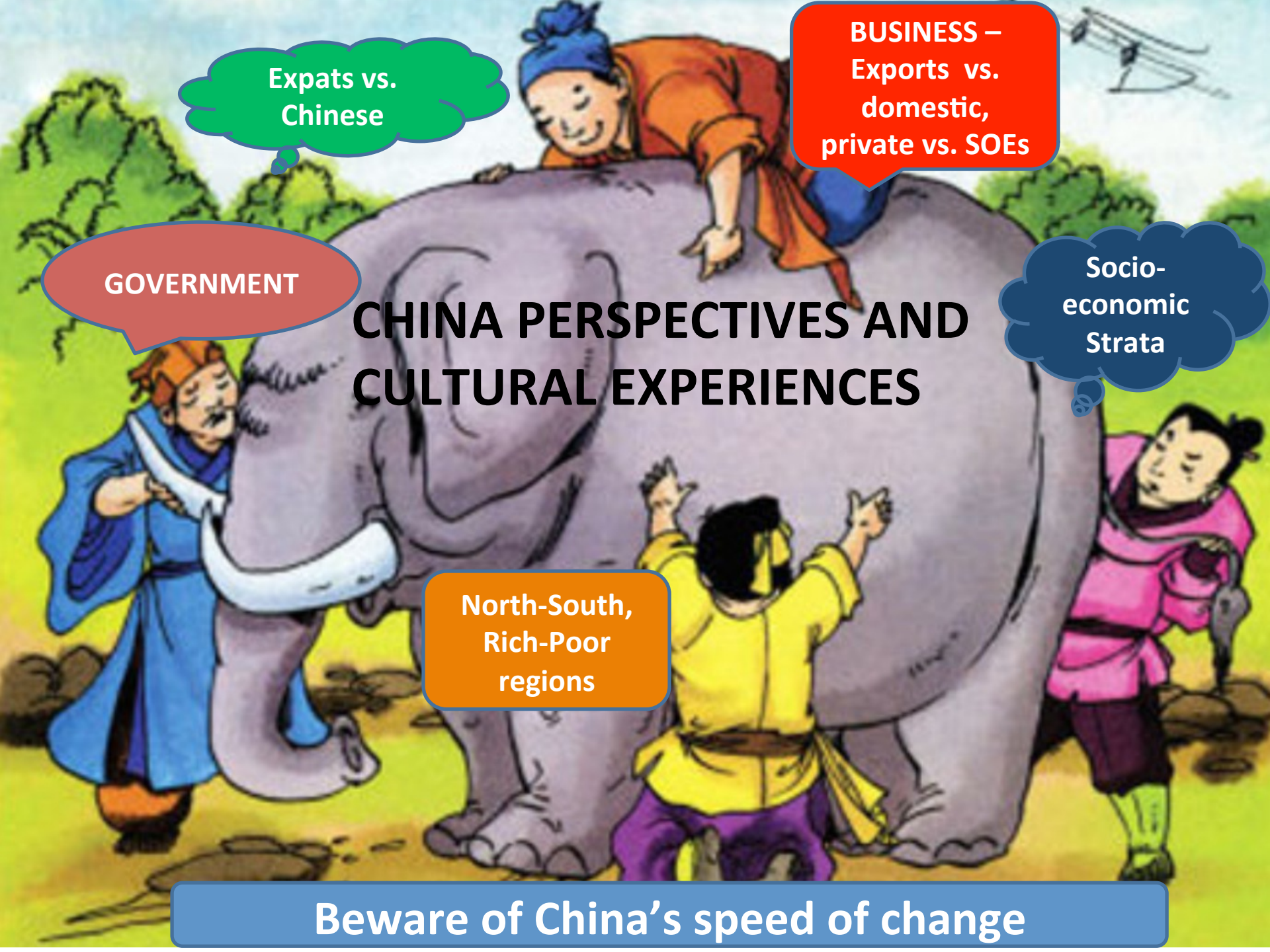


CULTURAL PRIMER FOR DOING BUSINESS WITH CHINA



Expats vs. Chinese

BUSINESS – Exports vs. domestic, private vs. SOEs

GOVERNMENT

Socio-economic Strata

CHINA PERSPECTIVES AND CULTURAL EXPERIENCES

North-South, Rich-Poor regions

Beware of China's speed of change

“知己知彼，百战百胜：
Know yourself & know
your enemy – and win a
hundred battles” – *Art of
War*, Sun Tse

Why
Cultural and
Institutional
Knowledge?

China 's State Capitalism
and large cultural
distance from Canada

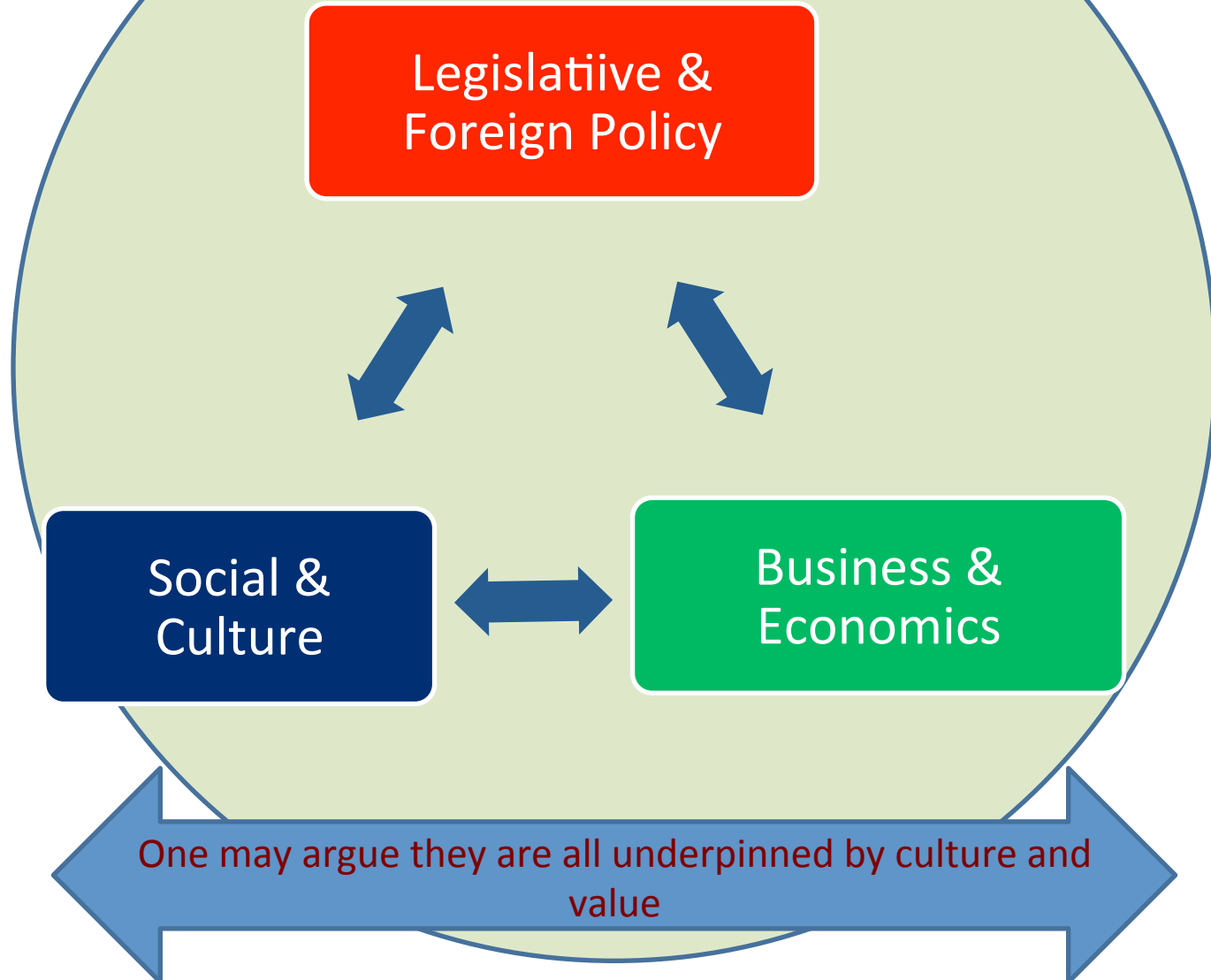
“He Who Knows Only
One Country Knows
No Country “
Francis Fukuyama

Beware of *your own cultural tendencies & world view* and learn your partner's culture - but can you work with it? You may be the one to make the adjustment!

- **“He Who Knows Only One Country Knows No Country “**

Francis Fukuyama

Interplay of Factors in a Global Business Environment



Cultural Influence on International Business

- Internationalization decisions
 - Market selection
- Entry models and distribution management
 - Personnel management
- Branding and pricing strategy
 - Market segmentation
 - Investment Strategies

Select Views on Westernization and Development

Zakaria (2011), P.84.

- Peter the Great (Russia must develop through Westernization of institutions - the Beard tax).
- Nehru (Backwardness of India to be cured by Westernization of institutions etc.).
- Sun Yat-sun (China must cope the West to advance).
- Fukuzawa (Japan must leave Asia and join Europe – Meji Reformation).
- Ataturk (To catch up with Europe, Turkey must westernize - change dress code and political institutions).

Westernization versus Modernization

Modernization generally means Industrialization, urbanization, literacy, increasing wealth and education and is not cultural based. While most global institutions, technologies are Western in origin, Westernization is a cultural phenomenon i.e. dress codes, “capitalism”?, and certain political values .

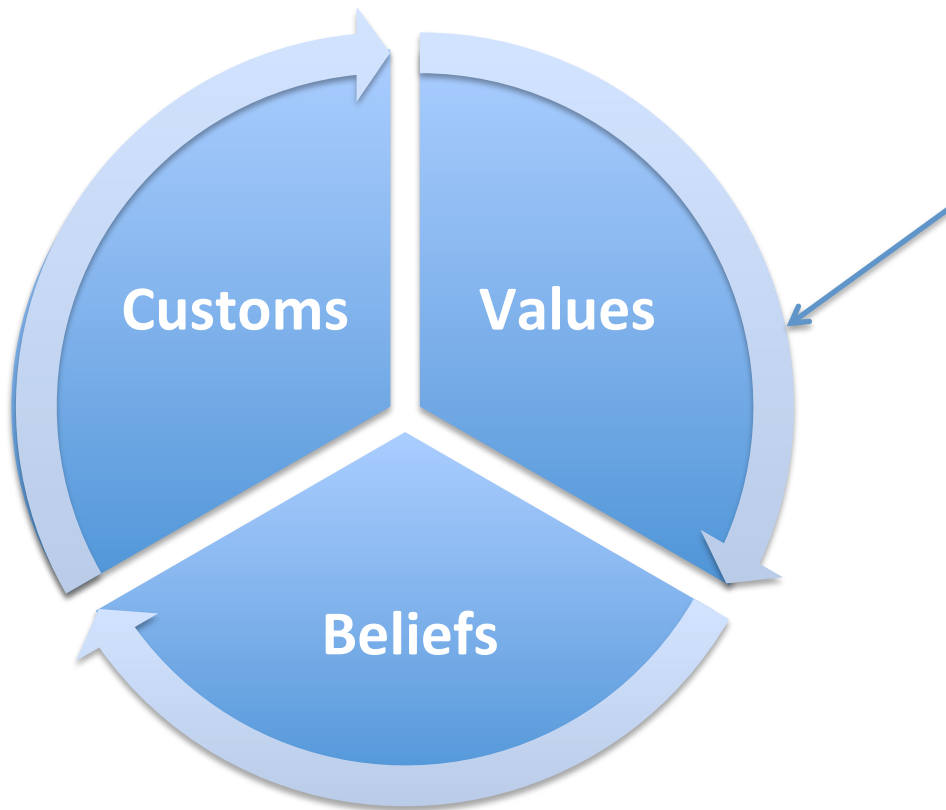
Modernization is characterized by a western face because it has coincided with the rise of the West. It has shaped global values or the global agenda. To the extent that local cultures have persisted, Modernization with local differences may be the norm.

Cultural Differentiators of the West

- Role of the Church as a contender for political power.
- Religious worldviews and beliefs – Divine laws, evangelical traditions, and source of morality
- Geography and external threats – role of the state and degree of cultural homogeneity
- Short history in political unity which might be conducive to centralization and authoritarianism

**How would globalization affect
China and would China's economic
emergence change the global
business culture?**

Culture Defined



Culture is an integrated system of learned behaviour patterns that are distinguishing characteristics of members of a society. Includes everything that a group thinks, says, does and makes – its customs, language, material artifacts, and shared systems of attitudes and feelings.

The Hall Model of Cultural Communication Styles

Societies can be compared on the basis of :

1. Requirement for explicit expression of context or information in communication – high vs. low context societies.
2. Amount of personal space in communication.
3. Monochronic or Polychronic orientations
4. Structure and speed of information flows.

