CULTURAL PRIMER FOR DOING BUSINESS WITH CHINA
CHINA PERSPECTIVES AND CULTURAL EXPERIENCES

Expats vs. Chinese

BUSINESS – Exports vs. domestic, private vs. SOEs

GOVERNMENT

Socio-economic Strata

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

“China ‘s State Capitalism and large cultural distance from Canada

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

Why Cultural and Institutional Knowledge?
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

Legislatiive & Foreign Policy

Social & Culture

Business & Economics

One may argue they are all underpinned by culture and value
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 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 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)

• 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

Source: Adapted from S. Hollensen, Global Marketing: A Decision-Oriented Approach (Harlow, UK: Prentice Hall, 2004).
Other Elements of Culture
Language Capability

• 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

• 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

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

- 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

- 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
Perspectives on Cultural Experiences

Business – Exports vs. domestic, private vs. SOEs

Government
Socio-economic Strata

Demographics
North-South, Rich-Poor regions

Expats vs. Chinese

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 & values

Intrinsic or core values of a culture (intrinsic elements)

Source: Adapted from Ghemewat and Reiche
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

• **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.

- Worker 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 - Feminity

- 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
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
Cultural Analysis – Hofstede

Exhibit 3.12
Canada and Other Countries on the Uncertainty, Avoidance, and Masculinity Scales

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

<table>
<thead>
<tr>
<th>American</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Individualist</td>
<td>1. Collectivist</td>
</tr>
<tr>
<td>2. Youth oriented</td>
<td>2. Respect for Age</td>
</tr>
<tr>
<td>3. Egalitarian</td>
<td>3. Hierarchical</td>
</tr>
<tr>
<td>4. Information oriented</td>
<td>4. Relationship oriented</td>
</tr>
<tr>
<td>5. Competency based</td>
<td>5. Hierarchical</td>
</tr>
<tr>
<td>6. Institutional rule</td>
<td>6. Personal rule</td>
</tr>
<tr>
<td>7. Transparency in Law</td>
<td>7. Maintain harmony</td>
</tr>
<tr>
<td>8. Reductionist thinking</td>
<td>8. Holistic thinking</td>
</tr>
</tbody>
</table>
An Example: Criteria for Dealing with Rule violations – the importance of relationship

China

1. Relations and Compassion 情
2. Reasonableness 理
3. Legality 法

The West

3. Relations and Compassion 情
2. Reasonableness 理
1. Legality 法
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

<table>
<thead>
<tr>
<th>PRIMARY ELEMENTS</th>
<th>FORMATIVE INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial ties</td>
<td>Two-way trade</td>
</tr>
<tr>
<td></td>
<td>Stock of foreign investment</td>
</tr>
<tr>
<td></td>
<td>Trade agreements</td>
</tr>
<tr>
<td></td>
<td>Trade representation offices</td>
</tr>
<tr>
<td></td>
<td>Value of foreign aids</td>
</tr>
<tr>
<td>Political ties</td>
<td>Colonial relationship</td>
</tr>
<tr>
<td></td>
<td>Shared wars</td>
</tr>
<tr>
<td>Geographic ties</td>
<td>Geographic proximity</td>
</tr>
<tr>
<td>Social ties</td>
<td>Cultural similarities</td>
</tr>
<tr>
<td></td>
<td>Sport preferences</td>
</tr>
<tr>
<td></td>
<td>Language similarities</td>
</tr>
<tr>
<td>Information ties</td>
<td>Secondary information availability</td>
</tr>
<tr>
<td>Development</td>
<td>Level of development of the foreign country</td>
</tr>
<tr>
<td></td>
<td>Level of corruption of the foreign country</td>
</tr>
</tbody>
</table>

## Distance between two countries increases with

- Different languages, ethnicities, regions and social norms
- Lack of connective or social networks norms

## Cultural distance

<table>
<thead>
<tr>
<th>Administrative and political distance</th>
<th>Geographical distance</th>
<th>Economic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of shared monetary or political association</td>
<td>Lack of common borders, waterway access, adequate transportation and communication links</td>
<td>Different consumer incomes</td>
</tr>
<tr>
<td>Political hostilities</td>
<td>Physical remoteness</td>
<td>Different costs and quality of financial, human and natural resources</td>
</tr>
<tr>
<td>Weak legal and financial institutions</td>
<td>Different climates</td>
<td>Different information knowledge</td>
</tr>
</tbody>
</table>

## Distance most affects industries or products

- With high linguistic contents (TV)
- Related to national identity (food)
- Carrying country-specific quality association (wines)

### Cultural distance

That a foreign government views as staples (electricity), as nation building reputations (aerospace), or as vital to national security (telecommunications)

### Administrative and political distance

With low value to weight ratio (cement)

- That are fragile or perishable (fruits and glass)
- In which communication is vital

### Geographical distance

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**

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

**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

![Graph showing distance to frontier](image.png)

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.

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

- Brothers
- Buddies
- Old friend
- Friend

Home town (Ethnicity)
School (class mates)
Family
Armies
“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 under estimate 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, an 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

<table>
<thead>
<tr>
<th>North America</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick meetings</td>
<td>Long courting process</td>
</tr>
<tr>
<td>Process oriented</td>
<td>Trust &amp; relationship</td>
</tr>
<tr>
<td>Informal</td>
<td>Formal</td>
</tr>
<tr>
<td>Legalistic</td>
<td>Principle-based</td>
</tr>
<tr>
<td>Make cold calls</td>
<td>Use intermediaries</td>
</tr>
<tr>
<td>Direct communication</td>
<td>Indirectness</td>
</tr>
<tr>
<td>Written communication</td>
<td>Verbal communication</td>
</tr>
<tr>
<td>Rule oriented</td>
<td>Value oriented</td>
</tr>
<tr>
<td>Avoid uncertainty</td>
<td>Accept need for change</td>
</tr>
<tr>
<td>Delegation of responsibility</td>
<td>Autocratic management</td>
</tr>
<tr>
<td>Objective performance &amp; financial measures</td>
<td>Relational criteria and “big picture” criteria</td>
</tr>
<tr>
<td>Individual accountability</td>
<td>Observance of instructions</td>
</tr>
</tbody>
</table>
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
When good friends meet

China

Canada
Target of Recognition

The Group

The individual
Liu Yang’s East Meets West Iconographs
Handling Problem

West meets Easts
------ Liu Yang
Expressing Opinions

West meets Easts
------ Liu Yang
Human Relation

West meets Easts
------- Liu Yang
Life Style

West meets Easts
------ Liu Yang
Party

West meets Easts
------- Liu Yang
In Restaurant

West meets Easts
------ Liu Yang
Leader

West meets Easts
------ 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