also covered. Difficulties occur when Chinese visit Australia. Unenlightened Westerners expect them to get from airport to hotel by themselves, and entertain themselves when there are no business-related activities.

Not only is the reciprocal level of hospitality poor in Chinese eyes, but they are often at a loss to understand why. Serious consequences have occurred from these types of