Hall's Observations

- High context societies tend to be authoritarian and explicit communication is not needed or encouraged.
- Communication is not sequential and may appear haphazard in high context societies.
- Rules tend to be explicit and rigidly followed in low context, monochronic societies.
- In- group, out-group distinction critical in collectivist, monochronic societies – different communication styles and relations vis-à-vis these two groups

Context as an Element of Culture (Hall)

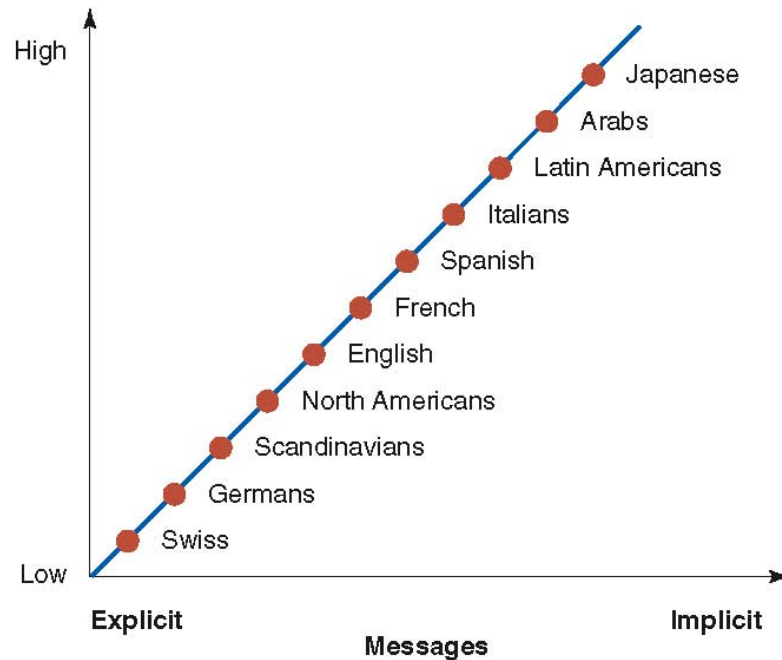
15

- High Context Cultures (Languages)
 - Context is at least as important as what is actually said
(e.g., Japan)
- Low Context Cultures (Languages)
 - Most of the information is contained explicitly in the words
(e.g., Canada)

The Context Continuum

Exhibit
3.1

The Context Continuum



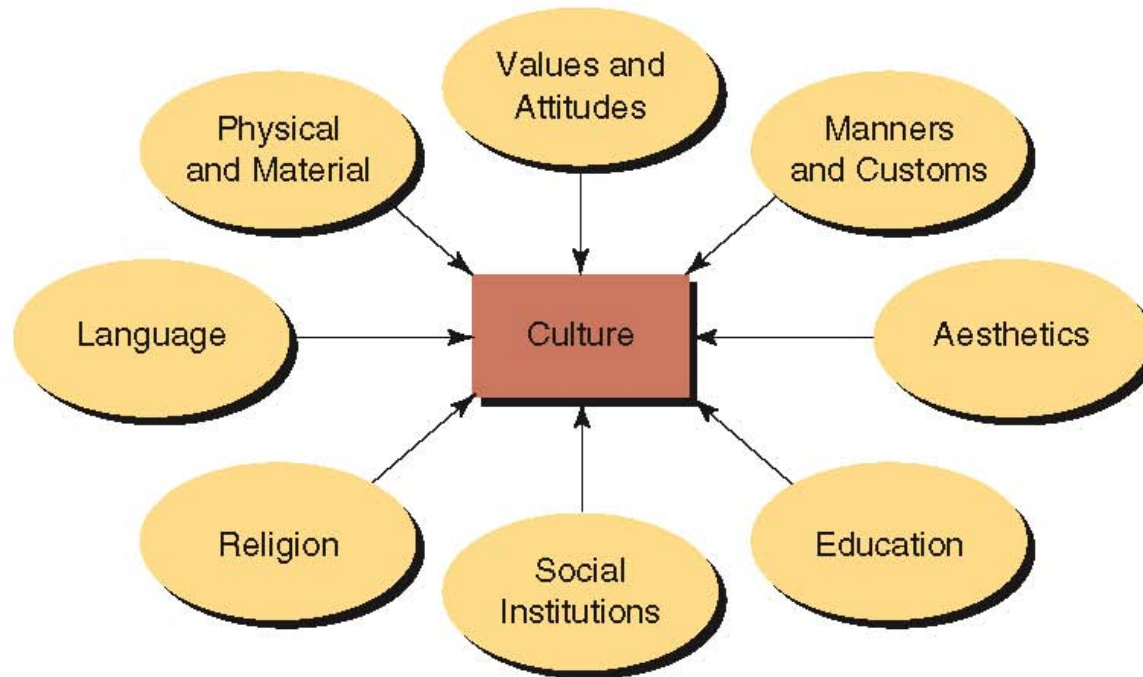
Source: Adapted from S. Hollensen, *Global Marketing: A Decision-Oriented Approach* (Harlow, UK: Prentice Hall, 2004).

Other Elements of Culture

Exhibit

3.5

The Elements of Culture



Language Capability

18

- Language capability serves four distinct roles in global marketing:
 1. Information gathering and evaluation efforts
 2. Access to local society
 3. Company communications (including communication with channel members)
 4. Extends beyond mechanics to the interpretation of contexts

Nonverbal Language

19

- Marketers must analyze and become familiar with the hidden language of foreign cultures – high – versus low-context languages and “time concepts”
- Five key topics:
 1. Time
 2. Space
 3. Material possessions
 4. Friendship patterns
 5. Business agreements

Time Concept of Culture

	MONOCHRONIC CULTURE	POLYCHRONIC CULTURE
INTERPERSONAL RELATIONS	<i>Interpersonal relations are subordinate to present Schedule</i>	<i>Present schedule is subordinate to Interpersonal relations</i>
ACTIVITY CO-ORDINATION	<i>Schedule co-ordinates activity; appointment time is rigid.</i>	<i>Interpersonal relations coordinate activity; appointment time is flexible</i>
TASK HANDLING	<i>One task at a time</i>	<i>Many tasks are handled simultaneously</i>
BREAKS AND PERSONAL TIME	<i>Breaks and personal time are sacrosanct regardless of personal ties.</i>	<i>Breaks and personal time are subordinate to personal ties.</i>
TEMPORAL STRUCTURE	<i>Time is inflexible; time is tangible</i>	<i>Time is flexible; time is fluid</i>
WORK/PERSONAL TIME SEPARABILITY	<i>Work time is clearly separable from personal time</i>	<i>Work time is not clearly separable from personal time</i>
ORGANISATIONAL PERCEPTION	<i>Activities are isolated from organization as a whole; tasks are measured by output in time (activity per hour or minute)</i>	<i>Activities are integrated into organization as a whole; tasks are measured as part of overall organizational goal</i>

Religion

21

- Religion provides the basis for transcultural similarities under shared beliefs and behaviour
- Dominant religions of the world:
 - Christianity
 - Islam
 - Hinduism
 - Buddhism
 - Confucianism

Material Elements of Culture

22

- Material culture results from technology and is directly related to the way a society organizes its economic activity
- Technological advances have probably been the major cause of cultural change in many countries

Manifestation of Culture

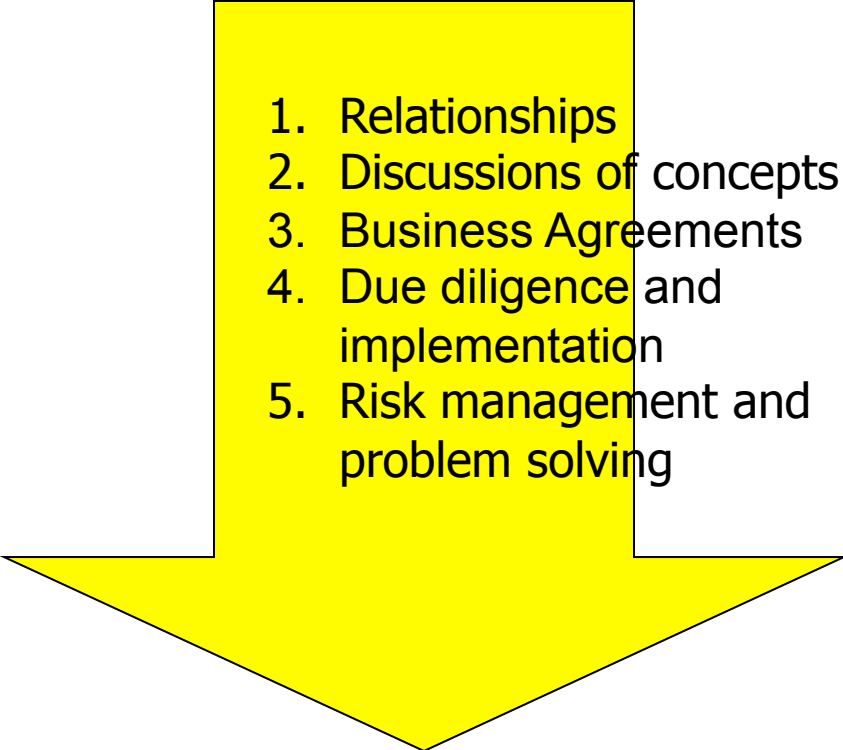
- Value Systems
- Life Perspective
- Political and Social Norms
- Ideology and Belief Systems
- Communications Styles (High- context v. low context language)
- Organizational culture (Multi-chronic v. mono-chronic)

Roots of Cultural Misunderstanding


- Value Systems
- Life Perspective
- Political and Social Norms
- Ideology and Belief Systems
- Communications Styles (High- context v. low context language)
- Organizational culture (Multi-chronic v. mono-chronic)

Approaches to Business Relations: Example of culture conflict

The Chinese construct

- 
1. Relationships
 2. Discussions of concepts
 3. Business Agreements
 4. Due diligence and implementation
 5. Risk management and problem solving

The Western construct

- 
4. Personal Relationships
 3. Contract implementation
 2. Decisions and negotiations on processes and goals
 1. Risk management and study of potential problems.

Western Complaints about Chinese Business Culture

- Longer time scales
- Objective data and Information hard to get
- Performance management system unclear
- Incentive system not based on performance
- Financial management systems designed to monitor not to exercise control and provide information
- Paternalistic organizational culture
- Not used to working on tight schedule and cost constraints
- Indirect Communications style
- Rules are unclear
- Too many changes
- Planning and priority setting not followed
- Non-transparent commercial and legal cultures
- Rely too much on Guanxi

Chinese Complaints of Western Business Culture

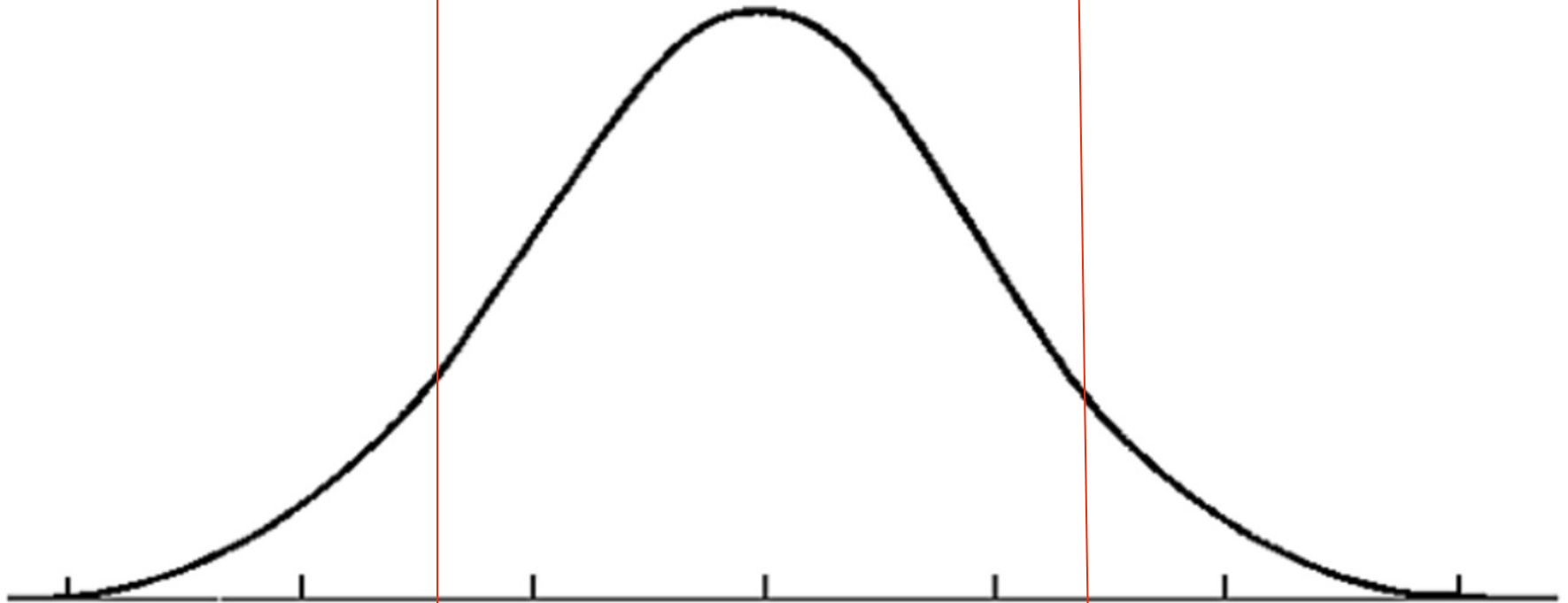
- Too rigid and inflexible
- Too straight forward (not diplomatic enough)
 - Too rule-bound
 - Ask for too many details
 - “Slow” to make decisions
 - Inefficient government
- Too impersonal (do not care to build personal relationship)
- Too impatient (short in-country visits and rush to results)
 - Do not understand Chinese hierarchy and culture.

