

# **Doing Business in China**

## **“Tips on How to do Business in China”-Part 2**

This article is Part 2 of a series of three articles to be published in Recharge Asia magazine. The articles are designed to give the reader interested in doing business in China base information and a point from which to start working on that objective. This article has been written to try to give the reader some of the acquired knowledge about “Doing Business in China” that I have gained over the last 10 years.

Part 2 deals with “Tips on How to do Business in China” including all those things you need to know about creating a network of relationships in business.

It is very important for anyone contemplating doing business in China to have clear understanding of the country, as it is a land of great diversity. It is important to understand Chinese culture and Chinese society’s values before establishing operations in China. It is only through the understanding of the culture and values that strong business foundations can be built and the creating a higher chance of business success can be achieved.

As with any country local business practices must be understood and respected. What works in your country is not necessarily applicable to business in China. Understanding how local people think and their business practices enables better and faster engagement. Organizational culture and practices may have to be different in order them to conform to China’s practices.

Flexibility and adaptability is the key for any organization to be successful in China. As a first step, establishing a Chinese representative office in conjunction with a strong domestic partner with access to all necessary information and industry contacts is common for foreign firms. This enables the foreign company to establish a local presence and simultaneously acquire local knowledge.

Setting up a joint venture with the selection of the correct partner is a common next step. Finding the right partner may require the foreign company to spend a lot of time and money. However, this upfront work is preferable to the problems caused by the choice of the wrong partner because that would definitely guarantee the failure of the business. Chinese expertise and local talent must also be incorporated into management or consulted during decision-making since local knowledge is essential as a source of information, for access to local business networks and social and cultural learning. In China localization and individualism are important features.

Every region and organization has different interests and paying detailed attention to individual needs works toward the advantage of the business. The establishment of close relations with government officials is an important factor in doing business successfully because the Chinese government (national and local) plays an important role in influencing industry, market movement and administering foreign investments. There will be fewer problems and mistakes met during paperwork applications or achieving local authorization if a strong relationship with government officials is in place. When selecting a business partner, if your potential business partner claims that they have a

good relationship with an “important figure” in government at an appropriate time, ask your business partner to invite the “important figure” for a dinner together as an initial but not conclusive validation.

### **Guanxi**

It is pervasive in business in China that there is a need to establish good business relationships. The building of personal relationships in China is critical to success. Personal relationships will guide a business relationship more than terms of a contract. Guanxi (关系) is an important element in achieving successful business in China. Guanxi is Mandarin and the two elements of this word are “guan” which means gate and “xi” which means links. In concept Guanxi may be defined as a gateway or connection between two people created by a link of mutual obligation. This is a special kind of personal relationship in which long-term mutual benefit is more important than short-term individual gain.

Guanxi can exist between families because of blood-ties, between classmates or colleagues because of shared histories or between business acquaintances after building up a relationship through assisting one another. Building strong relationships with business partners can aid in mitigating strategic and operational risks. In Guanxi any goods and services such as physical products or favors exchanged can be anything of value and mutual benefit to the parties concerned.

While, Guanxi operates on a level between two entities, Guanxiwang goes further than that. Guanxiwang refers to a network of exchanges or transactions between two parties and beyond. Guanxiwang obtains when one set of personal relationships between two individuals, A and B, and another set of such relationships between B and C are interlinked through the common agent, B, acting as a facilitator. As a result, the original personal relationship becomes part of a complex network of social exchanges with such inter-linkage extending into other sets through numerous common agents.

### **Saving Face**

"Saving face" is an important concept to understand. In Chinese business culture, a person's reputation and social standing rests on this concept.

### **Business Etiquette**

The correct form and manner of greetings when meeting in business is very important in China. Formality is sign of respect. It is important to clarify early in a relationship how to address someone and this can conveniently be accomplished during the first meeting. When addressing a person use the family name only (e.g. Mr. Chen or Ms. Hsu). Only use the given or first name to address a person when that person is a friend or has been known to you for a long time. Do not insist that your Chinese counterparts address you by your given name. It is important to respect the norms of business interactions in China. In business it is traditional to call a Chinese person by their surname with a title, for example “Director Chen” or “Chairman Wu”.

A person’s full name in China, when written or said has the family name first and this is usually a one-syllable word. A one or two-syllable given name follows the family name (e.g. Gao Lei, Gao is the family name and Lei is the given name). Sometimes,

westernized Chinese might reverse the order of the names on the English language side of their business cards and also in letters or other correspondence sent to a foreign reader.

