

Understanding how to do business in China

A presentation by Andrew Leung

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Culture, quanxi & personal rapport (1)

- Confucian philosophy of relationships
 - Ruler & Ruled
 - Father & Son
 - Husband & Wife
 - Brother & Sister
 - Between Friends
- Hierarchy of closeness
 - Family
 - Acquaintance or affinity
 - Birthplace – country, province, prefecture, town, village
 - Education – ‘shared window’
 - Profession or work
 - Experience – ‘Bad times make good friends’
 - - ‘Friendship forged through life & death’
 - - ‘As close as father to son’
 - Long history – ‘for generations’
 - Total strangers

Culture, quanxi & personal rapport (2)

- **Sincerity**

- ‘It’s the thought that counts.’
- ‘Only ‘wine-and-dine’ friends
- Small, voluntary acts of friendship – esp towards family members
- Reciprocity - ‘Remember the source of your fountain’
 - ‘Favours should be remembered for a thousand yrs’
 - Restaurant bills
 - Bruce McMahan & Deng Pufeng

- **A question of Trust**

- ‘Chief business asset’ – Economist
- No quick fix
- As much as 70% of time building Trust/Rapport/Quanxi
- ‘They can steal my entire databank but not my quanxi’ – Li & Fung
- The role of intermediaries (GM’s cross-cultural high-calibre negotiator for mid-sized Buicks > Ford)

Culture, quanxi & personal rapport (3)

- **Holistic view**

- Negotiation
- Contract – bond > corporations + Personal
 - ongoing relationship before and after
 - cf marriage

- **Respect**

- Authority – Confucius
- Age – Confucius
- Standing – Face (self-image)
- Signs : holding business cards, degrees of good-bye
- AT& T's early refusal of Beijing's request for help led to decades of cold treatment in China

Culture, quanxi & personal rapport (4)

- **Harmony**

- Non- confrontational – approach, attitudes, language
- ‘Authority to sign a \$200 million deal but not to sue anyone’ – Chinese family business CEO
- The Golden Mean – Middle Way, ‘Middle Kingdom’

- **Low profile**

- ‘Still water runs deep’
- ‘Tall trees attract strong winds’
- The holy dragon shows its head but never its tail’
- ‘A smart rabbit has three warrens’

Culture, quanxi & personal rapport (5)

- **The Art of Opposites**
 - Risk & Opportunity
 - Action & Inaction
 - Fast & Slow
 - Movement & Stillness – ‘Still like a virgin; Move like a rabbit’
 - Long & Short term view
 - Ying & Yang (Gentle & Forceful)
- **Body language & Context**
 - Special handshakes – cf. Tung & Tsang in HK
 - Which part of the Chinese ‘No’ you don’t understand?
 - ‘Difficult to say’
 - ‘Perhaps’
 - ‘Let’s study it further’

The Art of Negotiation

- ‘Talk, discuss and judge’
- Perceived status of chief negotiator = face & sincerity
- Home country advantage
- On-going rapport and relationship building, to last beyond contract
- Apply the Culture
 - The case of Wangfujing McDonald’s – how to sell another billion hamburgers
 - Mandelson & Bo Xilai – 45 minutes walk in a Beijing garden

Ownership

- **Family business**

- Organisation chart not the whole truth
- Head of family – real influence even without title
- ‘Generational uncles’

- **Hybrid ownership**

- Haier – Qingdao govt + local investors + managers
- TCL – Chinese Govt + Toshiba & Sumitomo + managers
- Levono – Chinese Academy of Social Science + local investors + managers

- **Hidden stakeholders**

JV or WFOE?

- Possible divergence between culture & priorities
 - Jobs, Technology and Management, Foreign exchange > Return On Equity
 - Same bed, different dreams
 - TCL and Alcatel (centralisation of decisions?)
 - Even in US, JV between Swedish Astra + Merck changed to full control by Astra with Merck receiving only royalty
 - Cross-culture management (overseas attachments?)
- Trend from JVs to WFOEs
 - > half of JVs not profitable
 - Change to WFOEs or combination (WFOE for production and JV for distribution)

The Importance of Local Knowledge

- **Notable examples**

- Chivas + green tea, Beijing > Chivas sales in US
- Coca-Cola : 'Kou-ke-kou-la' to 'Ke-kou-ke-le'

Direct distribution system

- Kraft – cheese & yogurt not as appealing to Chinese constitution
- Nestle – instant noodles, sauces, and health drinks
- Budweiser (> Miller) – large bottles v aluminium cans
- FedEx – what counts is landing rights to Beijing, Shanghai & Shenzhen
- Peugeot – exited after losing money for 12 yrs
- VW – lobbied to introduce taxi companies in Shanghai to create market for its commercial vehicles

- **Local guanxi & supply chains**

- **Three stages**

- Bridgehead
- Country roll-out
- Global corporate integration

National Champions

- **Global factories for single products**
 - Shenzhen – 20% of world's toys and ties
 - Zhejiang – 70% of world's lighters & 50% of world's shoes (Wenzhou) ,
1/3 of world's socks
- **'Little Dragons'**
 - Haier (50% of US small refrigerators)
 - Konka, Galanz (1/3 world microwave ovens)
 - CIMC (40% of world's refrigerated containers)
 - Huawei (3% of world's routers)
 - TCL (TVs)
 - Lenovo (IBM computers)
 - BYD (50% of world's mobile phone batteries)
 - Ningbo Bird (world's top 19th mobile phone makers)
 - Pearl River Piano (world's second largest producer)

Piracy

- Value – US\$ 3.8 – 10 billion (\$6.5 billion in US)
- Microsoft – 90% pirated
- Silk Alley
- Barhefsky (ex US Trade Negotiator) - 40 fake Beanie Babies
- Franco Frattini (Italian FM) – fake Rolex

Quick profits?

- **Kodak** – 15% national market in < 2 yrs
- **Ericsson** – 40% national handset market in 3 yrs
> Motorola,
= featuring Gong Li & Maggie Cheung
- **Tingyi** (Taiwan) – oversized cup noodle with Chinese taste
- \$500 m business in 4 yrs
- **Cartier** – special lower-end luxury watch range for the
rising Chinese ‘middle-class’

Thank you

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