Source: compiled by E. Wong

Cultural Differences as Explanation

- Cultural Conflicts may depend on circumstances and the relational framework
 - What is the nature of cross-cultural exchange and interaction?
- General principles apply only to the majority and may not be true for given individuals

Disclaimer



**Discussions and views expressed may
not apply to outliers**

Expats vs.
Chinese

BUSINESS –
Exports vs.
domestic, private
vs. SOEs

GOVERNMENT

Socio-economic
Strata

PERSPECTIVES ON CULTURAL EXPERIENCES

Demographics

North-South,
Rich-Poor regions

Buy from or
selling to

WE ALL EXPERIENCE CULTURE DIFFERENTLY DEPENDING ON OUR
BACKGROUND

Does Globalization mean Cultural Convergence?

Does the predominance of Western institutions and values in today's global economy mean cultural convergence and westernization of emerging economies over time?

The Three Layers of Culture

Manifest culture i.e. behavior, artifacts, food, music, language, clothing – Superficial elements



Expressed norms & Attitudes

Intrinsic or core values of a culture (intrinsic elements)

Superficial versus Intrinsic Culture

- Superficial cultural traits are habit and lifestyle – oriented while intrinsic culture is based on value systems
- Convergence in superficial culture is evident but intrinsic value?

Cultural Analysis – The Hofstede Model

34

- **Individualism**
Reflects the extent to which people in the society are focused on individual achievement as opposed to that of the group
- **Power Distance**
Reflects the extent to which people accept inequality in society
- **Masculinity**
Reflects the extent to which the society is focused on competition and achievement vs. caring and nurturing
- **Uncertainty Avoidance**
Reflects the extent to which individuals in the society expect to be guided by formal rules and regulations

Individualistic society

- Ties between individuals are loose and everyone is expected to look after themselves and their immediate family
- Workers seek time for personal life, freedom in adapting their own approach to the job, and challenging work and give them a sense of accomplishment

Collectivist society

- People are integrated into strong, cohesive groups, which throughout their life continue to protect them in exchange for unquestioning loyalty
- Workers seek training opportunities to upgrade skills. Good working conditions, and full use of their skills on the job

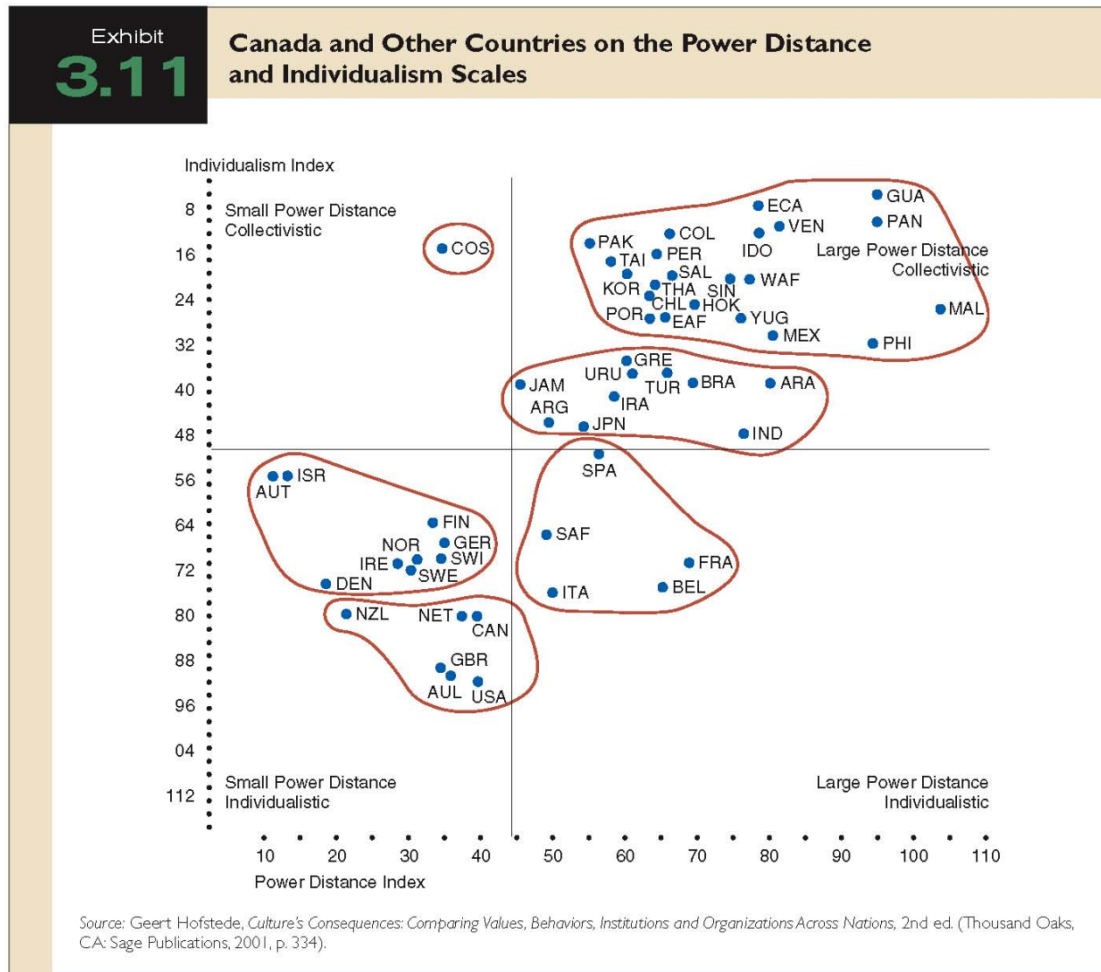
Power distance

○ The extent to which less powerful members of institutions and organizations expect and accept their power is distributed unequally

Small Power Distance

- A limited amount of dependence of subordinates on their bosses
- A preference for consultation and interdependence between bosses and subordinates
- May object to ideas and disagree with bosses

Cultural Analysis – Hofstede



Masculinity - Femininity

- Masculine culture is assertive, aggressive, and decisive
- Masculine culture attaches strong importance to opportunity for high earnings, personal recognition, career advancement, and challenging work

Feminine Culture

- Good relationship with direct superior
- Value Cooperation with others
- Live in areas preferred by their family
- Desire security of employment

Uncertainty Avoidance

The extent to which members of a culture feel threatened by uncertain or unknown situations

Low uncertainty avoidance

- absence of formal rules except where absolutely necessary
- Greater respect for rules when they exist

Long-term Orientation

“This dimension associates the connection of the past with the current and future actions/ challenges. A lower degree of this index (short-term) indicates that traditions are honored and kept, while steadfastness is valued. Societies with a high degree in this index (long-term) views adaptation and circumstantial, pragmatic problem-solving as a necessity. “

High uncertainty avoidance

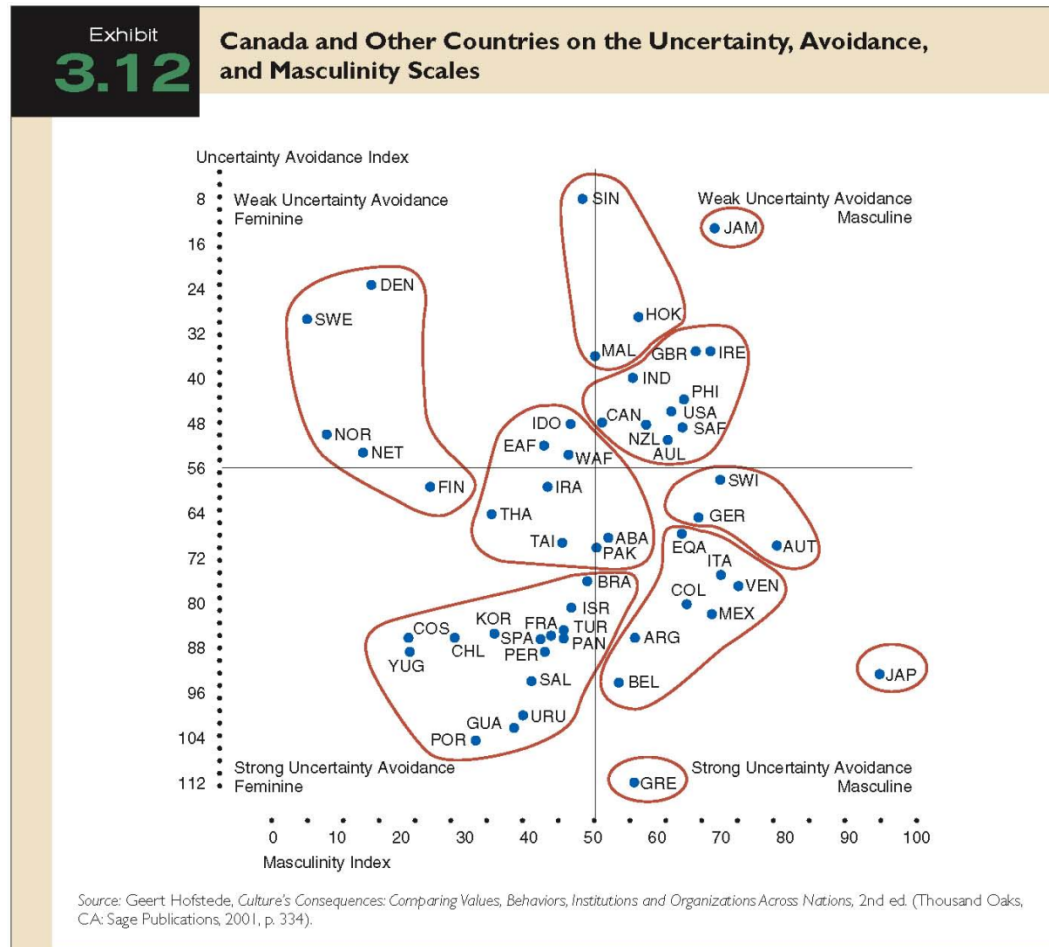
- Conflict must be eliminated from interpersonal relationships
- Rules must cover as many aspects of operations as possible
- Managers must give precise answers to subordinates
- Individuals must be given precise job description and job instructions
- There must be absolute clarity of responsibility and in reporting lines within organization

Indulgence

- “Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun.” In contrast, “restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.”

Source: <http://geert-hofstede.com/index.php>

Cultural Analysis – Hofstede



Comparative Organizational Culture

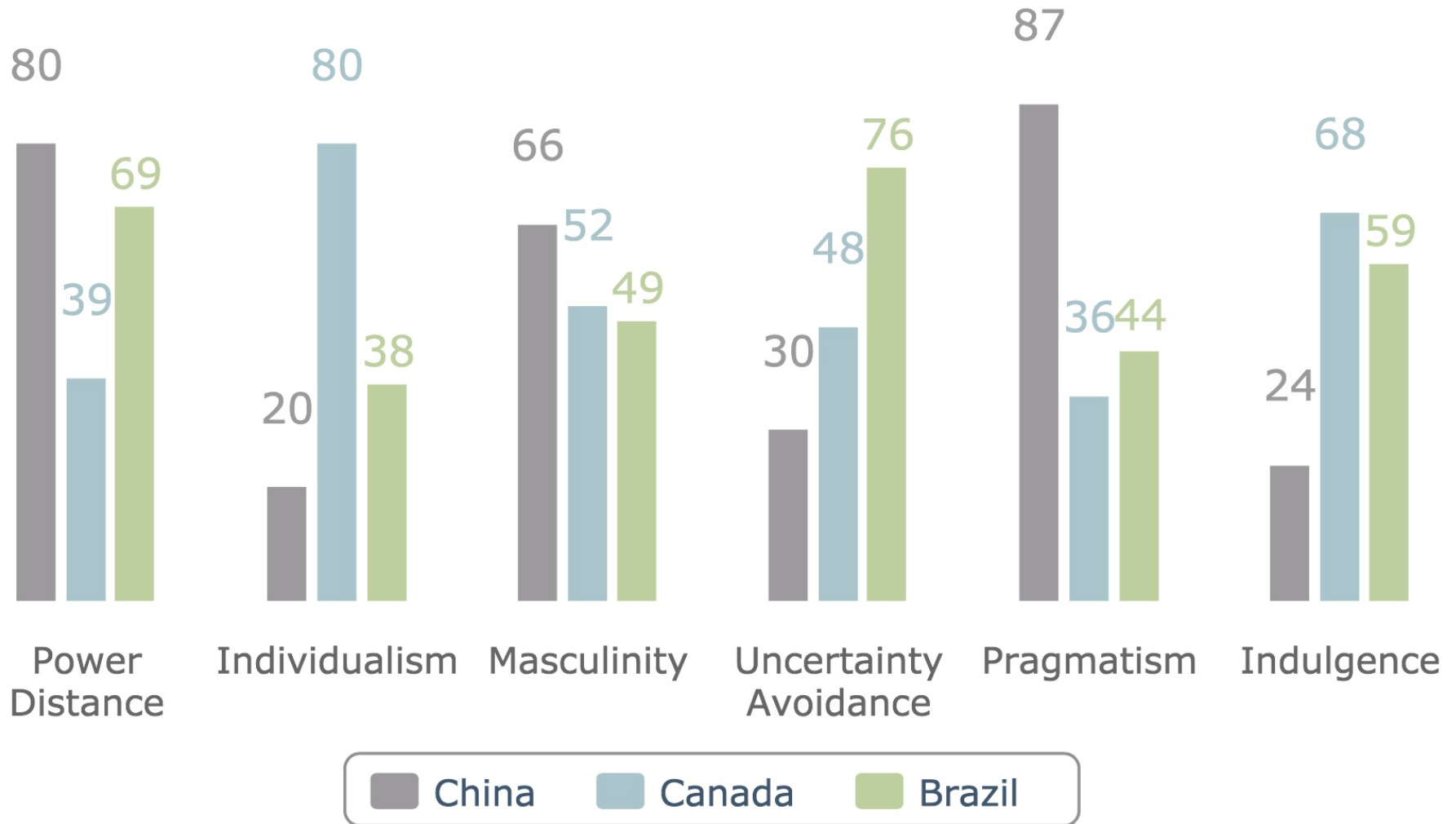
CHINA

1. Highly collectivist (HC)
2. High masculinity (LM)
3. High power-distance (HPD)
4. Low on uncertainty avoidance (LUA)
5. High Long term Orientation (HLO)

NORTH AMERICA

1. Highly individualist (HI)
2. Low masculinity (HM)
3. Low power-distance (LPD)
4. High on uncertainty avoidance (HUA)
5. Low Long term Orientation (LLO)

Hofstede Indices: China, Canada and Brazil Compared



Source: Cultural Tools, the Hofstede Centre website, November 2014

Other Chinese Cultural Views

- Confucianism – respect for hierarchy, emphasis on protocols and social stability, morality through knowledge.
- Taoism – Balances in life and relationships and emphasis on harmony and the Middle way.
- Buddhism - Non-engagement and non-materialism, sanctity of life, charity and harmony.