### **Introducing Yourself**

When meeting Chinese people on a formal occasion, foreigners should display sincerity and respect. Handshaking, imported from the West, is generally the accepted form of salutation, however, wait for your Chinese counterpart to initiate the gesture. Chinese tend to shake hands very lightly and a handshake can last as long as ten seconds.

While shaking hands is now the standard form of greeting, traditional etiquette calls for making a fist with the left hand, covering it with the right palm, and shaking the hands up and down. Some Chinese still do this, especially with close friends. It is also a formal way of saying thank you.

### **Personal Interactions**

In getting to know your counterparts in China, do not try to become too friendly too soon. The Western pattern of quick informality should be resisted but taking things at a slower pace will lay strong foundations for long-term relationships. The normal Chinese way of greeting is a nod or slight bow however, when interacting with Westerners. Handshaking, imported from the West, is generally the accepted form of salutation, however, wait for your Chinese counterpart to initiate the gesture. Chinese tend to shake hands very lightly and a handshake can last as long as ten seconds. Bear in mind that a soft handshake and a lack of eye contact on the part of your Chinese counterpart do not necessarily indicate timidity. It only implies that the person is not accustomed to the firm handshakes commonly used in the West.

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When the Chinese greet someone, it is not normal for that person to look at the other person straight in the eyes, but lower their eyes slightly. This is a sign of deference and respect. A visitor should refrain from looking intensely into a person's eyes, as this can make a Chinese person feel uncomfortable.

### **Business Cards**

The Chinese are very keen about exchanging business cards, so be sure to have a plentiful supply with you when in China. Ensure that one side is in English and the other is in Chinese. Your business card should include your professional title, especially if you have the seniority to make decisions. In Chinese business culture, the main point of exchanging business cards is to determine who will be the key decision-makers on your side of any business discussions. If your company is the oldest or largest in your country, or has another prestigious distinction, it is a very good idea to have this stated on your card.

Always present your card with two hands, and ensure that the Chinese side is facing the recipient the right way up for the person to be able to read it. When receiving a business card, make a show of and actually very carefully examine it for a good few moments,

carefully place it into your card case or on the table, if you are seated at one. Not reading a business card that has been presented to you, and stuffing it directly into your back pocket, is a significant breach of protocol.

### **Small Talk**

Expect people in China who you don't know well to ask questions concerning personal matters, such as your age or the members of your family. Chinese are often curious about foreigners and their habits, and their questions are usually related to what they consider to be important in life. Often this involves money. For example, a Chinese may ask how much your watch cost, the amount of money you make, what kind of car you have and how much it is worth. It is obviously not polite to tell people that such matters are none of their business. Frank answers are a sign of openness and closeness. Family members can be an important topic of conversation, because Chinese who are getting to know you may evaluate you as the member of a family as much as an individual. One area about which one needs to be particularly sensitive is politics. Avoid criticizing the Chinese political system or discussing any controversial political subjects.

### **Special Things to Consider when Negotiating in China**

Chinese people arrive on time for meetings and other occasions sometimes 5 or 10 minutes in advance. It is considered rude to arrive late for engagements of any kind. Take time to get to know your counterparts. You will need to establish a high level of trust in your partners and counterparts. Business style in China relies on personal relationships based on trust rather than legalized, impersonal obligations.

Entertaining is a very important part of doing business in China. You should be prepared to spend more money on entertainment than would be normal at home. For your Chinese counterpart, entertainment is an important step in getting to know you and in establishing good relations. Banquets are an integral part of deal making in China. On these occasions, you can't go wrong by taking cues from your Chinese counterpart. Sit where your host suggests, try the food that is offered, make a reciprocal speech and toast. If karaoke is part of the evening, gather your courage and sing your favorite song.

### **Have Fun!**

Yes, we've been talking about "Doing Business in China", but I think that you will find that exploring the difference in the culture of doing business in China fascinating and enjoyable. In my experience, it has been a delight to meet, get to know and work with Chinese business people. As with people the world over, there are great differences but underlying everything the vast majority of people of whatever nationality have the same common goals in life. Common goals and understanding your counterparts by knowing their culture will inevitably lead to mutual success.

In Part 3 of this series of articles I will deal with "How Business Meetings in China Work" including all those things you need to know about what to do, how to interact and etiquette when entertaining or being entertained for business.