Cultural Values & Ways of Thinking

American

1. Individualist
2. Youth oriented
3. Egalitarian
4. Information oriented
5. Competency based
6. Institutional rule
7. Transparency in Law
8. Reductionist thinking
9. Sequential

Chinese

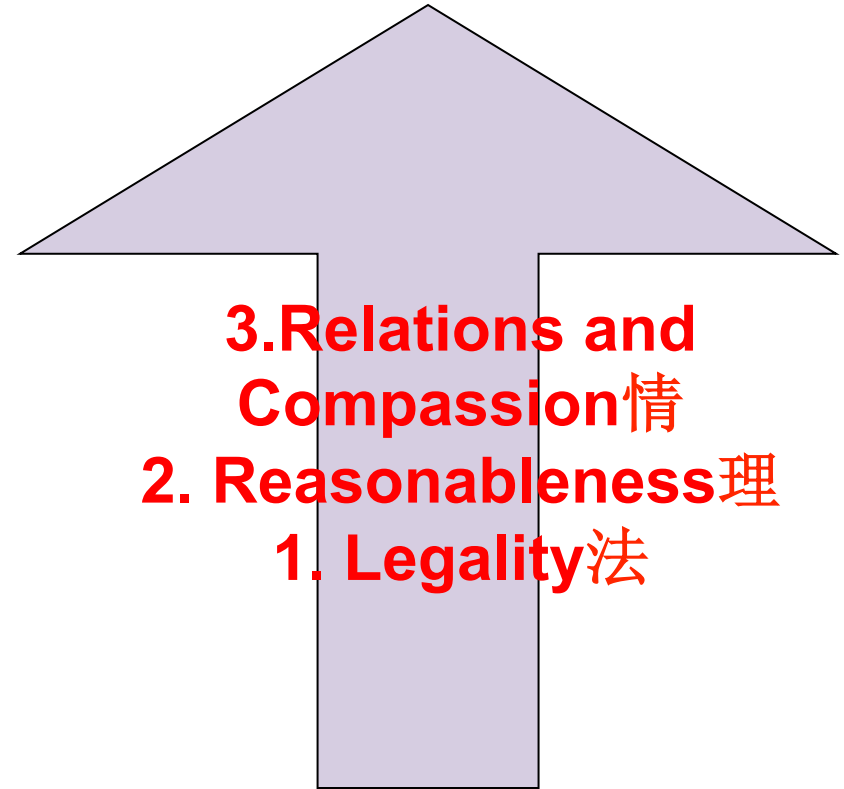
1. Collectivist
2. Respect for Age
3. Hierarchical
4. Relationship oriented
5. Hierarchical
6. Personal rule
7. Maintain harmony
8. Holistic thinking
9. Circular

An Example: Criteria for Dealing with Rule violations – the importance of relationship

China



The West



Concept of Psychic Distance

- The Uppsala internationalization school defined psychic distance as “the sum of factors preventing or disturbing the flows of information between firm and markets” (Johanson and Wiedersheim-Paul 1975, p.308); psychic distance has been widely cited as a predictor of international market selection. The connection between psychic distance and knowledge is that a firm’s managers tend toward the country markets that they can get to know most easily and avoid markets that are difficult to get to know, at least early on in the firm’s internationalization process.

National Psychic Distance Indicators

PRIMARY ELEMENTS	FORMATIVE INDICATORS
Commercial ties	Two-way trade
	Stock of foreign investment
	Trade agreements
Political ties	Trade representation offices
	Value of foreign aids
	Colonial relationship
Historic ties	Shared wars
	Geographic proximity
Grographic ties	Cultural similarities
Social ties	Sport preferences
	Language similarities
	Secondary information availability
Information ties	Immigration numbers
	Level of development of the foreign country
Development	Level of corruption of the foreign country

Source: Paul Brewer, "Operationalizing Psychic Distance: A Revised Approach," *Journal of International Marketing*. Vol. 15, No. 1, 2007, pp. 44–66. Confirmed for Australia who has shortest distance with the UK, NZ, US, Singapore, HK, Japan, Canada, NPG, Fiji, and Malaysia in that order.

	Cultural distance	Administrative and political distance	Geographical distance	Economic distance
Distance between two countries increases with	<ul style="list-style-type: none"> • Different languages, ethnicities, regions and social • Lack of connective or social networks norms 	<ul style="list-style-type: none"> • Lack of shared monetary or political association • Political hostilities • Weak legal and financial institutions 	<ul style="list-style-type: none"> • Lack of common borders, waterway access, adequate transportation and communication links • Physical remoteness • Different climates 	<ul style="list-style-type: none"> • Different consumer incomes • Different costs and quality of financial, human and natural resources • Different information knowledge
Distance most affects industries or products	<ul style="list-style-type: none"> • With high linguistic contents (TV) • Related to national identity (food) • Carrying country-specific quality association (wines) 	That a foreign government views as staples (electricity), as nation building reputations (aerospace), or as vital to national security (telecommunications)	<ul style="list-style-type: none"> • With low value to weight ratio (cement) • That are fragile or perishable (fruits and glass) • In which communication is vital 	For which demand varies by incomes (car) In which labor and other cost differences matter (garments)

Source: Pankaj Ghemawat, "Distance still matters, the hard reality of global expansion," HBR, Sept 2001

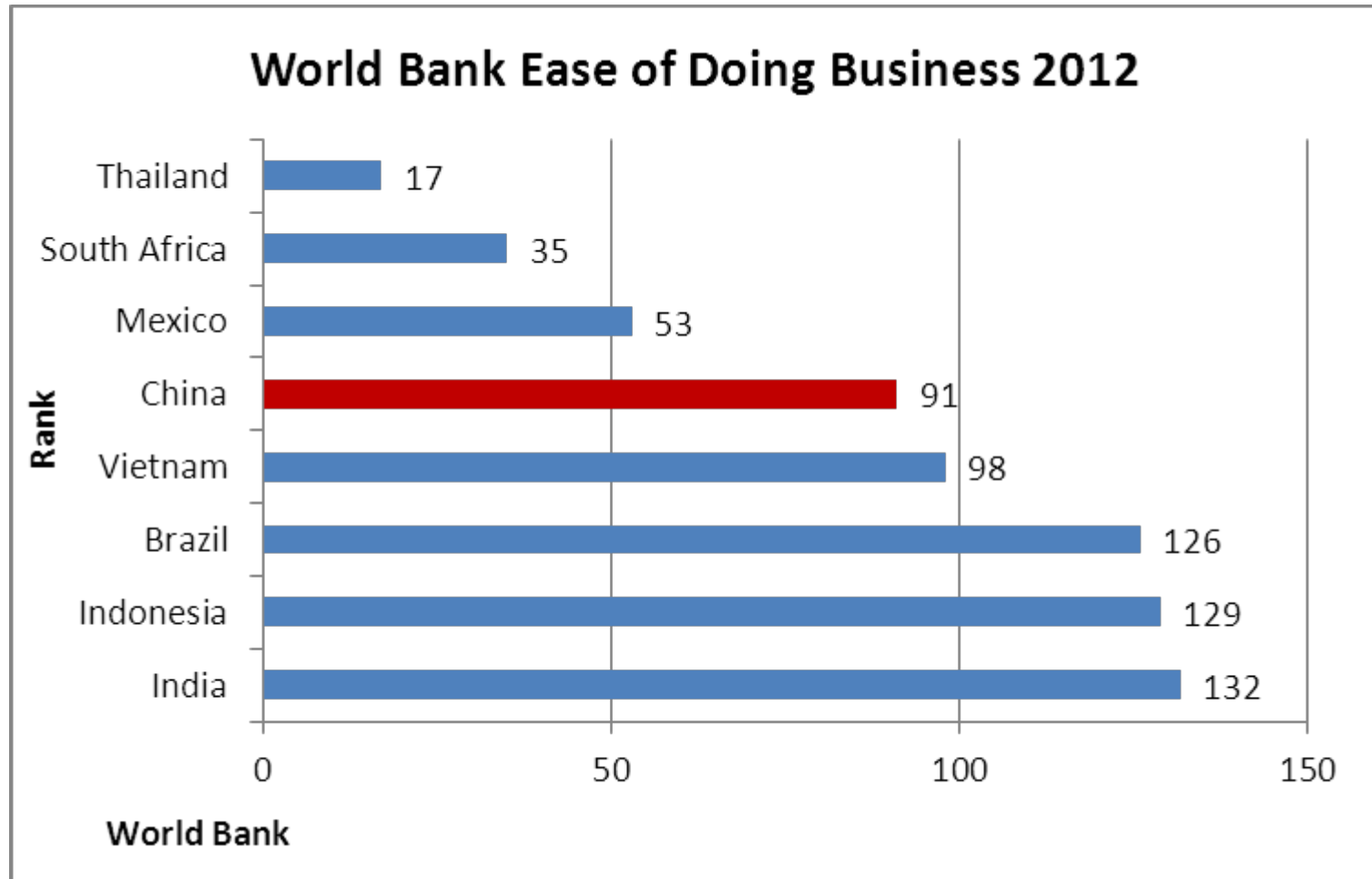
Challenges for Canadian companies in China

TABLE 4.1 MAJOR CHALLENGES IN CHINA

	Mean	% rated as a major challenge (6 and 7)
Intellectual property rules and practices in China	4.93	51
Inconsistent interpretation of regulations/laws in China	4.77	45
Weak dispute settlement mechanism	4.55	41
Lengthy/complicated certification	4.47	36
Chinese tariffs and other border barriers	4.26	38

Source: Asia Pacific Foundation – Canadian Businesses in China Survey 2012

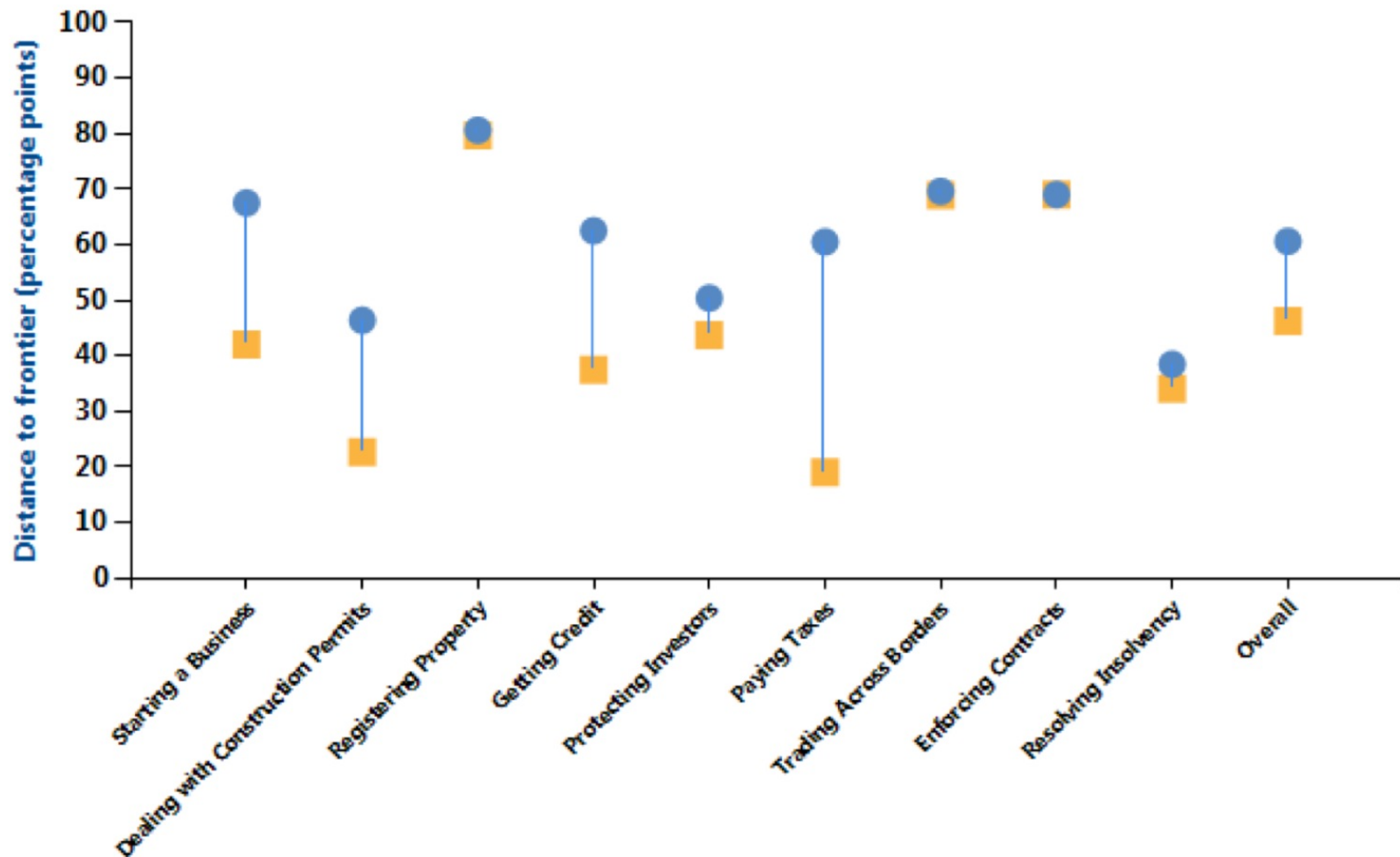
Ease of Doing Business: China in the 50th percentile



Canada ranked 13th out of 183. Japan and South Korea ranked 20th and 8th.

How far has China come

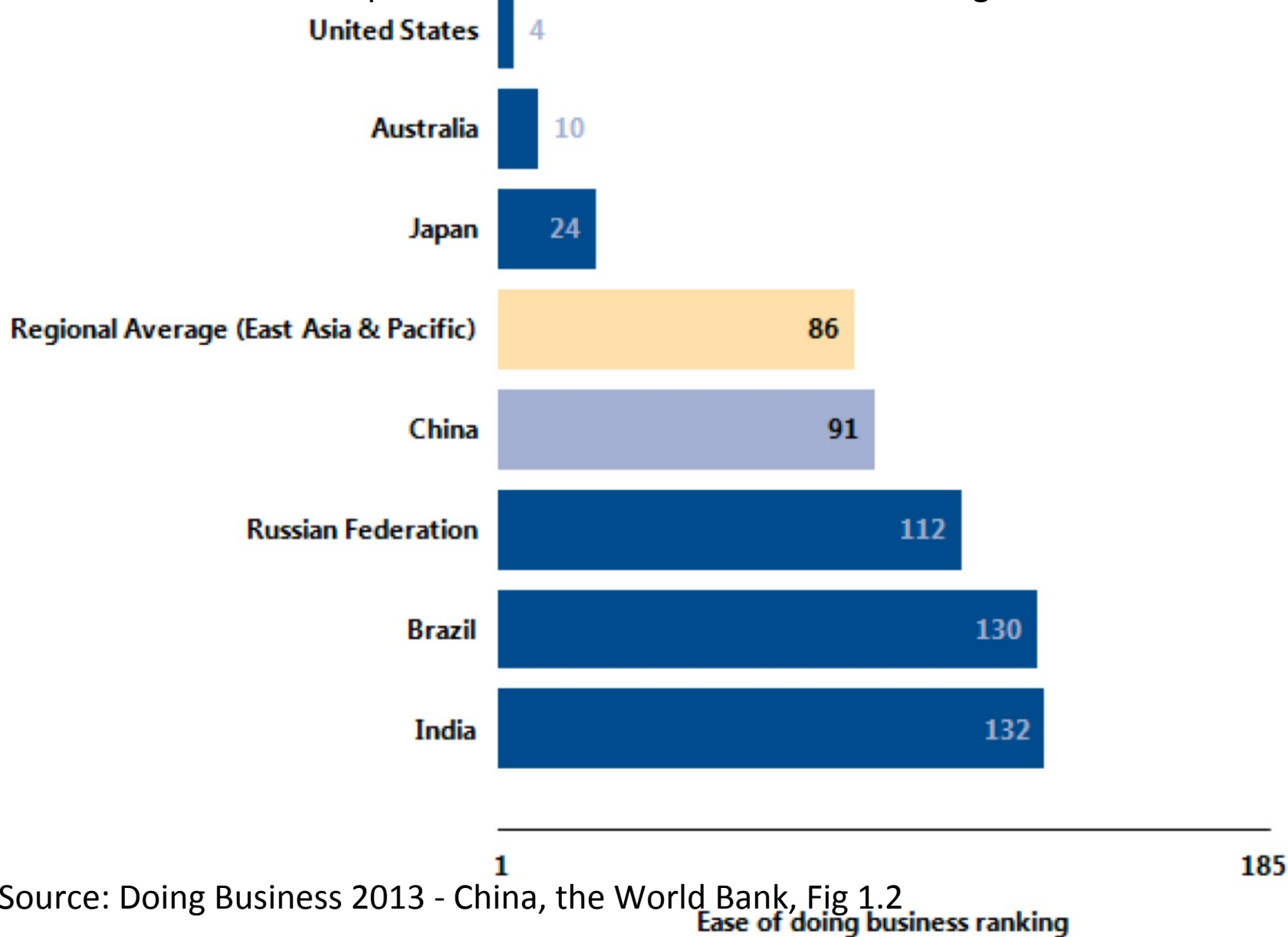
2005 2012



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the 9 indicator sets shown in the figure. See the data notes for more details on the distance to frontier measure.

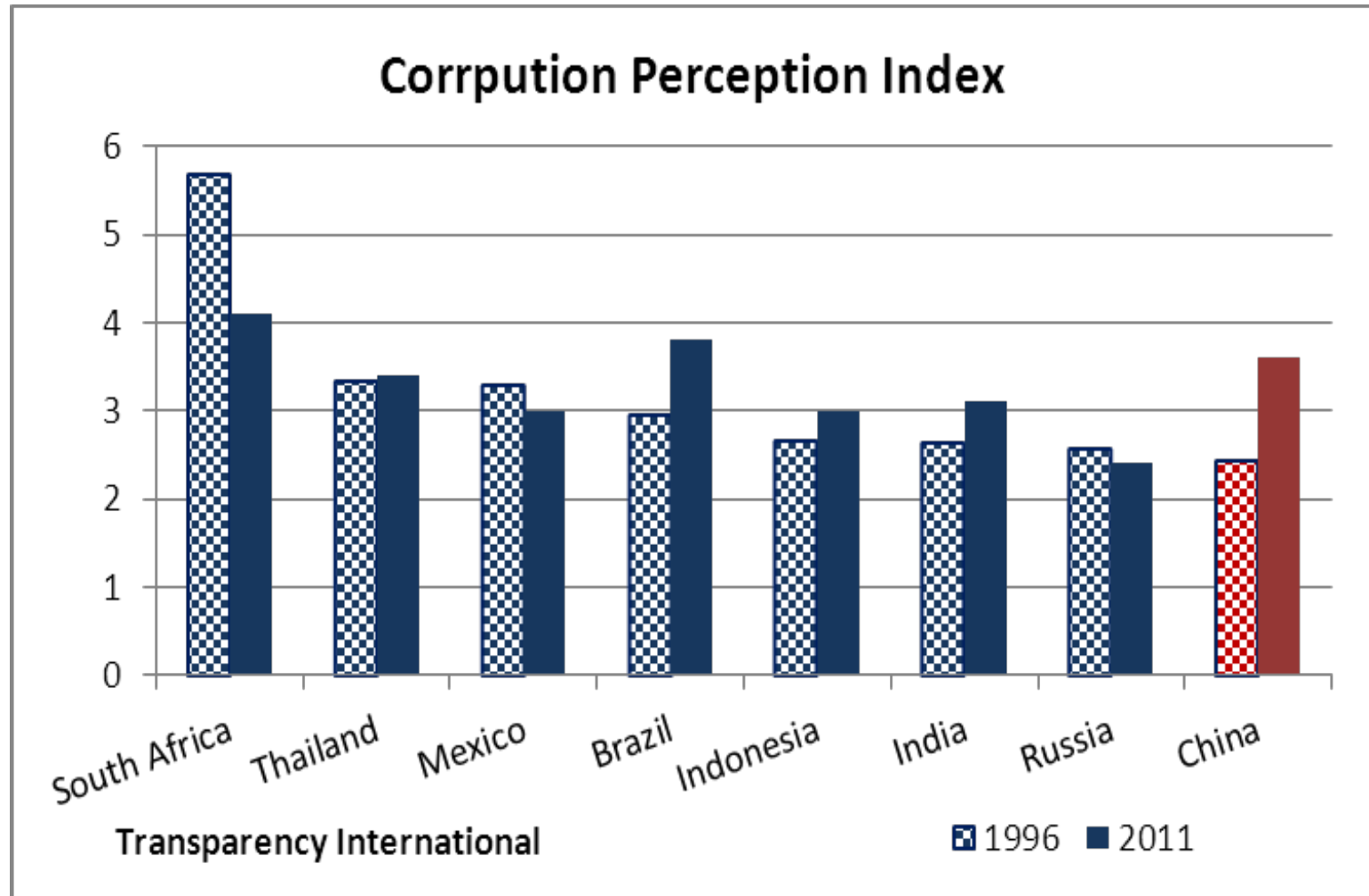
Source: Doing Business 2013 - China, the World Bank, Fig 1.4

How China and Comparator economies Rank on Ease of Doing Business

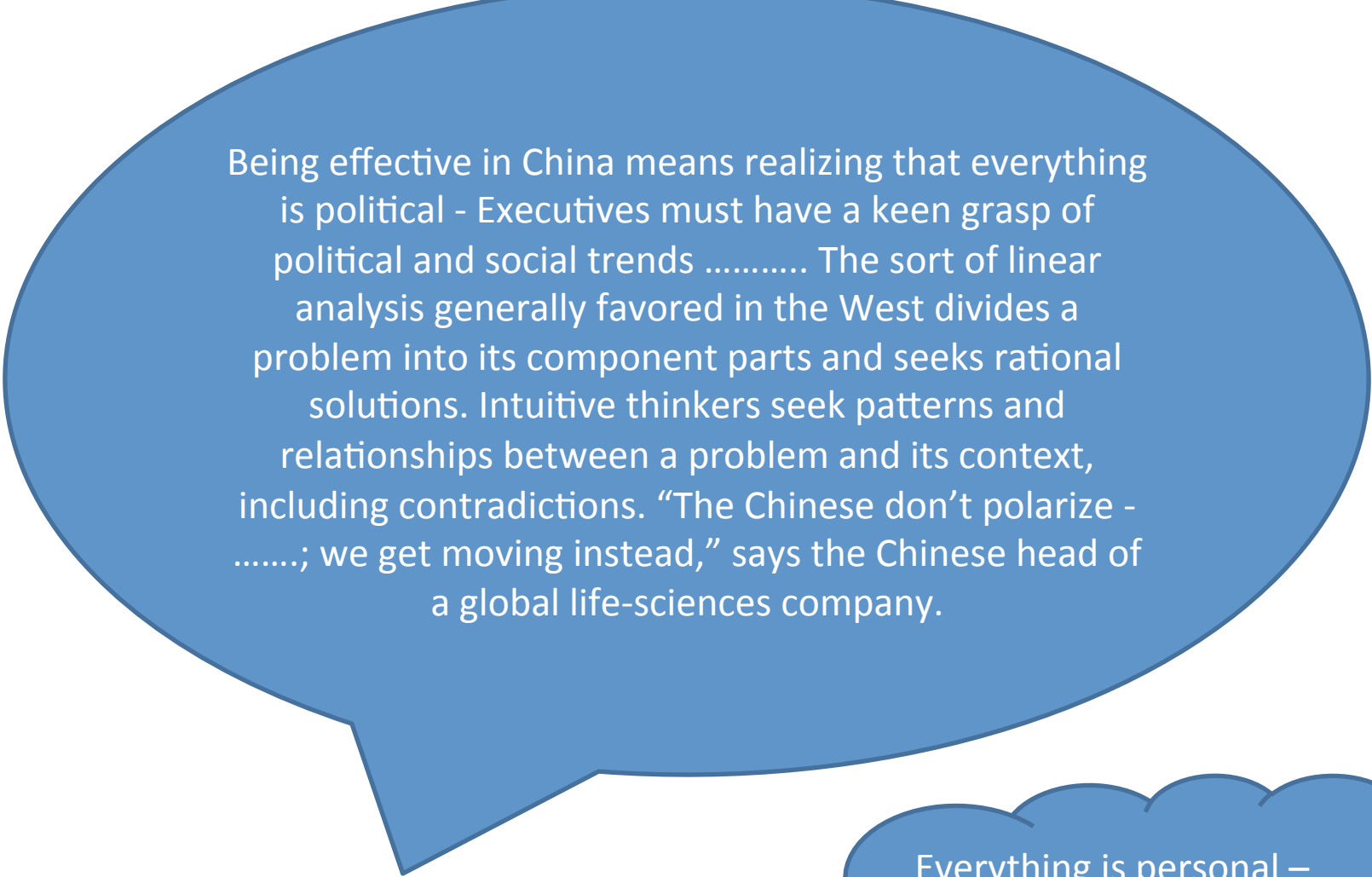


Source: Doing Business 2013 - China, the World Bank, Fig 1.2

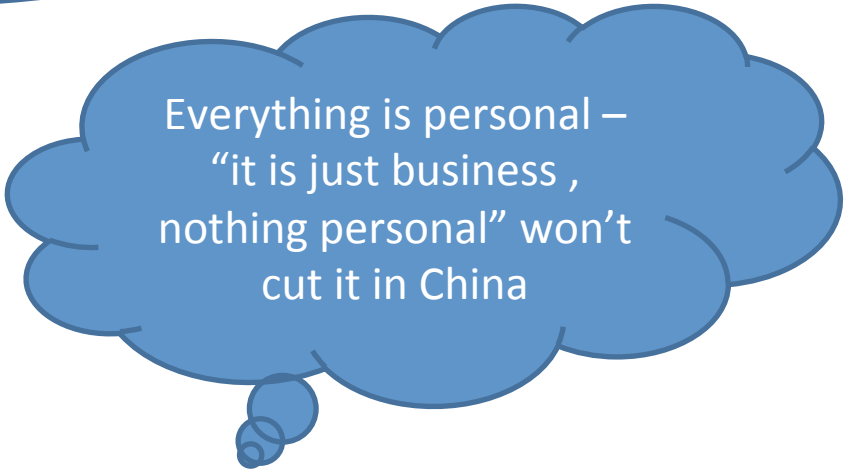
Improvement in CPI, but level still low



10 is least corrupt. Canada was 8.7 (10th best in the world out of 183 countries).
China improves from 50/54 to 75/182.



Being effective in China means realizing that everything is political - Executives must have a keen grasp of political and social trends The sort of linear analysis generally favored in the West divides a problem into its component parts and seeks rational solutions. Intuitive thinkers seek patterns and relationships between a problem and its context, including contradictions. “The Chinese don’t polarize -; we get moving instead,” says the Chinese head of a global life-sciences company.



Everything is personal –
“it is just business ,
nothing personal” won’t
cut it in China

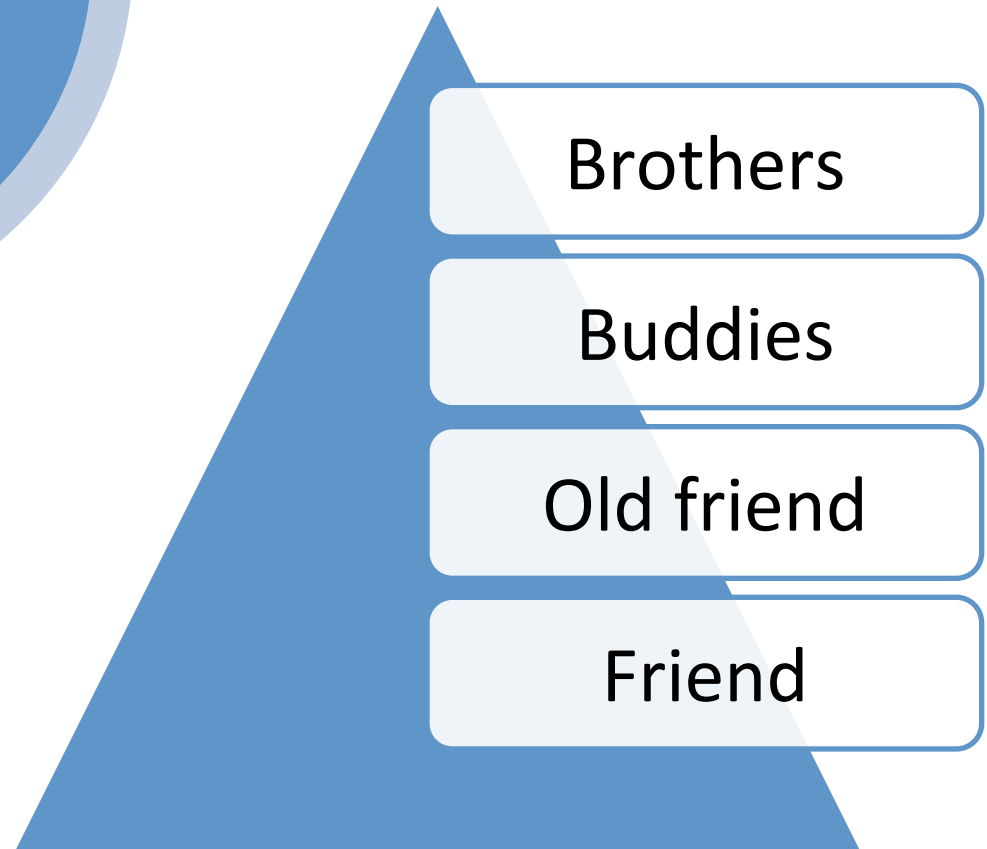
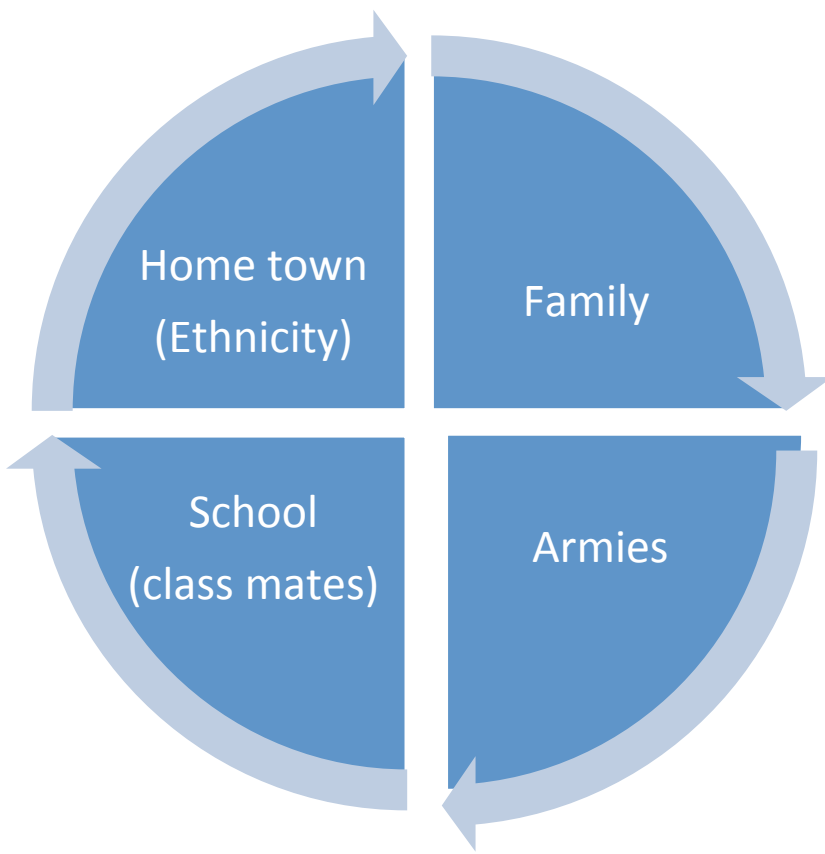
Source: Nandani Lynton,
Managing the Chinese way,
McKinsey & Company
July 13, 2013.

Two key Concepts: Guanxi and Giving Face

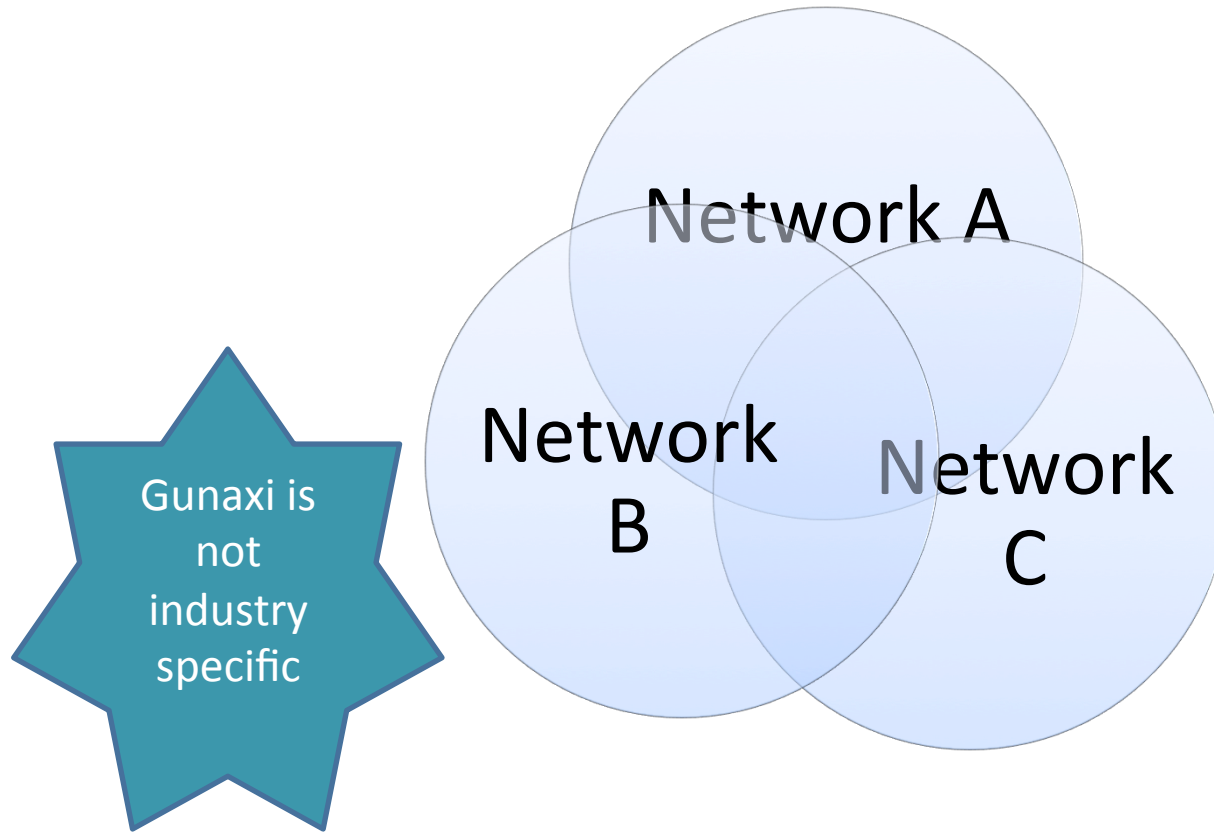
The Concept of Guanxi

- Guanxi means Reciprocal relations that entail mutual obligations. It is a measure of one's group membership. It means more than membership in a network. It is membership in interlocking in-groups - "Friend of a friend is a friend."
- Guanxi is only the first level of "connection" – "Gang Qing" measure the emotional attachment and depth of such relations.

Levels & sources of Guanxi



Interlocking Guanxi Networks



“Socializing” or relationship cultivation becomes an investment crucial to Chinese life that its value is unquestioned. Friendships or Guanxi becomes an economic asset people try to monetize to offset its economic cost. One’s social status depends on one’s guanxi.

- Guanxi is important due to in-group culture, immature Legal system, non-transparent and fluid policy/regulatory environment, non-trusting business culture, and risk management necessity. ***BUT GUANXI IS NOT EVERYTHING.***
- Protocol (or good manners) means never embarrass publically and say “no” directly - This means a need to build trust and personal relationship - Do not underestimate the importance of personal chemistry and relationship despite outward courtesy and warmth. Indirectness in communication style and hierarchical structure means non-linear work processes and follow – up. ***Patience is virtue.***

Giving and Losing Face

- Giving face (Gei Mian Zi) means giving appropriate respect according to rank and seniority in gift-giving and seating arrangements, offering public praises and recognition, rendering favors for friends (and their friends), elevating others' social status i.e. let them buy a meal, and generally making them feel and good look.
- Losing face (Diu Mian Zi) means acting inappropriately, not being treated according to one's social status, suffering public embarrassment, and causing other to lose face. For example, arguing with someone publically or acting confrontationally would cause both parties to lose face. Losing face would undermine one's status and credibility.

Elements of Business Culture

North America

- Quick meetings
- Process oriented
- Informal
- Legalistic
- Make cold calls
- Direct communication
- Written communication
- Rule oriented
- Avoid uncertainty
- Delegation of responsibility
- Objective performance & financial measures
- Individual accountability

China

- Long courting process
- Trust & relationship
- Formal
- Principle-based
- Use intermediaries
- Indirectness
- Verbal communication
- value oriented
- Accept need for change
- Autocratic management
- Relational criteria and “big picture” criteria
- Observance of instructions

A Contrast in Culture China and Canada

What do these table settings tell us?



High degree of task specialization
- Clarity of tasks

Flexible generalist



Two ways of approaching problems



We tackle them
head – on

We get around
them, sometimes
with a little help
from friends



How do we relate to our leaders



They are elevated and treated as above us

They are one of us



China's Collective Culture



The Individualistic approach



The Collectivist Approach



17-01-12



73

When good friends meet



China

Canada

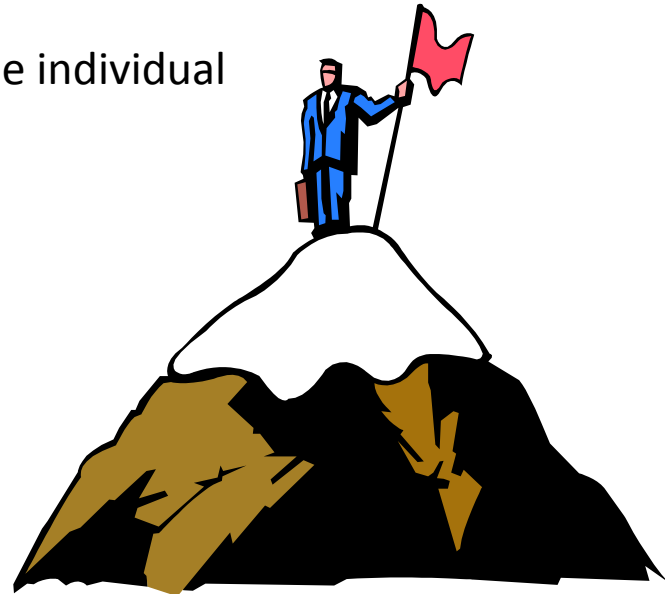


Target of Recognition



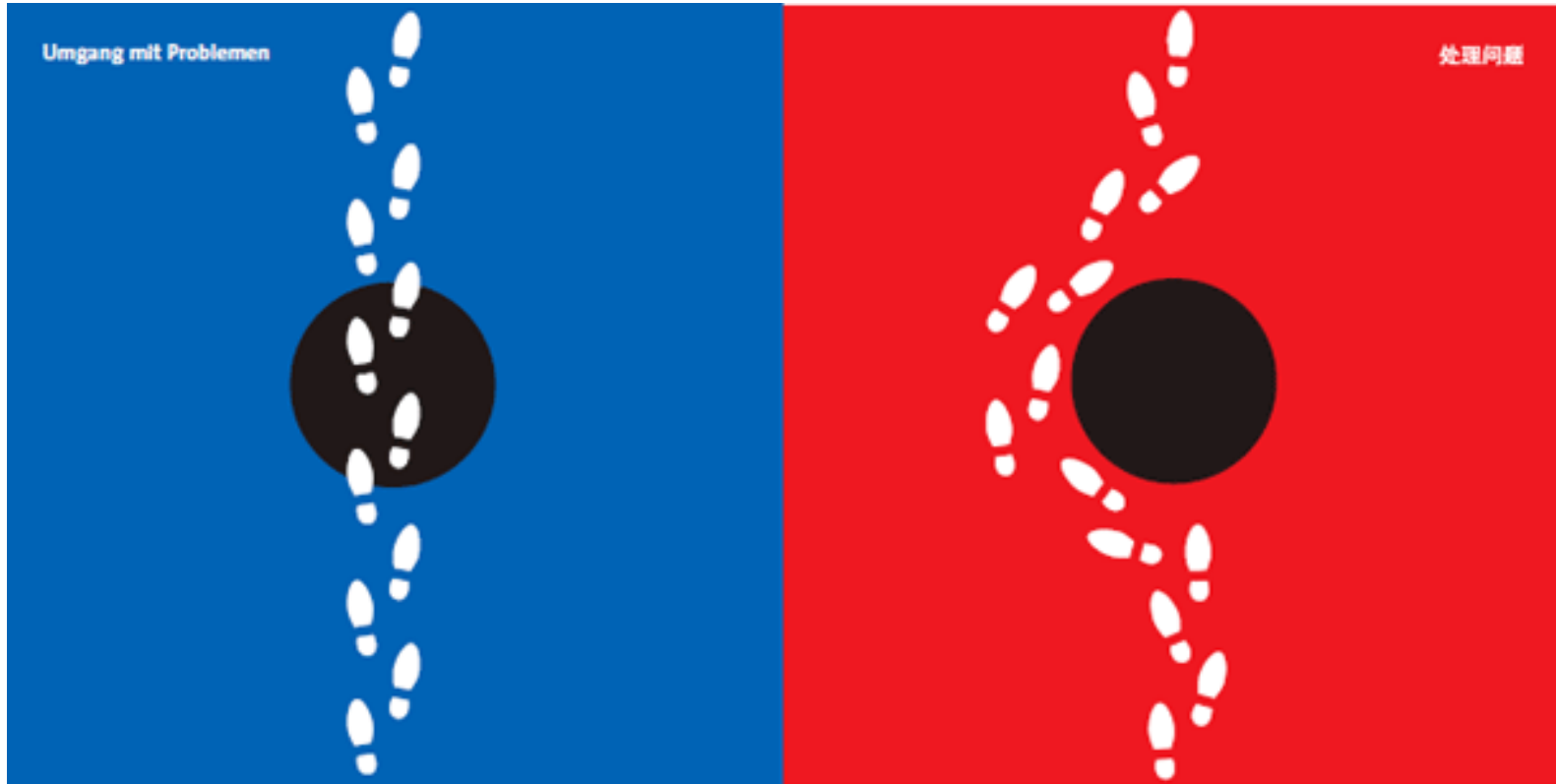
The Group

The individual



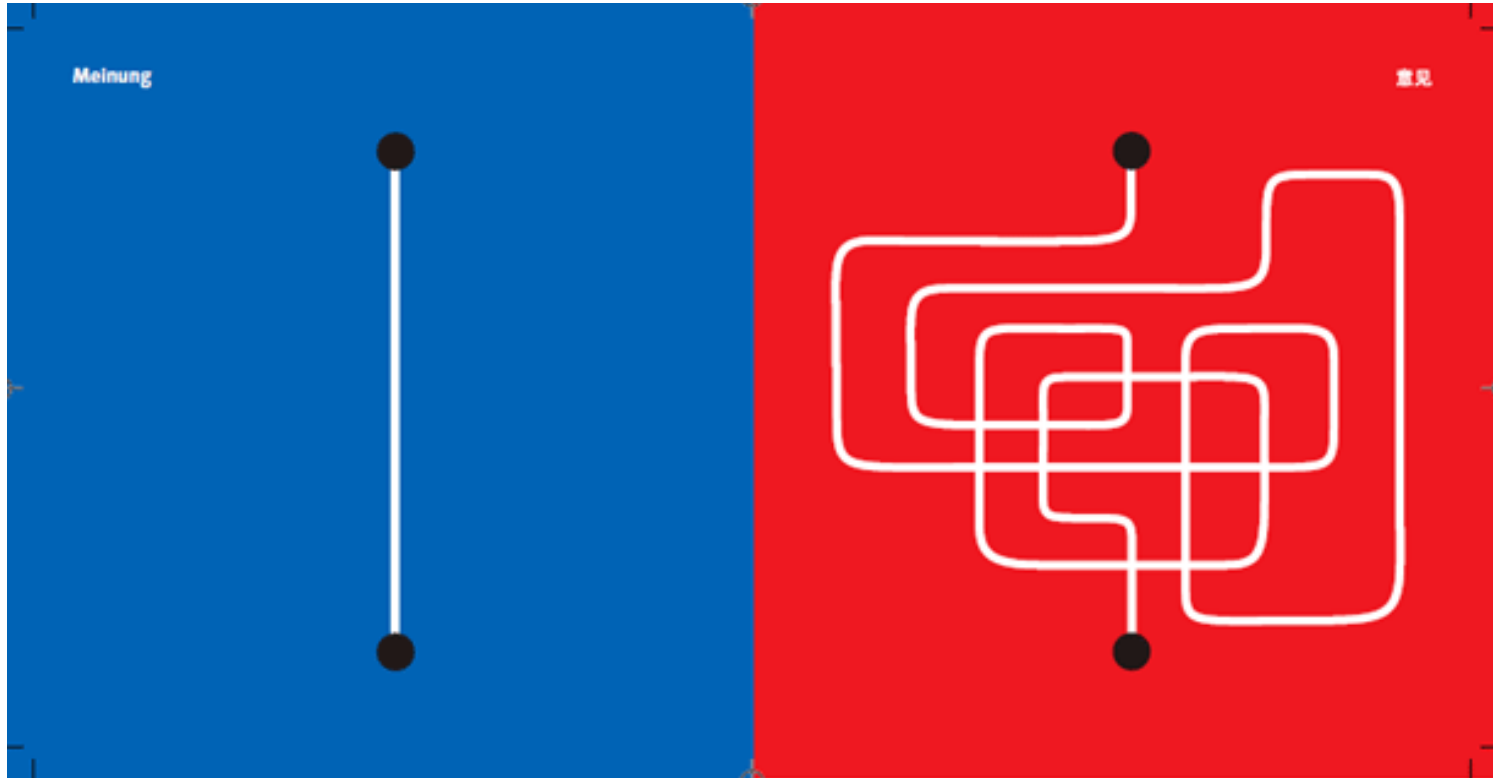
Liu Yang's East Meets West Iconographs

Handling Problem



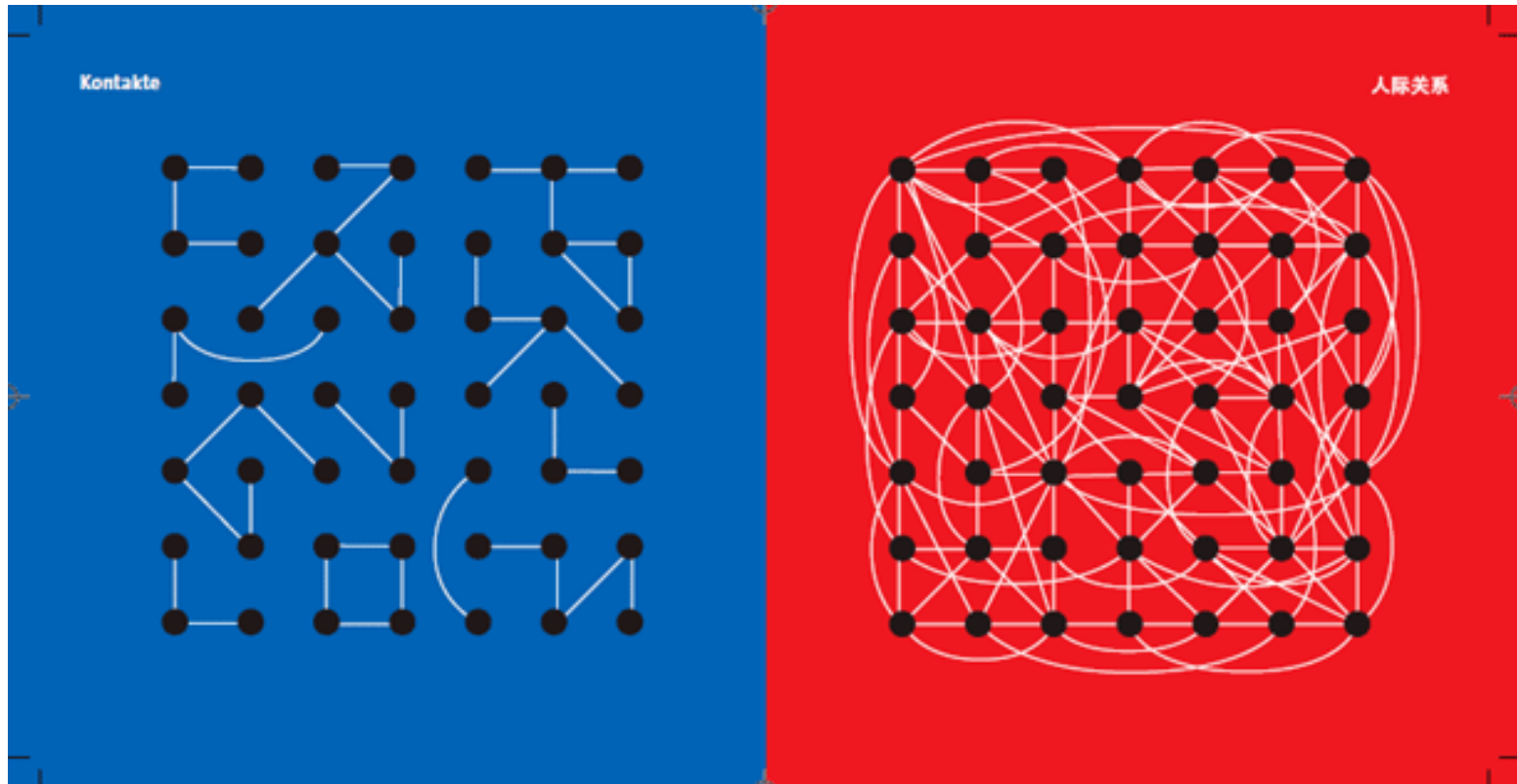
West meets East
----- **Liu Yang**

Expressing Opinions



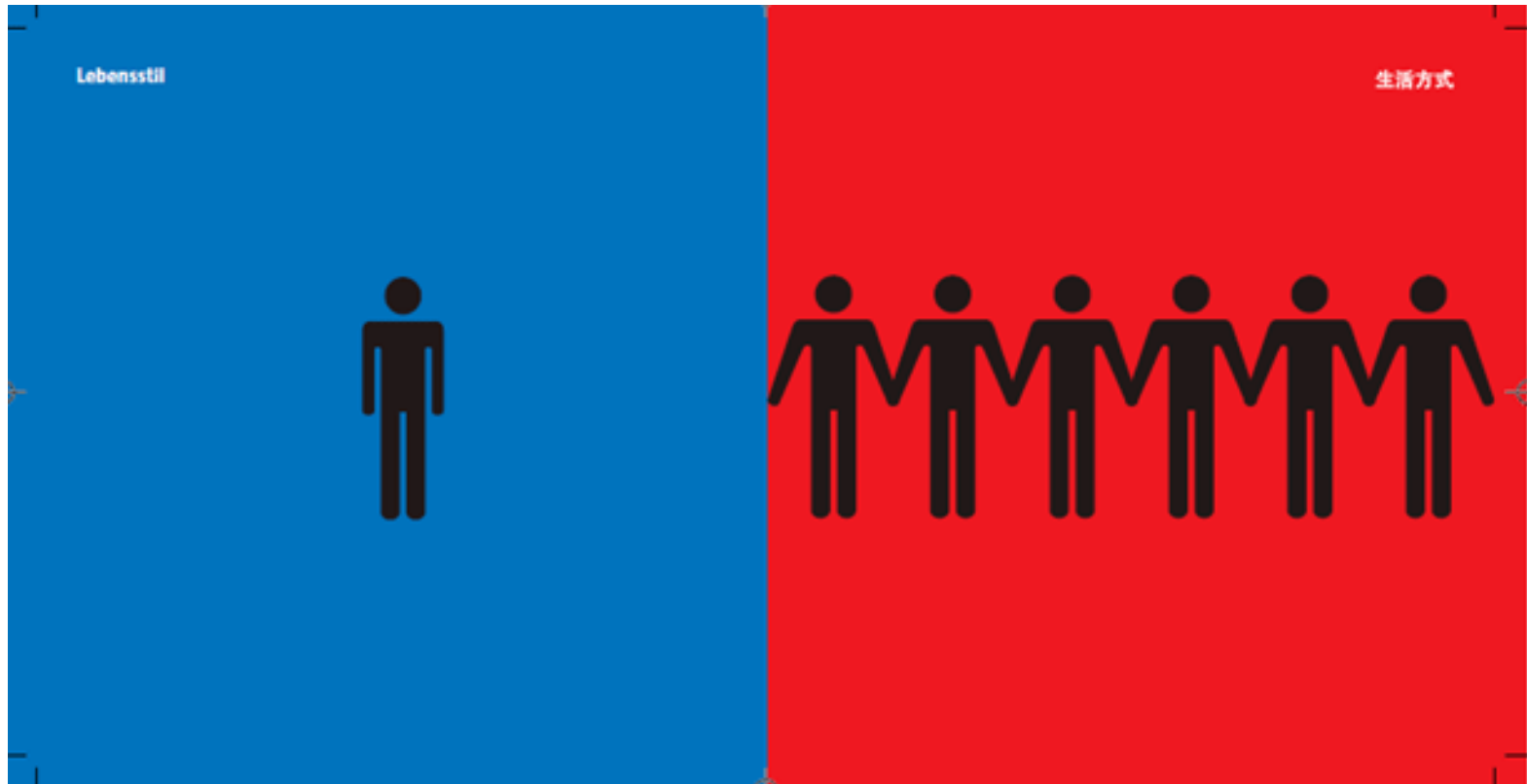
West meets East
----- Liu Yang

Human Relation



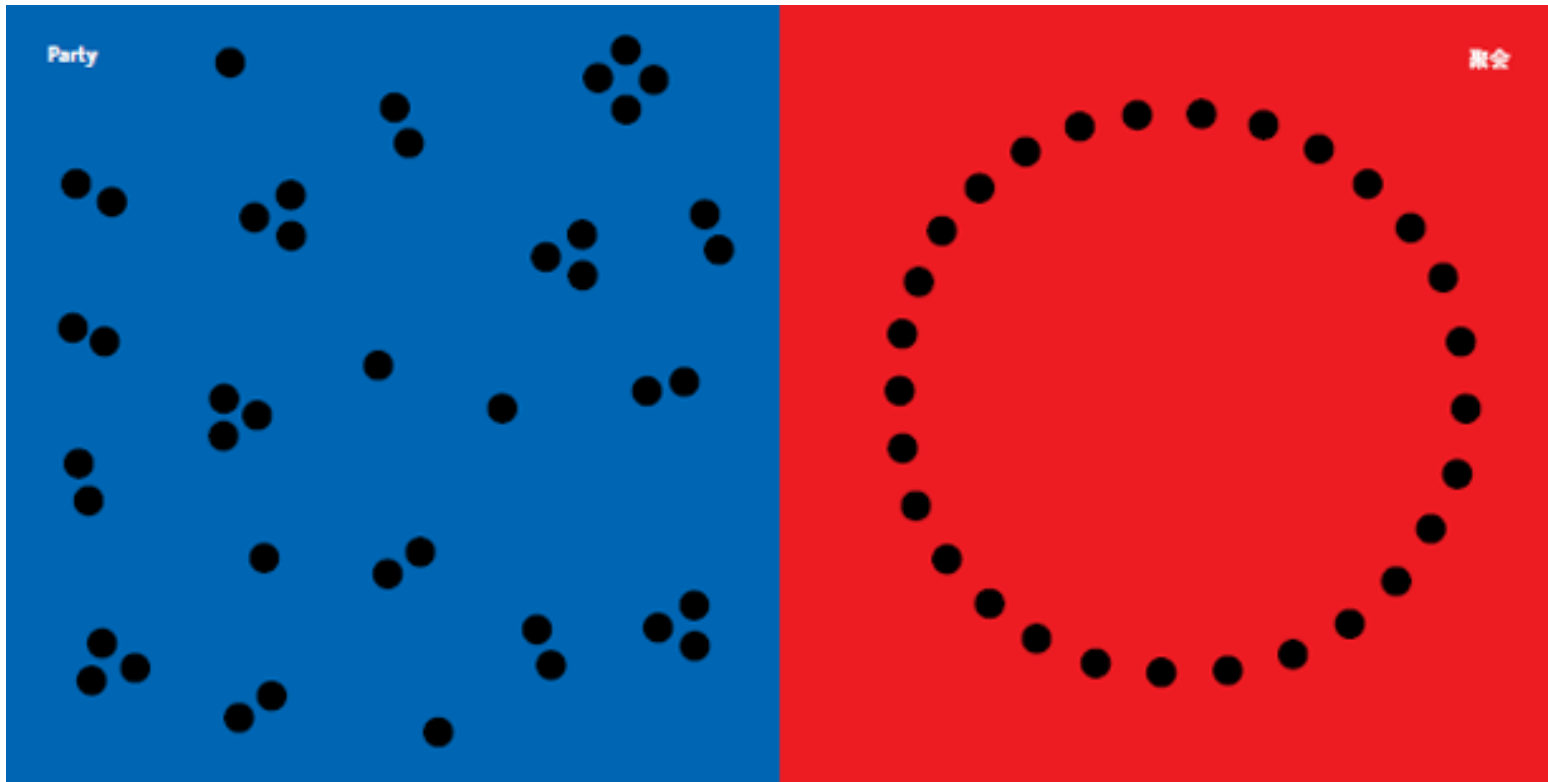
West meets East
----- Liu Yang

Life Style



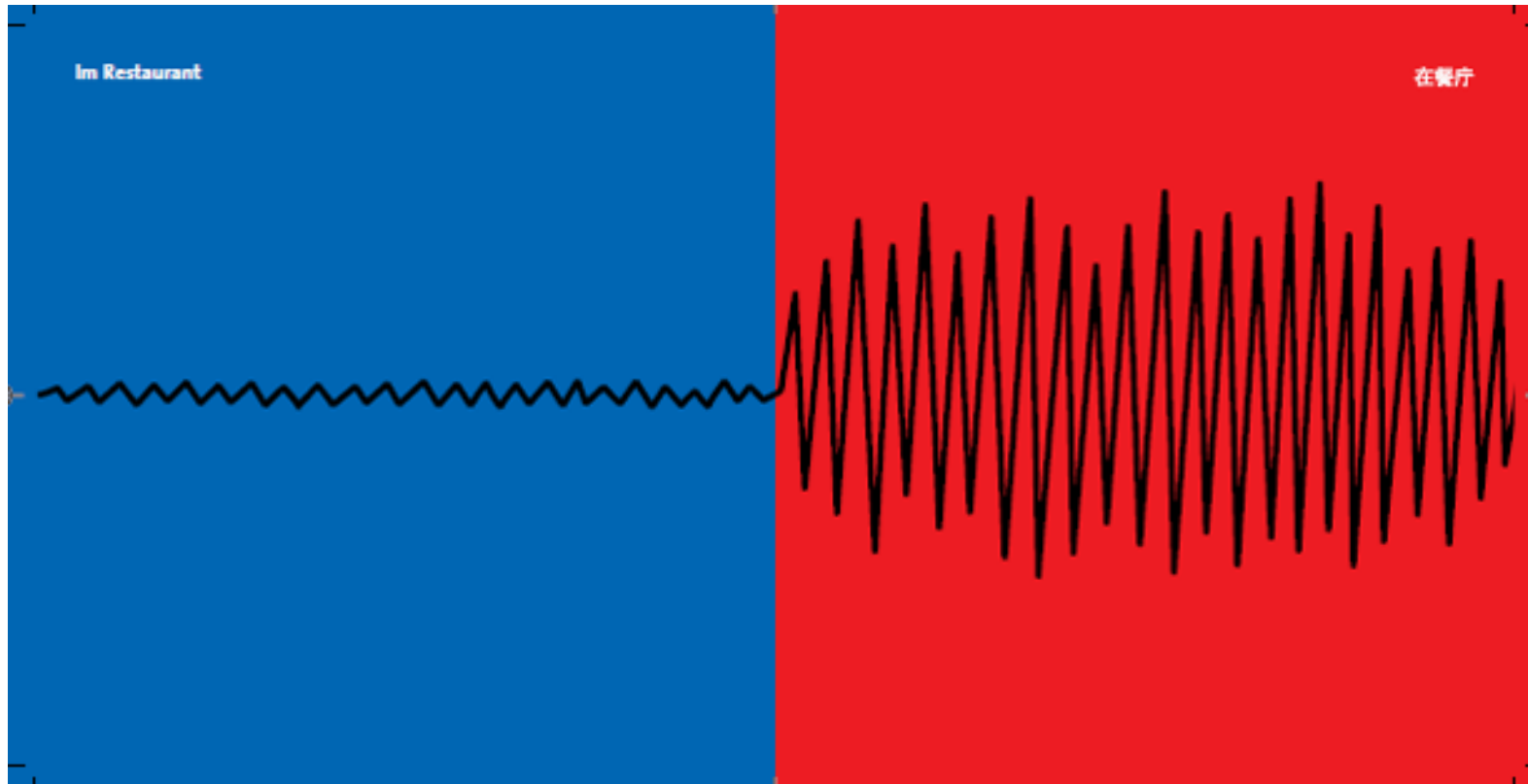
West meets East
----- **Liu Yang**

Party



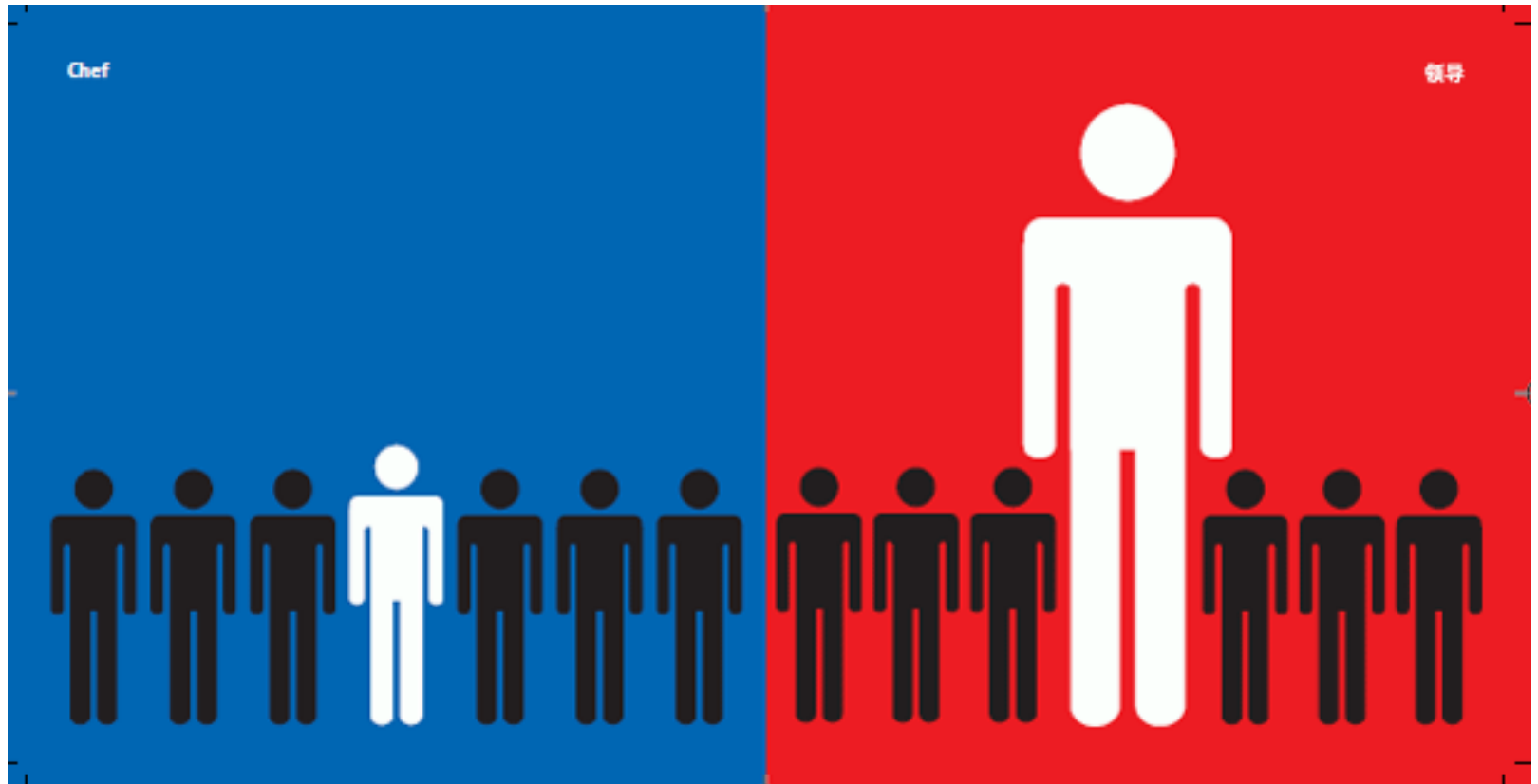
**West meets East
----- Liu Yang**

In Restaurant



West meets East
----- **Liu Yang**

Leader



West meets East
----- Liu Yang

Practical Cultural Tips

- Scheduling and Keeping Appointments
- Seating arrangements at dinner and business meetings
- Dress Codes and Exchange of Gifts
- Meeting protocols – first meeting
- The “Delegation” and Individual Ranks
- Greetings and Exchange of Business cards
- Making Conversation & Addressing Each Others
- The Chinese Banquet and toasting